

TO WHOMSOEVER IT MAY CONCERN NEW GST SCHEME FOR RESIDENTIAL PROJECTS

CLARIFICATIONS ISSUED IN THE INTEREST OF HOME BUYERS

1. **GST on residential projects from 1 July 2017 to 31 March 2019 (Old Scheme) before issuance of GST Notification 03/2019 - Central Tax (Rate) dated 29 March 2019**

GST on residential apartments when sold under construction has been as under (up to 31 March 2019):

- 12% for other than affordable housing - including land value
- 8% on affordable housing projects - including land value

Under the Old Scheme, the Developer was eligible to avail Input Tax Credit (ITC) of GST paid on purchases and utilize the same on sales. Therefore, the developers were not considering GST paid on inputs as 'cost' while fixing the base price of the product since it was available for set-off from the output GST liability of the Developer.

2. **In Tamil Nadu, works contract method was also followed by many developers as per which GST was applicable at 18% on the construction consideration while the consideration for the sale of undivided share of land was not subject to GST and the GST paid on inputs was not factored as a cost.**

3. **GST on residential projects effective from 1 April 2019 (New Scheme) after issuance of GST Notification 03/2019 - Central Tax (Rate) dated 29 March 2019**

The Government has notified revised GST rates of 5% on the selling price (for other than affordable housing) and 1% on selling price (for affordable housing – the cost being within INR 45 lakhs, and the carpet area being upto 60 sqmts. for metro cities/90 sqmts. for non-metro cities).

According to this:

- The revised GST rates are mandatorily applicable on New Projects commencing on or after 1 April 2019
- For ongoing Projects (buildings where construction and actual booking have both started before 1 April 2019 and the project has not been completed by 31 March 2019), Developers have the option - to either continue charging the earlier GST rates (for sales/bookings already made and to be made), or charge GST as per New Scheme
- The Developer will not be eligible to avail any ITC under the New Scheme resulting in cost-push effect

4. **Impact of the revised GST rates under the New Scheme**

While on the face of the invoice it might appear that the revised GST rate is lower than the earlier GST rate, the New Scheme does not allow developers to avail ITC on their procurements. It also requires reversal of already availed ITC. This would in turn increase the cost of construction, despite the reduction in the rate of tax on output supply.

5. **While Developers are presently evaluating the cost of transitioning into the new rate scheme at a project level (in terms of analysis carried out and underway), the old rates, though higher may in fact be more cost beneficial for the customers for most ongoing projects as compared to the new rates. The possible exception to this could be high end projects/projects in specific areas where the square-foot pricing exceeds a threshold of around INR 10,000 per sq. ft.**

The builders are likely to continue under the Old Scheme for ongoing projects (for sales already made and to be made) in accordance with the option given in the Notification. Therefore the change in methodology through the Notification will not impact the cost in respect of ongoing projects since the GST credits would not form part of cost and already taken into account in the price.

6. **Expected way forward for new projects**

The new GST rates would be adopted by builders for new projects which commence on or after 1 April 2019.

7. **Customers are requested to understand the above regulatory changes, the impact of the same and the cooperation of the home buyers is solicited.**