



GST rate cut to benefit homebuyers

FE BUREAU

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WITH THE GST Council cutting the rate to 5% from 12% for under-construction units, and 1% from 8% for affordable housing with the denial of input tax credit (ITC), the big question is whether prices of such units would be reduced by the developers. While builders are non-committal on how much exactly will be the reduction in prices, they point out that the cut will be a benefit for the customer. They point out that the ITC, which was earlier available, has now been done away with which will increase cost for the builders and hurt margins, especially in the affordable housing segment. However, by reducing the tax burden on the end buyer, demand will improve unsold inventory will reduce thus improving the cash flow of the real estate industry.

"We estimate that the reduction in GST can potentially reduce the buyers payout by 6-7% on the overall purchase, depending on the category," said Shishir Baijal, chairman & managing director, Knight Frank India.

Manoj Gaur, managing director, Gaur's Group, and vice-president, CREDAI National, said the GST cut is a decision for

the buyer and not the developer. He added that prices in Delhi-NCR have already bottomed out and there may not be much scope to reduce prices but in cities like Hyderabad, Bengaluru and Mumbai, some benefits may be passed on.

Pradeep Aggarwal, chairman, Signature Global Group, and chairman, Affordable Housing Council, Assocham, said a 7% cut in GST for a ₹45 lakh house comes to a reduction of around ₹3 lakh. He said that the benefit of the GST rate reduction will be seen more in tier II and III cities as the threshold level of prices is lower in those cities.

Naresh Sheth, partner, NA



Shah Associates, said the apparent tax reduction of 7% on residential properties will boost sale of under-construction houses and infuse life in the sluggish real estate market. "However, for next few weeks, homebuyers may defer to enter into transaction for flat purchase", he added. "Input tax is estimated at about 2.5-3% of sales price. Developer

will factor this loss of input tax credit in price of flat. Ultimately, under-construction residential flats might be cheaper by about 4-4.5% (7% tax reduction-2.5 or 3% additional ITC)", Sheth added.

Tax experts say it remains to be seen as to who benefits from the GST rate cut. AMRG & Associates said in a note, "Denial of tax credit for real estate sector would boost sales, however, it would warrant much lower margins for the builders. This change would force the sector to reboot the prices and find a high equilibrium price for the inventory. Time will tell as to who will benefit from this move, whether consumers or builders".