

Ref. No. MCHI/PRES/19-20/328

April 30, 2020

To,

Smt. Nirmala Sitharaman

Hon. Finance Minister

Ministry of Finance

North Block, Central Secretariat,

New Delhi - 110 001

Sub: Representation for permitting availment of Input Tax Credit (ITC) under Goods and Services Tax (GST) for Real Estate Projects

Maharashtra Chamber of Housing Industry (MCHI), is a Society registered under the Societies Registration Act, 1860 and is also registered under the Bombay Public Trust Act, 1950. MCHI is a recognized association having as its members, various firms and/or companies engaged in the business of development and redevelopment of immovable properties, who provide the majority of the housing (exceeding 90%) in and around the city of Mumbai. MCHI is well known for initiating and successfully espousing the cause of its members at various forums, Government, Urban Local bodies, etc. As a founder member of Confederation of Real Estate Developers' Association of India (CREDAI), MCHI's grasp of the real estate market is profound.

The real estate sector contributes about 5-6% (http://ficci.in/sector/59/project_docs/real-estate-profile.pdf) of the Gross Domestic Product ('GDP') of India. It is the second largest employer after the agriculture sector and is expected to contribute 13% (<https://www.ibef.org/industry/real-estate-india.aspx>) of the GDP by 2025. 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 weak 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.

A. ISSUE AT HAND AND RELIEF SOUGHT

With effect from 01.04.2019, the Government has revised the rate structure under GST for residential apartments, with the effective rate of 1% for affordable apartments and 5% for other apartments, with no corresponding ITC. Whilst this is the welcome step, the denial of input credit has increased the construction cost for developer as explained below. We would like to submit that this rate structure with no ITC, is having serious repercussions on the real estate business and eventually on the end consumers. In light of the above, it is sought that ITC should be allowed for real estate residential projects.

B. RATIONALE IN SUPPORT OF THE RELIEF SOUGHT

- **Effective GST Rate has increased under the revised rate structure**
 - 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 an average rate of GST of 18% on these goods and services, the overall tax cost is 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.
- **With increase in the cost of the construction, housing projects are becoming commercially unviability**
 - i. In the current economic scenario, no developer will be able to increase the sales price in line with the incremental tax cost in the residential projects. Further, many developers may fall short of necessary resources to even complete the on-going projects. The situation is likely to further get aggravated from the mayhem caused by current pandemic in the form of COVID-19, resulting in the rise in the delinquencies/defaults by the customers which in turn may also lead to cancellation of flats already sold.
 - ii. Majority of the target customers for the residential housing segments are the middle-class section of the society, Economic Weaker Section (EWS) and Low-Income Group (LIG) who are most price sensitive. An increase in the tax cost on account of revised rate structure is adversely affecting the affordability of the customers thereby making the project unviable for the developers. It may even turn some projects unprofitable or loss making.
 - iii. In light of the same, the Real estate industry would like to reiterate that the structure under GST as existing prior to 01.04.2019 i.e. discharging output GST after utilizing ITC, would provide much needed relief and help in supporting this sector.
- **Against the Scheme of the GST**
 - i. 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.

- **The sector requires Government support:**

- i. The transaction cost for acquiring an under-construction apartment for the citizen has increased substantially and is becoming unaffordable. Further, in light of the ongoing global pandemic in the form of COVID-19, the nation is grappling with a complete lockdown, and the economic activity has come to a complete standstill. This global pandemic is having far reaching impact on the economy with various sections of the society bearing the brunt of the pandemic.
- ii. Though the Government has been constantly taking proactive steps to revive the economy, specific support is required for the real estate sector in as much as, the levy of GST in its existing form is negatively influencing the affordability of housing, which is one of the basic necessities of the citizens of this country. Hence, allowing the availment of ITC along would provide the much-needed sigh of relief to the real estate sector.
- iii. The Government has been providing a lot of stimulus during this pandemic time. These efforts by the Government, especially at a time when the tax collections are low, are indeed commendable. The impetus granted to this sector will increase the sale of residential apartments and thereby even lead to a higher tax collection by the Government.

C. 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. 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 proposal:

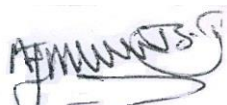
- i. Permit developers to avail ITC for discharging output GST on under-construction residential projects.
- ii. Reduce the output GST rate along with availment of ITC to;
 - a. 5% for affordable apartment; and
 - b. 8% for other apartments.
- iii. As an alternative, atleast an option must be provided to the developer to either opt for discharging GST at the reduced rate of 5%/8% with ITC or existing rates of 1%/5% without ITC.

Thanking you,

Yours Sincerely,
For CREDAI-MCHI



Nayan A. Shah
President



Bandish Ajmera
Hon. Secretary

CC:

- (1) **Shri Hardeep Singh Puri**, Minister of Civil Aviation and Ministry of Housing and Urban Affairs
- (2) **Shri Anurag Singh Thakur**, Minister of State (Finance), Govt. of India,
- (3) **Shri Ajay Bhushan Pandey(I.A.S.)**, **Secretary (Finance)**
- (4) **Shri Atanu Chakraborty (I.A.S.)**, **Secretary (Economic Affairs)**
- (5) **Shri Durga Shankar Mishra (I.A.S)**, Secretary, Ministry of Housing and Urban Affairs
- (6) **Shri Buggana Rajendranath**, Minister – Finance and Legislative Affairs, Andhra Pradesh

- (7) **Shri Chowna Mein**, Deputy Chief Minister, Arunachal Pradesh
- (8) **Dr. Himanta Biswa Sarma**, Finance Minister, Assam
- (9) **Shri Sushil Kumar Modi**, Deputy Chief Minister, Bihar
- (10) **Shri T. S. Singh Deo**, Minister for Commercial Taxes, Chhattisgarh
- (11) **Shri Manish Sisodia**, Deputy Chief Minister, Delhi
- (12) **Shri Mauvin Godinho**, Minister, Panchayat, Goa
- (13) **Shri Nitin Patel**, Deputy Chief Minister, Gujarat
- (14) **Capt. Abhimanyu**, Minister, Excise & Taxation, Haryana
- (15) **Shri Jai Ram Thakur**, Chief Minister, Himachal Pradesh
- (16) **Shri K.K. Sharma**, Jammu & Kashmir, Advisor to Honorable Governor (I/C Finance)
- (17) **Shri C.P. Singh**, Minister, Urban Development & Transport, Jharkhand
- (18) **Shri B. S Yediyurappa**, Chief Minister, Karnataka
- (19) **Dr. T. M. Thomas Isaac**, Finance Minister, Kerala
- (20) **Shri Tarun Kumar Banot**, Minister of Finance, Madhya Pradesh
- (21) **Shri Yumnam Joykumar Singh**, Deputy Chief Minister, Manipur
- (22) **Shri Conrad Kongkal Sangma**, Chief Minister, Meghalaya
- (23) **Shri Lalchamliana**, Minister, Taxation Department, Mizoram
- (24) **Shri Metsubo Jamir**, Minister of Urban Development & Municipal Affairs, Nagaland
- (25) **Shri Niranjan Pujari**, Minister - Finance and Excise, Odisha
- (26) **Shri V. Narayanasamy**, Chief Minister, Puducherry
- (27) **Shri Manpreet Singh Badal**, Finance Minister, Punjab
- (28) **Shri Ashok Gehlot**, Chief Minister, Rajasthan
- (29) **Shri B. S. Panth**, Minister, Minister for Tourism and Civil Aviation and Commerce and Industries, Sikkim
- (30) **Shri D. Jayakumar**, Minister for Fisheries and Personnel & Administrative Reforms, Tamil Nadu,
- (31) **Shri Md. Mohamood Ali**, Minister for Home, Prisons & Fire Services, Telangana
- (32) **Shri Jishnu Debbarma**, Deputy Chief Minister, Tripura
- (33) **Shri Rajesh Agarwal**, Finance Minister, Uttar Pradesh,
- (34) **Shri Satpal Mahraj**, Minister for Irrigation, Flood Control, Uttarakhand
- (35) **Dr. Amit Mitra**, Finance Minister, West Bengal
- (36) **Shri P. K. Mohanty**, Consultant (GST), CBEC, New Delhi - 110 001
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- (38) **Shri Pramod Kumar**, Deputy Secretary, TRU-II, Department of Revenue, New Delhi - 110 001
- (39) **Shri Parmod Kumar**, OSD, TRU-II, Department of Revenue, New Delhi - 110 001
- (40) **Shri Reyaz Ahmed**, Director, TRU-I, Department of Revenue, New Delhi - 110 001
- (41) **Shri Upender Gupta**, Principal Commissioner & Commissioner, New Delhi - 110 001
- (42) **Shri Ritvik Pandey**, Joint Secretary, Department of Revenue, New Delhi - 110 001,
- (43) **Shri P. D. Vaghela (IAS)**, Chief Commissioner of State Tax, Gujarat (Co-Convenor)
- (44) **Dr. T. V. Somanathan**, Additional Chief Secretary, Tamilnadu, & Commissioner of Commercial Tax
- (45) **Shri V. Anil Kumar**, Commissioner of Commercial Taxes, Telangana, Hyderabad-500 001
- (46) **Shri Satish Magar**, President CREDAI National
- (47) **Shri Rajiv Parekh** President CREDAI Maharashtra
- (48) **Shri Niranjan Hiranandani** - President NAREDCO