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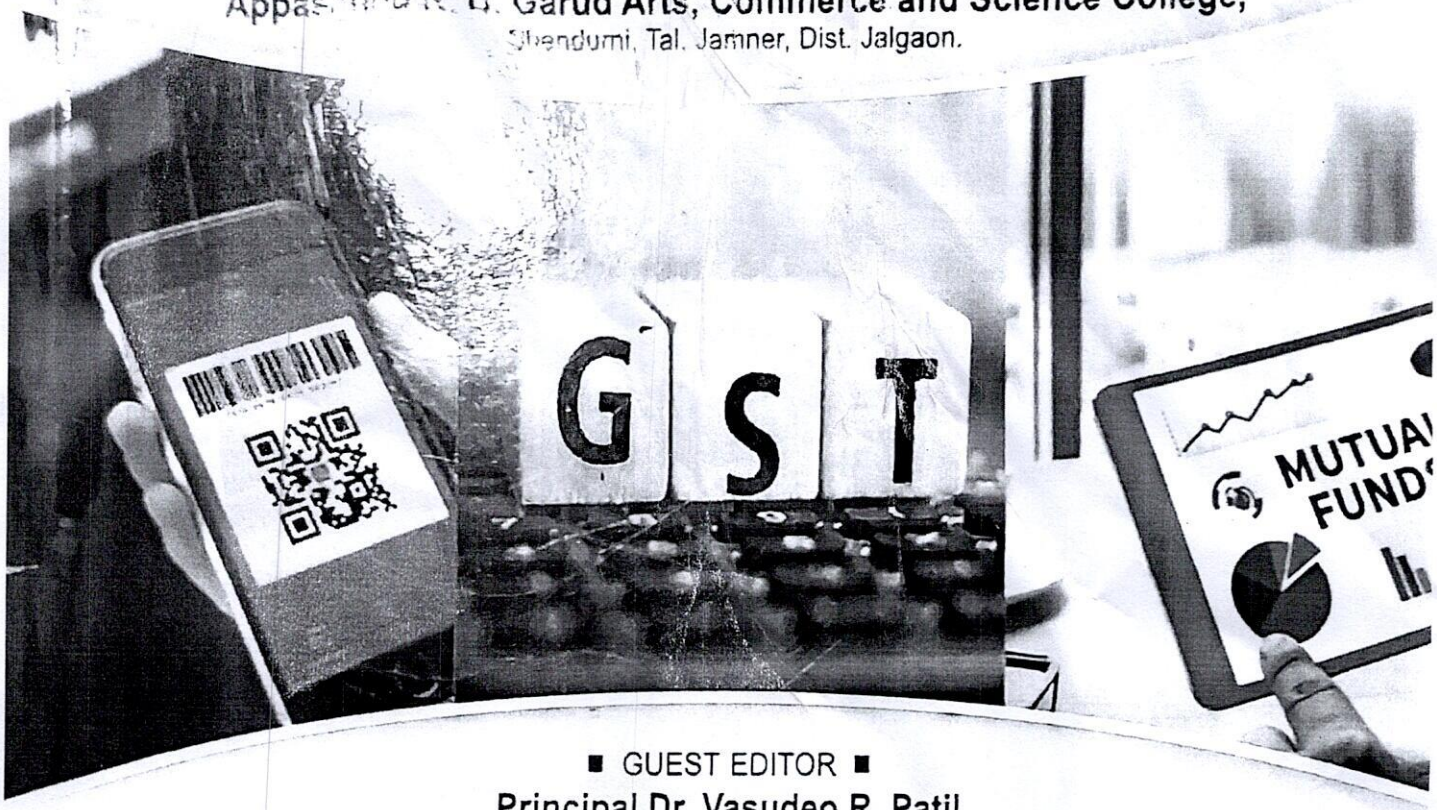

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A Study on The Post GST Scenario of Real Estate Sector in Chhattisgarh State

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Abstract:
The Real Estate Sector is one of the major economic activity providing sector . The real estate generally comprises of the following segments Housing , Rental, Office Complexes, Shopping arcades, business parks, EWS projects , Housing board complexes, Hotels & hospitality, retail markets , warehouses etc. The classifications are not exhaustive and many more avenues are forming part of the Industry. The new GST has already started to create an impact with all associated with the real estate sector like buyer, seller, promoter, builder, middlemen, investor and many others in different ways. This paper is an attempt to study the impact of GST in real estate sector of Chhattisgarh state with special reference to the Durg region.

Key Words: GST, Real Estate, Implication, Impact, Chhattisgarh Market.

INTRODUCTION:

The Goods and Services Tax introduced in 2017, subsumed many taxes. The earlier taxation was very complicated for buyers mainly in terms of calculations. In the earlier indirect taxation system, buyers had to pay VAT, service tax, stamp duty, registration charges and local taxes of the state if the property is under construction. These are state levies and so there will be no uniformity from one state to another. The tax incidence under GST for the under construction Real estate properties is at a flat rate of 12%. But the builders will have the benefit of set off the input VAT on construction material like Cement, Steel and other items. According to one of the Crisilstudies , the net benefit passed onto the buyers by the builders are only marginal as the input tax credits are available only on the cost of the project. However, the best part of GST is that the calculation part is very simple. GST is beneficial in simplifying the tax structure but the home buyers need to pay the State Stamp Duties, Court Fees and other local charges which are still under the respective state control and not withdrawn after GST. GST has only replaced the VAT and Service taxes charged earlier .

THE POTENTIAL OF THE REAL ESTATE INDUSTRY:

A report by CREDAi – JLL says that the market potential of Real estate is set to touch US$180 billion by 2020 (in 2015- 16 it is US $ 150 Billion) In Indian Rupee Terms Rs.126000 Crores. The potential is due to increase in economic activity, increase in the wealth and income levels of population and more and more population is joining the main stream economy.The general perception is that the Real Estate Growth is marginal in comparison to periods before 2017 due to various factors other than GST. The Demonitisation, Introduction of RERA have brought stricter transaction controls and implementation controls. The Demonitisation has restricted the Cash dealings done earlier period as the Cash becomes scarce. The Real Estate (Regulation and Development) Act commonly known as RERA Act is beneficial to the home buyers as it brought more accountability on the builders and project promoters.

NEED FOR THE STUDY:

This study will let us know the impact of GST after its implementation in India on whole and specifically in Durg District, it will make us understand the differences between the earlier indirect taxes and the present GST in the real estate industry and help us to identify the benefits and challenges after implementation in the real estate sector.

OBJECTIVES OF THE STUDY:

- To know the impact of GST after its implementation in India on whole and specifically in Durg District.
- To understand the differences between the earlier indirect taxes and the present GST in the real estate industry.
- To identify the benefits and challenges after implementation in the real estate sector.

DATA COLLECTION:

Data was collected through both primary and secondary sources. Primary data was collected through face to face interviews with open ended questions with the authorities of District Registrar office. Records and data were obtained from the local authorities. Secondary data was obtained through newspapers, websites, research journals, magazines, etc.

LIMITATION OF THE STUDY:

The study findings are restricted to Durg, Damdha and Patan regions of Chhatisgarh and does not represent the whole of Chhattisgarh state.

IMPLICATION AND IMPACT OF GST IN REAL ESTATE SECTOR:

GST on under construction property – Affordable housing:

Under the credit linked subsidy scheme, the GST Council had extended the concessional rate of 12 per cent GST, for construction of houses to promote affordable housing. The effective GST rate, however,comes down to eight per cent, after deducting one-third of the amount charged for the house/flat, towards land cost. As a result, the affordable homes may become cheaper under the GST regime.

GST on ready properties:

A CRISIL report points out that at present, a developer pays excise tax and VAT, on inputs like cement and steel, at 27.7 per cent and 18.1 per cent, respectively, which vary from state to state. Now, under the GST regime, cement and steel will be taxed at 28 per cent and 18 per cent, respectively, while other inputs like paint and white goods, will be taxed at 28 per cent. The final product will be taxed at 12 per cent, with credit for taxes paid on inputs. As the tax is levied on the entire cost including the land will be 12 per cent, the amount would be sufficient to provide for the input credit for developers. Hence, a buyer opting for a ready-to-move-in apartment, is saved from the tax burden.

GST on property rentals:

In the previous tax system, there was no tax implied on residential properties. But the current GST regime, levies tax on the renting of residential property, for use as an accommodation. As a result of this, the tenants may suffer an increase in their amount.

GST on Commercial Permises:

There was no provision of reverse mechanism in the previous service tax regime. But in the new GST regime, when a person who is registered under GST, who gets supplies of goods or services from a person who is not registered under GST, he will have to pay the GST under the reverse charge mechanism. Due to the increased rate and the levy under the reverse mechanism, commercial premises' rent will become costlier.

GST and home loans :

The main cost of taking a home loan, is the interest payment on the money. This cost will not change, as there is no service tax or GST on it. Similarly, any stamp duty charged in connection with the documentation of the home loan, will not change with the GST, as stamp duty is not subsumed under the GST. But there are few charges charged by the lenders on home loans like processing fee which is collected at the time of home loan earlier 15% and now after GST it is 18%. Also there are other charges like legal fees, valuation charges, which makes the home loans costlier.

GST and banks& financial institutions:

As per the new GST Act, the lending institutions are supposed to register under GST. As a result, one can expect an increase in the compliance cost which may directly hit their profitability.

FINDINGS:

Chhattisgarh Marketwith respect to Durg District in real estate business:

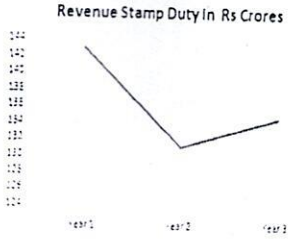
As quoted earlier, the study aims to take a view on the Real Estate Scenario in Chhattisgarh in General and Durg District. As per the India Today survey dated December 3, 2019 (India Today MDRA State of the States Survey 2018), Chhattisgarh is the Fast Movers rank number 5 , Most improved in Health and Economy. As a young state Chhattisgarh has made impressive strides in Rural Development and in moving up the Swachh indeed. It's the state with 100% households having toilets (as per Government Records) and 99% Government Schools have toilets for Girls. The State is progressing in inclusive development and mining , steel, power, metals, is a major industry of the State. The real estate development is concentrated in the Capital City of Raipur, Durg, Bhilai, Bilaspur and some small towns. The City of Raipur has major Housing projects with Naya Raipur being the focus area with many projects are flowering up.

The City of Durg is basically an Agriculture Economy and Industry of Steel. Many Steel related industries are in Bhilai major being the Bhilai Steel Plant. The major part of Industrial areas are focused in Steel Processing, Engineering, Machining, Fabrication etc. The real estate Growth is based on the performance of the Steel Industry and the impact of the Steel reflects in the Real Estate.As per the interview and data collected from the District Registrar office and the general perception of the Sector,the following are the major findings.

Eventhough the data on Real Estate is not comprehensive, the growth in the real estate sector can be gauged from the figures of Revenue generated in the Stamp duties of the District Registrar Office. For analytical purposes, 3 years of data has been considered (year 1- 2016, year 2 - 2017, year 3 - 2018) to reflect the pre and post GST implications. The Stamp duty collections are an indication of the Real Estate Trends in the District before and Post GST periods. The data is not isolated with buildings and houses , it comprises the land transfers also but however the data signifies the growth parameters during this transition period.

Registrar Office	Revenue Receipt		
	2016	2017	2018
Durg	111.24	108.69	110.34
Patan	22.83	15.97	17.48
Dhamdha	9.52	6.42	6.77
Total	143.00	131.08	134.59

Revenue Stamp Duty In Rs Crores



The trend shows that there is a big drop in the year two i.e. 2017 March and it slightly went up marginally in 2018 March which indicates that the real estate growth was less marginal and not in the upward trend. The factors that may contribute to such a trend include the general growth in the economy, Cash ban, introduction of RERA act and unwillingness on the part of the people to go aggressively in buying housing properties, etc.

CONCLUSION:

Undoubtedly, GST has reduced the cascading tax burden on the ultimate consumers and has contributed towards reduction in shady transactions. As a result of this, more transparency and accountability can be felt in this sector. There is no doubt that GST provides ease in compliance also. Uniformity in taxes cannot be fully accepted as different GST rates are applicable for different states. The government has included a clause in the GST bill so that it is mandatory to pass on the benefit of tax reduction due to the input tax credit (ITC) to the final consumer. It is the opinion of the general public, the implementation of GST turns definitely positive for property buyers. In the long run, it is expected to benefit all the

stakeholders of the sector as the accountability will be fixed at each stage. There are still grey matters in understanding the advantage and impact of GST. Only time can reveal the fact whether GST is tax neutral or tax adverse for real estate sector. The real estate sector and industry experts, were hoping for a reduced GST rates for under construction houses during January 2019. Unfortunately, the Interim Budget 2019 has not reduced GST rates on homes.

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