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GST – An optimistic influence on the Indian realty segment

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The mention of Goods and Service Tax (GST) has dominated the Indian news streams for quite some time and is pegged to be a major tax reform in the country's history.



GST will be a game-changer for the Indian real estate by including more than sixteen major taxes and tariffs into a lone, united tax. This integrated tax regime will halt the undesirable practice of double taxation, that hurts end-users in the real estate sector. This reform looks at bringing along with it a great amount of liquidity for the sector and may curtail dubious transactions. GST will have a positive outcome for the homebuyers as developers with more margin in their hands will be in a situation to reorganise the product cost in favour of buyers.

Impact of GST on real estate

On the procurement side, a developer has to pay a gamut of duties and taxes like excise duty, entry tax, central sales tax, and custom duty, to name a few. These, consequently, get transferred to the final price of the units and, thereby, to the potential buyer. Double taxation, amounting to 20-25 percent of the total cost of materials, is a long lamented issue faced by developers. With GST's proposition of rolling numerous taxes into one, the construction costs will come down. Developers will get the benefit of a free flow of credit which, in turn, will transform into an upsurge in the margin.

Further, GST will create a level playing arena for organised entities, with unorganised players being brought under the ambit of taxation. By ensuring transparency in transactions, GST will be a blessing for real estate developers and buyers alike.

The direct impact of GST on real estate, in terms of tax discharge for developers and buyers, will be based on whether the final rate is more or less than the current taxes being paid. Apart from the momentous reduction in expenses of tax management due to a unified tax, the cost involved in compliance will also drop.

It is important to note that the real estate sector shares a constructive, synergetic relationship with more than 250 other segments such as Information Technology (IT), steel, and cement. Hence, the advantages or disadvantages of GST on each sector is sure to have an indirect influence on real estate and vice versa. At this point in time, we may perceive very restricted concrete profits in the real estate industry but the long-term

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results will be higher.

How does a buyer benefit from GST?

Since buyers are not accountable to pay indirect taxes while purchasing properties that are ready-to-move-in, GST would have little impact on such buyers. For under-construction properties, however, buyers are required to pay service tax and VAT forcing most buyers to opt for home loans to fund their purchase. Most buyers refrain from doing a proper study of the various taxes that they are required to pay additionally. With uniform taxation like GST, that comprises everything that they need to pay, the entire process of payment will become clear for the buyer. In such a case, even a higher rate would be more tolerable to him than the absence of clarity.

With the long wait for GST almost wrapping up, its influence on the Indian property market is likely to be positively felt by property developers as a result of predictable free credit flow. GST is all set to deliver greater clarity into the operations of the real estate sector and will offer an audit trail for the better monitoring of the sector. This should help form a sturdy base for the country's economic evolution and growth for years to come.

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