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**PRESIDENT, NAVI MUMBAI  
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Vijay Lakhani

Ref. No. MCHI/PRES/19-20/376

June 10, 2020

To,  
**Shri Ajit Pawar**  
**Hon'ble Deputy Chief Minister**  
**Finance Minister**  
**Government of Maharashtra**

**Sub: Request to call upon meeting of GST council to urgently convey a recommendation of GST related Reliefs to the council for Real Estate.**

Respected Sir,

CREDAI-MCHI is an apex body consisting of members from the Real Estate Industry among Mumbai Metropolitan Region (MMR). It is the most prominent and the only recognized body of Real Estate Developers in Mumbai and MMR. We bring together members dealing in Real Estate Development on one common platform to address various issues facing the Industry. With a strong Membership of over 1400 leading Developers in Mumbai, CREDAI-MCHI has expanded across MMR, having its own units in the region of Thane, Kalyan-Dombivli, Mira-Virar, Raigad and Navi Mumbai. CREDAI-MCHI is recognized by Government of Maharashtra and the Central Government and helps in meeting their objectives of providing housing, which is a basic necessity.

As you are aware that, we are 2nd highest employment generating sector in India after Agriculture. The real estate sector contributes about 5-6% of the Gross Domestic Product ("GDP") of India. Furthermore, housing has always been considered as one of the basic needs of an individual which is also evident from the fact that the various housing schemes have been introduced by the Central and State Government. However, in the recent past, India's real estate sector has been witnessing a protracted period of low sales, resulting in a sharp decline in its contribution to the country's GDP which is further aggravated with the COVID 19.

Further, unlike lower GST rate on other essential goods and services, the total tax cost for real estate sector has increased under the GST regime. This tax cost under GST is an unbearable burden for a citizen buying a house. This consequently is resulting into slowing down the demand in an already sluggish real estate market.

It is with this background that we wish to lay down the issue at hand and the relief that is being sought for Real Estate

- **Effective GST Rate has increased under the revised rate structure without ITC**
  - i. Currently, the developer is not allowed to take credit of taxes paid on the goods and services used for the residential projects, which become a cost in the transaction resulting into higher tax burden. The same is explained below
    - a) Output tax (1% or 5%)
    - b) Denial of input tax credit – Generally the project cost liable to GST which *inter alia* includes construction cost, selling & marketing cost, brokerage and other associated cost accounts for around 50%-60% of sale price. Considering average rate of GST of 18% on these goods and services, the overall tax cost approx. 9% to 10%;
  - ii. Consequently, the effective GST cost on sale of under-construction apartment under the existing structure is approx. 15% which when compared with tax structure at the time of introduction of GST till 31.03.2019 was only 8% or 12%

depending on whether the project is under affordable housing or other project as the input credit was available to developer. Therefore, it can be observed that the overall tax burden under the existing structure has now increased. Such high tax cost is resulting in purchase of apartment, a basic necessity for an individual, unviable. Therefore, considering the market conditions, it is of importance to reduce tax burden on residential projects where one of the key measures will be reinstatement of entitlement of ITC to the developer.

❖ **Against the Scheme of the GST**

- Introduction of GST effective from July 1, 2017 was with the intention to mitigate the ill effects of cascading or double taxation by developing a structured system of seamless credit and thereby ensuring full neutralization of input taxes across the value chain of production and distribution and thus, paving the way for a common national market. However, the denial of credit to the developer under the existing structure is against the basic scheme of GST.

• **Waiver of GST on the rehabilitation component (Free of cost allotment) in redevelopment projects**

Free of cost allotment to the existing members of the society in case of the redevelopment of Housing societies, tenanted building and/or slums and the desirability of the grant of exemption from payment of GST Thereon;

i. **In Respect of Slum Rehabilitation Scheme**

Being an important socio-economic scheme to achieve the Government's avowed objective to provide 'Housing For All' by the year 2022, SRA construction deserves a special tax treatment under GST legislation.

To meet the aforesaid objective:

- a. An exemption should be granted for construction/ works contract services provided to SRA in respect of rehabilitation area by the developers; and
- b. SRA Developers should be allowed to utilize ITC in respect of rehabilitation area for discharge of GST payable on saleable area.

ii. **In respect of Redevelopment Projects:**

We request your good self to provide a suitable clarification and allow correct treatment to be given to construction services which are in the nature of works contract when provided to existing members.

We do also request the government to reduce the GST rate on all the new units in redevelopment (old/ dilapidated structures), like but not limited to Society redevelopment, Old & dilapidated building redevelopment, Dharavi redevelopment, BDD Chawl redevelopment / Slum Rehabilitation schemes from 5% to 1% as such activity of builders is a socio-economic one for the benefit of the society and helping to achieve the vision/motto of the government of "Housing for All".

• **Change in Affordable Housing definition**

A dual threshold of sale value of INR 45 lakhs and carpet area of upto 90 sqm (in non-metropolitan cities/towns) or 60 sqm (in metropolitan cities) has been prescribed for the lower GST rate of 1% to apply on affordable housing units.

It may be noted that region like Mumbai MMR, Delhi NCR etc. the value of INR 45 lakhs is very less and hence it is difficult to find units which qualify as affordable units in such cities.

Following definition of "Affordable Housing Unit" may be adopted in all GST schemes:

**Affordable housing unit means a unit with carpet area as defined under RERA that do not exceed 60 sqm in the metros and to 90 sqm elsewhere.**

**CREDAI-MCHI PRAYER**

It may be appreciated that while the intention of the Government was to rationalize the GST on real estate sector, the overall GST cost for housing projects has substantially increased in the existing rate structure. With increase in the cost of the construction, housing projects are becoming commercially unviability. If the issue remains unaddressed, it may severely hinder the effective implementation of the socio-economic policy of Government of providing affordable houses for all.

In view of the foregoing, it is humbly requested to consider the below mentioned suggestion to give immediate relief to already under stress Real Estate:

- i. **Permit developers to avail ITC for discharging output GST on under-construction residential projects.**  
**Change the GST rate along with availment of ITC to;**
  - a. **5% for affordable apartment; and**
  - b. **8% for other apartments.**
- ii. **Waiver of GST on the rehabilitation component (Free of cost allotment) in redevelopment projects**
- iii. **Change in Affordable Housing Definition as per RERA definition**

Sir, you being the Finance Minister for the State of Maharashtra, wherein all the major cities and especially in Mumbai the redevelopment of many slums and society is due since long. Any such GST related relief shall boost the redevelopment prospective of such impending projects and thereby help in creating better infrastructure convenience. We therefore request you to immediately call for a much needed Group of Ministers meeting to look into the aspects affecting Real Estate sector before the next GST council meet and thereby suggest steps to provide some much needed relief to boost the real estate sector and to recommend the same to the GST Council. Real Estate is one of the worst economically hit sector badly effected due to the Covid-19 outbreak and therefore an urgent attention is required.

Even with COVID-19, we are hopeful that with the support of the Government, we will be one of the major sector to contribute towards re-building State of Maharashtra

Thanking you,

Yours Sincerely,  
**For CREDAI-MCHI**



**Nayan A. Shah**  
President



**Bandish Ajmera**  
Hon. Secretary