15. GST: Impact & Implications on Home Loan Sector

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Abstract

Goods and Service Tax (GST) is a single and a broad based tax levied on goods and services consumed in an economy. GST will have both positive and negative effect on real estate. GST is expected to create a business friendly environment as price level and inflation rate go down. The implementation of GST is expected to bring uniformity across states and centre which would make tax support policy of a particular commodity effective. Buying a home is one of the biggest milestones in one's life. And to achieve that milestone many of us opt for a home loan that not only helps in getting the desired home but also helps avail various tax benefits. With home loan interest rates being slashed and the ease of availing home loans these days, more and more people are seeking home loans to make their dream come true. As such it's really important to understand how the newly introduced Goods and Services Tax (GST) would affect real estate market, home loan and EMIs. This paper is helpful in bringing out the light on impact of GST on Home loan customers.

Key words: Goods, Services, Home Loan, Real Estate, Implementation, Economy.

Introduction

The Goods and Services Tax (GST) is a vast concept that simplifies the giant tax structure by supporting and enhancing the economic growth of a country. GST is one indirect tax for the whole nation, which will make India one unified common market. GST is being introduced in the country after a 13 year long journey since it was first discussed in the report of the Kelkar Task Force on indirect taxes. In 2003, the Kelkar Task Force on indirect tax had suggested a comprehensive Goods and Services Tax (GST) based on VAT principle."The market reality is such that consumers are particularly sensitive to pricing, something that developers can hardly afford at the moment," said Samantak Das, national director of research at Knight Frank, India.

As per the recommendations of the council, for the housing sector, there will be less incidence of GST for homes purchased under the Credit Linked Subsidy Scheme (CLSS). For under-construction homes that form a part of CLSS will now be charged GST at 8 percent instead of 12 percent, a cut of 4 percent. However, people who are not eligible for CLSS will continue to pay higher GST.

Objectives of the Study

1. To understand the concept of Goods and Services Tax.
2. To know the benefits of Goods and Services Tax to economy and business of real estate.
3. To know the Challenges in implementation of Goods and Services Tax in Real Estate.

Methodology

This study is descriptive in nature and it used the exploratory technique. The data for the study were gathered from the secondary sources such as journals, articles published online and offline on various newspapers and websites.

Literature Reviews

Srinivas K. R (2016) in his article "Issues and Challenges of GST in India" mentioned that central and state governments are empowered to levy respective taxes as per the Indian constitution which is likely to change the complete scenario of present indirect taxation system. GST will be a compressive indirect tax structure on manufacture, sales and consumption of goods and services throughout India, to replace the various indirect taxes levied by the both the governments.

Poonam (2017) in her study cleared that in the system of indirect taxation GST plays a very important role. The cascading and double taxation effects can be reduced by combing central and state taxes. Consumer's tax burden will approximately reduce to 25% to 30% when GST is introduced and then after Indian manufactured products would become more and more inexpensive in the domestic and international markets

Shefali Dani (2015) has suggested that GST administration is an irresolute endeavor to legitimize backhanded expense structure. Roughly more than 150 nations have executed GST idea. GST will disentangle its current roundabout duty framework and should expel wasteful aspects made by the current heterogeneous expense framework, just if there is a reasonable

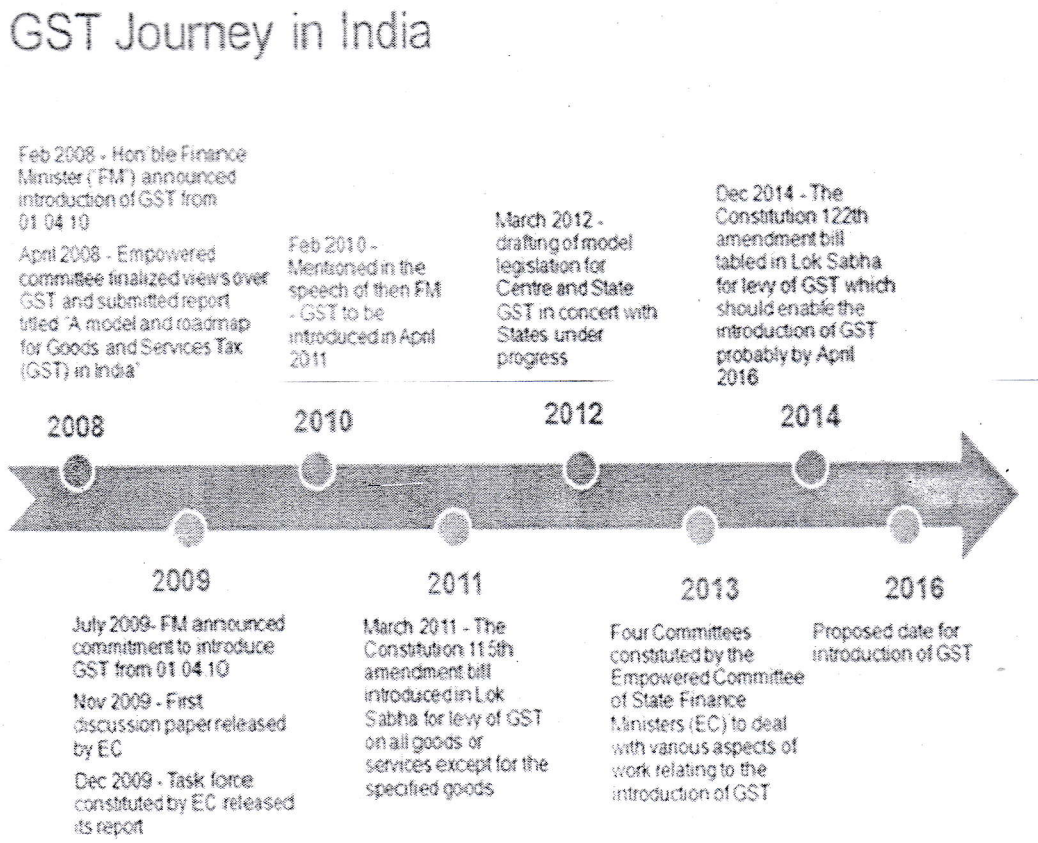
agreement over issues of edge constrain, income rate, and incorporation of oil based commodities, power, alcohol and land.

Agogo Mawuli (2014) studied "Goods and Service Tax-An Appraisal" and found that GST is not good for low-income countries and does not provide broad based growth to poor countries. If still these countries want to implement GST then the rate of GST should be less than 10% for growth.

Concept Overview – GST at a Glance

Strong case for bringing real estate under GST: Finance Minister Arun Jaitley

Finance minister Arun Jaitley, while delivering a lecture at Harvard University on October 12, 2017, has said that the real estate sector should, ideally, be brought under the ambit of the Goods and Services Tax (GST). "The one sector in India, where maximum amount of tax evasion and cash generation takes place and which is still outside the GST, is real estate. Some of the states have been pressing for it. I personally believe that there is a strong case to bring real estate into the GST," Jaitley said. The finance minister said the move would benefit consumers, as they will only have to pay one final tax on the whole product. "As a result, the final tax paid on the whole product under the GST, would almost be negligible," he said.



Goods & Service Tax- Explained

The GST Council has recommended a four-tier tax structure – 5, 12, 18 and 28 per cent. On top of the highest slab, a cess will be imposed on luxury and demerit goods, to compensate the states for revenue loss in the first five years of GST implementation. However, the Central GST (CGST) law has pegged the peak rate at 20 per cent and a similar rate has been prescribed in the State GST (SGST) law, which takes the peak rate to 40 per cent which will come into force only in financial exigencies.

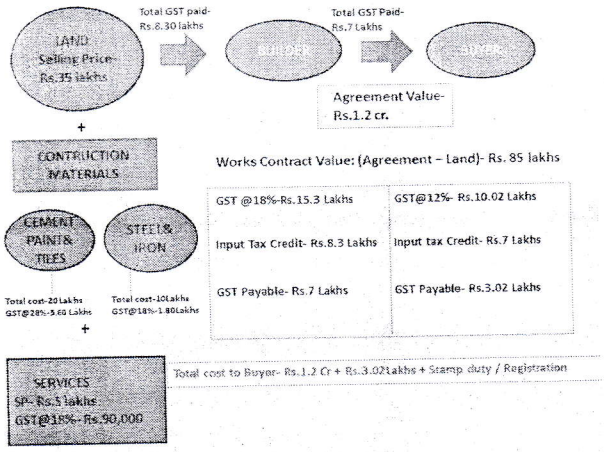
Impact of GST on Housing Finance

It is important to understand the particulars that will be impacted by the increased rates under the GST.While taking a home loan, one has to pay the interest on that money, which 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, as stamp duty is not subsumed under the GST.

Government directs builders not to charge GST on affordable housing

The government, on February 7, 2018, asked builders not to charge any Goods and Services Tax (GST) from home buyers, as the effective GST rate on almost all affordable housing projects is eight per cent, which can be adjusted against the input credit. It said builders can levy GST on buyers of affordable housing projects, only if they reduce the apartment prices after factoring in the credit claimed on inputs.

In its last meeting on January 18, 2018, the GST Council had extended the concessional rate of 12 per cent GST, for construction of houses under the Credit-Linked Subsidy Scheme (CLSS) to promote affordable housing, which has been given infrastructure status in 2017-18 Budget. 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. This provision was effective from January 25, 2018.



New GST for Housing

The concessional rate of GST of 12 percent (effective rate of 8 percent after deducting one-third of the amount charged for the house towards the cost of land) will henceforth (from January 25) be applicable for houses constructed or acquired under the CLSS for Economically Weaker Sections (EWS) / Lower Income Group (LIG) / Middle Income Group-1 (MIG-1) / Middle Income Group-2 (MIG-2) under the Housing for All (Urban) Mission / Pradhan Mantri Awas Yojna.

Apart from the cost of the home loan itself, there are several other charges like the processing fee, advocate fees, valuation charges etc., that you have to pay to your bank or the lender. Under GST, the home loan services would now attract 15 per cent, which was previously 18 per cent. This one-time additional charge would incur a marginal increase of 3% on your home loan.

To illustrate GST's effect on the processing fee

- e.g. A has taken a loan of Rs. 40 lakhs:
- Processing Fee = 0.25% – 1% of 40 lakhs = Rs. 10,000 – 40,000
- Before GST = 15% (service tax) on Rs 10,000 – 40,000 = Rs.1,500 – 6,000 After GST = 12% on Rs 10,000 – 40,000 = Rs 1,200 – 4,800
- Marginal Effect = Rs. 300 And Rs1200

Prepayment fees for Marginal Cost of Funds Lending Rate (MCLR)-linked home loans shouldn't be a problem as such loans do not charge for this service. However, a fixed-rate home loan does, meaning prepayment fees will now fall under the 12 per cent GST bracket instead of the previous 15 per cent service tax.

Again, the lenders can also charge for any Equated Monthly Instalment (EMI) default, either due to the return of the cheque or Electronic Clearance Service(ECS) return, on which you would have to pay the 12% GST. So, on any charge recovered by the lenders, you would have to pay 3% extra money under the new GST regime.And when all these marginal increase in costs are added up, the home loan would go up by all means.

The Indian real estate segment has been experiencing significant transformations recently. The new Real Estate Regulation Act (RERA) has addressed the problem of non-transparency. In India, as far as the residential segment is concerned, the implementation of GST is undeniably an affirmative sentiment booster among potential customers. The system may not be helpful in diminishing the prices of properties in the short-term. The simplicity of the system will benefit all the industry stakeholders including property developers and buyers.

GST on maintenance charges of housing societies

Under the earlier service tax regime, housing societies were required to register themselves under the law of service tax, if the aggregate of maintenance charges levied by the housing society exceeded Rs 10 lakhs in a financial year. However, under the Goods and Services Tax (GST) regime, this limit has been doubled to Rs 20 lakhs. So, if the aggregate of maintenance charges levied by the housing society exceeds the threshold of Rs 20 lakhs in a financial year, it has to register itself under the GST laws and obtain a registration number.

While computing the limit of Rs 20 lakhs, even the exempt items like recovery of property tax and electricity charges from the member, are to be taken into account. So, a housing society has to collect GST from its members, if the aggregate of the charges during a financial (whether subject to GST or not) exceeds Rs 20 lakhs. Even though the threshold limit for registration is Rs 20 lakhs for a housing society, it is not required to levy GST, if the amount of maintenance charge for each of the flat or office does not exceed Rs 7,500 for a month.

GST advantages for property developers

GST has turned out to be a better option from the stance of property developers who had to pay multiple taxes under the previous tax regime. Currently, they are taxed under the unified tax system. As far as building materials are concerned, the new tax system brings no major changes. Let's consider a few building materials. Under the previous tax system, pillars and iron rods were taxed at 20% that has been reduced to 12% currently. Cement is currently taxed at the highest rate of 28%, which is more than the previous rate. The tax rate on fly ashbricks and sand-

lime bricks has been reduced to 5% from 6%. These marginal variations can make a big difference.

GST rates for real estate – Input materials

HSN	Description of goods	Rate
Chapter 72	Steel	18 per cent
2523	Cement	28 per cent
6802	Marble and granite	28 per cent
2515	Blocks of marble and granite	12 per cent
Chapter 68	Sand lime bricks and fly ash bricks	12 per cent
2505 & 2517	Natural sand, pebbles, gravel	5 per cent
8428	Lifts and elevators	28 per cent

Data provided by: BMR

Under the tax regime, many of the construction materials are under the 18 and 28 per cent slab. For example, steel and steel products, are mostly in the 18 per cent segment and cement and prefabricated structural components for building or civil engineering, are in the 28 per cent slab. However, as the input tax credit is available on products utilised for construction, the overall tax incidence should be neutralised.

GST on under construction property

Under revised order from the government, under-construction properties will be taxed at 18% which includes 9% SGST plus 9% CGST. The government has also allowed deduction of land value equivalent to one-third of the total amount charged by a developer, thus, making the effective tax rate as 12%.

Now, it's safe to say that at this point in time, there would be some properties that are already under construction with existing buyers. Then there would also be some housing projects that would be launched soon.

For any running projects, a builder would have already paid some of the taxes in the form of excise, VAT and state entry tax and spent money on raw materials needed for the whole project. It's important to note the stage of construction while buying such properties. If the project is at an advanced stage, where substantial cost has already been incurred before the application of the GST, very little input credit will be available and very less benefit will be passed on. If the project is at an early stage, more benefits can be passed on.

Therefore, if you buy apartments in projects which are less than 60% completed, you will get more benefit. This, in turn, means you might have to pay less to the builder, so a lower home loan. But, again the difference in cost is likely to be marginal, but 2-3 lakhs less on your shoulder and a lower EMI is definitely good news for anyone.

Will GST make your home loan EMI go up?

It's still too early to predict how the GST actually affects the EMIs of housing loans. A few months from now would give us a clearer picture. But, all said and done if the price of the houses go up, it will ultimately make the home loans dearer. Additional charges like the stamp duty that differ from state to state and are applicable on both under construction and ready-to-move-in properties would have to be borne by the buyer. If the state continues with double taxation system (GST + Stamp Duty), property prices may go up and the buyer would be burdened with the price rise.

How lowering of GST helps

The GST council in its statement states: "It may be recalled that all inputs used in and capitalgoods deployed for construction of houses attract GST of 18% or 28%. As against this, most of the housing projects in the affordable segment in the country would now attract GST of 8%(after deducting value of land).

"As a result, the builder or developer will not be required to pay GST on the construction service of flats etc. in cash but would have enough ITC (input tax credits) in his books to pay the output GST, in which case, he should not recover any GST payable on the flats from the buyers. He can recover GST from the buyers of flats only if he recalibrates the cost of the flat after factoring in the full ITC available in the GST regime and reduces the ex-GST price of flats," the note added.

Conclusion

The GST is a very crucial tax reform since independence of India, so it must be better handle with utmost care and analysed well before implementing it. The government both Central and State have to conduct awareness programmes and various literacy programmes about GST to its various stakeholders. Implementation of GST is a significant step towards a comprehensive indirect tax reforms in India.GST will not increase the tax burden drastically, and in many cases total tax burden will decline due to removal of cascading effect replacement of gamut of tax systems by one tax systems. The biggest gain shall be from increase in competitiveness and ease

of doing business which GST brings with it. The overall impact is expected to be positive on economy thereby increasing the overall economic growth. Another important factor that needs to be examined, is the stage of construction. If the project is at an advanced stage, where substantial cost has already been incurred before the application of the GST, very little input credit will be available and very less benefit will be passed on. If the project is at an early stage, more benefits can be passed on.

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