

## 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. 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 with 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

#### 3. 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, which is bound to increase the cost of construction of apartments, which in turn will result in a higher cost of construction to the Developer on which the new (lower) rate of GST will be applied.

#### 4. CREDAI Karnataka's decision on methodology to be followed for ongoing projects

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 only exception to this could be high end projects/projects in specific areas where the square-foot pricing exceeds a threshold of about INR 10,000 per sqft.

**Therefore, CREDAI has decided that builders will continue under the Old Scheme for ongoing projects (for sales already made and to be made). Price at which the unit was sold factored the GST on cost of construction as input tax credit. Thus, there is really no benefit that accrues to the ongoing project due to change in the methodology.**

#### 5. Impact of New Scheme on affordable housing projects

The New Scheme has brought forth a new definition of what would constitute affordable housing. For all new projects, affordable housing @ 1% GST rate shall only apply where the following two conditions are cumulatively satisfied:

- Carpet area threshold of up to 60 sqmts. for residential units in metropolitan cities with carpet area of (Bengaluru, Chennai, Delhi NCR, Hyderabad, Kolkata and Mumbai; or 90 sqmts. for rest of India)
- Apartment value threshold upto INR 45 lakhs

Where the above criteria are not met, the 5% rate shall apply to such residential units.

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

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

**7. Customers are requested to understand the above regulatory changes and appreciate the decision taken by CREDAI Karnataka in the interest of home buyers whose cooperation is solicited.**