VISION: Journal of Indian Taxation
Vol. 6(1), Jan-Jun 2019, pp. 28-36
DOI: 10.17492/vision.v6i1.185481
www.journalpressindia.com/vjit

Impact of GST on Industry with Special Reference to the Real Estate Sector

*Sandeep Jain**

ABSTRACT

The introduction of GST in India has ensured uniform exemption list, uniform rates and uniform collection procedures throughout the country. For the industry, this implies a shift from a complex system of multiple tax rates and collection procedures to a new system that is technology-based, transparent and free from distortions. This paper outlines the benefit of GST for the industrial sector with special emphasis on the real estate sector. Real estate is an important sector of the Indian economy in terms of contribution to GDP and employment. With various concessions announced by the GST Council from time to time for the real estate sector, the sector is bound to get a boost. At the same time, the government will also ensure proper monitoring of one of the most unregulated sectors in India, by ensuring that the rate cut benefits are passed on to the neo and middle-class home buyers.

Keywords: *GST; Tax cascading; Tax compliance; Real estate sector.*

1.0 Introduction

Prior to the introduction of GST from July 1, 2017, the indirect tax system of India was marked by multiplicity of taxes and rates at the Central and State levels. This resulted in a complex tax structure which was ridden with hidden costs for trade and industry. There was no uniformity of tax rates and collection procedures across States.

GST has ensured uniform exemption list, uniform rates and uniform collection procedures throughout the country. It has paved the way for a common national market. The country has moved from an inefficient and fragmented indirect tax system to an efficient and unified tax regime in the form of GST. The old system was mainly manual and opaque while the new system is technology-based and hence transparent.

Pre-GST tax structure made India a fragmented market along state lines. This had the collateral consequence of favouring imports and disfavouring domestic production. These distortions were caused mainly by the following three features of the then existing tax system:

**Fellow Chartered Accountant, Delhi, India. (Email: Caskcindia@gmail.com)*

- Central sales tax (CST) on inter-state sales of goods.
- Other numerous inter-state taxes like entry tax.
- Extensive nature of exemptions from additional duties of customs [commonly known as countervailing duty (CVD)[1] and special additional duty of customs (SAD).[2]

With the implementation of GST, these distortions have been done away with thereby bringing ease of doing business to industry.

2.0 Benefits of GST for Industry

Ever since the implementation of GST in India, various studies have pointed out the benefits of this reform for the Indian economy. Samantra (2018) observes that by ensuring a common market, GST would help accelerate economic growth, generate greater employment opportunities and lead to increased revenue generation. Bhattarai (2017) applies a dynamic CGE model to assess impacts of GST on the efficiency in allocation of resources among production sectors, growth of income and employment over time, the redistribution of income among households in India. He finds that GST reforms will improve specialization in productions of goods and services among the major economic sectors of India by removing distortions in the production and distribution of goods and services. It also promotes expansion in human capital and the financial system. Sehrawat and Dhanda (2017) also explain how GST implementation would iron out wrinkles of existing indirect tax system and play a vital role in growth of India. Their paper focuses on advantages of GST and challenges faced by India in execution.

Mohanty and Chandran (2017) point out that while GST would have a profound positive impact on business, there are also concerns related to its implementation such as the complexity involved. Gupta (2016) also observes that while the GST regime would bring a number of benefits for the economy, its smooth and efficient implementation would require proper planning, administration and timely guidance to the stakeholders.

Mukherjee (2019) while examining the impact of GST implementation in India finds that while it is not right time to comment on success or failure of Indian GST system unless the tax system stabilizes, so far revenue mobilization from GST has not been very encouraging.

2.1 Abolition of central sales tax (CST)

CST on inter-state sales of goods led to inefficiencies in the supply chain of goods. Goods produced locally within the jurisdiction of consumption attracted lower tax than those produced outside. This tax encouraged geographic fragmentation of production. The tax could be avoided partially through branch/stock transfers by manufacturers. However, the tax savings from branch transfers got substantially offset by the incremental costs of logistics and warehousing of goods in multiple locations.

2.2 Elimination of other inter-state taxes

Prior to the introduction of GST, there were inter-state taxes that were levied by the States in addition to the CST. These included entry tax not in lieu of octroi and entry tax in lieu of octroi. These taxes caused formidable difficulties for transporters. In the pre-GST era, most States had put in place a system of check posts on their border roads. There were many reasons for putting such physical barriers to trade. These included the following:

- Enforcement of state excise, market cess, forest and vehicle fitness regulations.
- Applicability of lower taxes on inter-state trade than on intra-state trade.
- There being no tax on stock transfers.
- Levy of entry tax on specified goods.
- Levy of octroi by some municipalities.
- Internal security.

However, such check posts, by the very nature of their operations, generated enormous delays in road traffic. The arrangement also encouraged rent-seeking behaviour. The same vehicle had to pass through two check posts—the exporting State's check post and the importing State's check post—while crossing one border. Both these check posts were often located within a couple of kilometres of each other and a transport vehicle had to spend considerable time at both. Truck drivers often had to queue up for hours to pay octroi/entry tax and get their consignments and papers checked, causing delays and adding to costs.[3]

All of these barriers to inter-state trade were more injurious to India because the share of roads in freight traffic is high (about 72 percent). It was especially important for India to reduce costs to inter-state trade because of the excessive reliance on roads for movement of goods.

Highlighting the problems of transporters, *Economic Survey, 2016-17* remarked, "Images of queues of trucks in India, idling at state borders with their drivers haggling for official clearances or being subject to extortion are legion. The consequent damages to trade and economic activity too have been extensively catalogued".[4]

All these taxes have now been folded into the GST with enormous benefits.

2.3 Hassles-free movement of goods

Soon after the introduction of GST from July 1, 2017, most of the States dismantled border check posts for commercial taxes. Many State Governments, through advisories to their field staff, are ensuring that truckers are not harassed. This has significantly reduced travel time, minimized delays and reduced transaction costs.

Introduction of e-way bill system is a fundamental shift from the earlier departmental policing model to self-declaration model. The new system envisages one EWB for movement of goods throughout the country, thereby ensuring a hassle-free movement for transporters throughout the country.

In her speech to the Parliament while Presenting 2019-20 Budget (Final) on July 5, 2019, the Union Finance Minister Nirmala Sitharaman observed, "Border checks got eliminated. Goods started moving freely across states, which saved time and energy. A truck started doing two trips in the same time in which it was doing one. Thus, dream of *one nation, one tax, and one market* was realised."

2.4 CVD and SAD exemptions

It is a well-accepted proposition in tax theory that achieving neutrality of incentives between domestic production and imports requires that all domestic indirect taxes should also be levied on imports. So, if a country levies excise duty/sales tax/GST on domestic production/sales, it should also levy them on imports. In India, this was achieved through CVD and SAD which were levied on imports to offset the impact of the excise duty and sales tax/VAT levied on domestically manufactured goods.

However, in some cases there were CVD and SAD exemptions which acted perversely to favour foreign production over domestically produced goods, i.e. they provided negative protection for Indian manufacturing. Moreover, CVD and SAD were not applied on the whole range of imports.

Two arguments in favour of CVD and SAD exemptions were typically given. First, that CVD and SAD exemptions on inputs helped manufacturers by reducing their input costs. The second rationale advanced for exempting many imported goods from CVD and SAD was that there was no competing domestic production. This argument was faulty because the absence of competing domestic production was by itself the result of not having the neutrality of incentives that the CVD created. In other words, domestic producers might have chosen not to enter because the playing field was not level.

Now if an exemptions-free GST is levied on imports, as seems to be the case, it would ensure neutrality of incentives. In effect, India would be promoting domestic manufacturing without becoming protectionist and without violating any of its international trade obligations under the World Trade Organization (WTO) or under

India's free trade agreements (FTAs).

2.5 Absence of tax cascading

By amalgamating a large number of Central and State taxes into a single tax and allowing set-off of prior-stage taxes, GST has mitigated the ill effects of cascading and pave the way for a common national market. A system of seamless tax credits throughout the value-chain, and across boundaries of States, has ensured that there is minimal cascading of taxes. This would reduce hidden costs of doing business.

2.6 Easy compliance

In the pre-GST system, there were multiple compliances required for taxes such as Central excise, service tax, state level sales tax/VAT, entry tax etc. GST has ensured single and uniform compliance for indirect taxes across the country. GST has been designed to have minimal human interface. It is being implemented through a strong IT platform by GSTN. Practically every activity is done online. A robust and comprehensive IT system is the foundation of GST regime in India. Therefore, all taxpayer services such as registrations, returns, payments, refunds etc. would be available to the taxpayers online, which would make compliance easy and transparent. Electronic matching of input tax credits across India will make the process more transparent and accountable. Improved environment of compliance would encourage more paper trail of transactions.[5]

2.7 Reduced interface between taxpayer and tax collector

All interactions under GST are through the common GSTN portal and hence there will be less public interface between the taxpayer and the tax administration. Timelines have been provided for important activities like obtaining registration, refunds etc.

3.0 GST and the Real Estate Sector

Real estate is an important sector of the Indian economy in terms of contribution to GDP and employment. In the pre-GST era, multiple taxes like service tax and VAT were applicable on this sector. Rates of VAT varied from state to state, causing considerable confusion among developers, builders and contractors. Now there is a single uniform tax on this sector.

3.1 GST on real estate transactions prior to the decisions of thirty-third meeting of the GST Council

Prior to the decisions of the GST Council taken in its Thirty-third Meeting held on February 24, 2019 in New Delhi, taxability of real estate transactions under GST was as shown in Table 1.

Table 1: GST on Real Estate Transactions Prior to the Decisions of Thirty-third Meeting of the GST Council

Particulars	GST applicability	Rate of GST
Ready-to-move-in properties for which completion certificates are issued	Not applicable because sale of building is treated as activity or transaction which is treated neither as a supply of good nor a supply of service as per Schedule III of CGST Act, 2017	–
Under construction properties [for homes purchased under credit-linked subsidy scheme (CLSS)]	Applicable as supply of services as per Schedule I of CGST Act, 2017	12 percent*
Under construction properties (other than above)	Applicable as supply of services as per Schedule I of CGST Act, 2017	12 percent
Resale of property is considered as ready-to-move-in property	Not applicable	–
Land purchase and sale	Not applicable. As per Schedule III, sale of land is neither supply of goods nor services.	–

**Homes purchased under CLSS attract 12 percent GST rate. The applicable rate is 8 percent after reducing the 1/3rd amount towards the cost of land. CLSS means purchase of property under Pradhan Mantri Awas Yojana (PMAY-Urban) and such other schemes.*

In short, a single tax rate of 12 percent was applicable on properties under construction while GST was not applicable on completed or ready to sale properties.

3.2 Decisions taken at the thirty-third meeting of GST Council

In its thirty-third Meeting held on February 24, 2019, GST Council decided a rate cut for the under-construction properties covering the residential segment as follows:

1. GST rate for non-affordable housing was reduced from 12 percent to 5 percent without ITC.
2. GST rate for affordable housing was slashed from 8 percent to 1 percent without the benefit of input tax credit (ITC). Affordable housing was redefined under the GST law with a twin definition to it as follows:
    - *In the case of metro cities:* Flats with a value of up to Rs. 45 lakh with the carpet

area of up to 60 square metres. Metro cities currently cover Bengaluru, Chennai, Hyderabad, Kolkata, Mumbai (the whole of MMR), and Delhi NCR (limited to Delhi, NOIDA, Greater NOIDA, Ghaziabad, Gurgaon, and Faridabad).

- *In the case of non-metro cities:* Flats with a value up to Rs. 45 lakh with the carpet area of up to 90 square metres.

It was decided to draft all the changes by the law and fitment committee in a circular on or before March 10, 2019. These changes will be presented before the GST Council as recommendations. The notifications will be out soon after they are passed by the GST Council and will be made applicable from April 1, 2019.

The above concessions announced by the GST Council will boost the real estate selling henceforth and monitor one of the most unregulated sectors in India, by ensuring that the rate cut benefits are passed on to the neo and middle-class home buyers.

For the limited purpose of calculating the GST, stamp duty and registration charges are excluded. Stamp duty continues to be applicable on both completed properties and under-construction properties as was the case with pre-GST regime.

3.3 Decisions taken at the thirty-fourth meeting of GST Council

Thirty-fourth Meeting of the GST Council, held on March 19, 2019, was convened to oversee and pass the circulars/notifications drafted by the rate fitment and legal committees on the rate cuts on housing announced in the Thirty-third Meeting held on February 24, 2019.

The meeting centred around the applicability of tax rates for under construction housing projects and the rules governing the transition from old rates to new rates for existing projects.

GST Council approved the transition plan for the implementation of the new tax structure for housing units in the following manner:

1. GST rates for new projects will be mandatory from April 1, 2019.
2. Builders of existing housing projects that are completing construction by March 31, 2019 can choose either of the two alternatives:
    - Alternative 1: Choose the old rate of 12 percent (8 percent for affordable housing) and charge this GST rate in the invoices raised. Further, input tax credit (ITC) benefit is available and can be passed on to the buyer.
    - Alternative 2: Choose to bear GST tax at the rate of 5 percent (1 percent for affordable housing as defined by GST law). The benefit of ITC is not available to the builder for procurements used in construction.
3. Those who choose the second alternative must reverse the accumulated ITC on their closing stock of under-construction properties in a proportion laid down in rules (to

be notified) within 6 months.

4. New rate of 5 percent (1 percent for affordable housing) will apply to those residential properties whose construction is going on even after March 31, 2019 or any new projects launched after April 1, 2019. Here, the benefit of ITC on procurements will not be available to the builders.
5. 80 percent procurement of materials should be from the registered dealer.

Up to 15 percent of commercial space to be treated as residential property for GST purpose.

4.0 Conclusion

In short, GST is a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. GST is an indirect tax for the whole of India to make it one unified common market. GST is designed to give India a world class tax system and improve tax collections. It would end the long-standing distortions of differential treatment of manufacturing sector and services sector. GST will facilitate seamless credit across the entire supply chain and across all States under a common tax base. As far as the real estate sector is concerned, various concessions have been announced by the GST Council that will boost the real estate selling henceforth and monitor one of the most unregulated sectors in India.

Endnotes

1. Under Section 3(1) of the Customs Tariff Act, 1975, an additional duty on goods imported into the country was leviable. The rate of this duty was equal to the excise duty on like articles if produced or manufactured in India. The underlying philosophy of this countervailing duty was to ensure that the protection provided by the import duty to domestic industry was not reduced.
2. This duty was also known as special CVD and was levied under Section 3(5) of the Customs Tariff Act, 1975. This duty was in addition to basic customs duty and CVD levied under Sections 3(1) and 3(3) respectively of the said Act. It was equal to sales tax/VAT, local tax or any other charge on a like article on its sale, purchase or transportation in India.
3. There is ample evidence to suggest that logistical costs within India are high. One study suggests that in one day, trucks in India drive 280 kilometres while the figure for U.S. is 800 kilometres. This raises direct costs (wages to drivers, passed on to firms), indirect costs (firms keeping larger inventory), and location choices (locating closer to suppliers/customers instead of lowest-cost location in terms of wages, rent etc.). Further, only about 40 percent of the total travel time is spent driving, check points and other official stoppages take up almost one-quarter of total travel

time. Eliminating check point delays could keep trucks moving almost 6 hours more per day, equivalent to additional 164 kilometres per day, thus, pulling India above global average and to the level of Brazil. Source: JPS Associates (2011), "Economic Cost of Inter-State Barriers in Goods Traffic".

4. Government of India, *Economic Survey, 2016-17,* p. 233.

References

Bhattarai, K. (2017). *Impacts of GST reforms on efficiency, growth and redistribution of income in India: A dynamic CGE analysis*. MPRA Paper 92139, University Library of Munich, Germany.

Gupta, S. (2016). Goods and services tax (GST): A comprehensive and uniform indirect tax reform in India. *VISION: Journal of Indian Taxation, 3*(2), 31-53.

Mohanty, P. & Chandran, A. (2017). GST and the paradigm shift: A peripheral view. *VISION: Journal of Indian Taxation, 4*(1), 51-67.

Mukherjee, S. (2019). *Inter-governmental fiscal transfers in the presence of revenue uncertainty: The case of goods and services tax (GST) in India*. Working Papers id: 13034, eSocialSciences.

Samantara, R. (2018). A critical appraisal of goods and services tax in India. *VISION: Journal of Indian Taxation, 5*(2), 55-71.

Sehrawat, M. & Dhanda, U, (2017). *GST in India: A key tax reform.* Working Papers id: 11851, eSocialSciences.