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To,  
Shri Pramod Sawant,  
Hon'ble Chief Minister  
Government of Goa

*Send by Registered AD  
Dt. 26/08/2024*

**Subject: Request for Appointment to Discuss the Implications of GST on the Real Estate Sector**

Respected Sir,

CREDAI-MCHI is the apex body representing the Real Estate Industry in the Mumbai Metropolitan Region (MMR), with over 1,800 leading developers as members. As a government-recognized entity, CREDAI-MCHI consistently works towards making the real estate industry more organized and progressive.

We would like to bring to your attention that Mumbai has over 14,000 dilapidated buildings and more than 70 lakh residents living in declared slums. The issue of providing housing for all is not only a mission of the State Government but also a declared mission of the Central Government. Ensuring a dignified living environment and providing housing units is a key component of social justice, and the Government of Maharashtra is committed to achieving this goal.

However, under the new GST regime, the total cost impact on the real estate sector has increased due to the non-availability of Input Tax Credit (ITC). This additional cost has become a burden for citizens buying their dream homes, further slowing down demand in an already sluggish real estate market. Other pressing issues include the GST implications on the rehabilitation portion, GST on TDR (Transfer of Development Rights), and the Rs 45 lakh limit for Affordable Housing benefits.

The Real Estate Sector is one of the largest employers, both in the organized and unorganized sectors. It is vital to ensure that these jobs are protected and that the sector can create further employment to support economic revival. As Mumbai is the financial capital of India, it attracts top talent from across the country and overseas, leading to an increasing demand for housing. However, due to Mumbai's geographic constraints, it is unable to accommodate the growing population at the required pace.

Developers incur costs for constructing both rehabilitation and sale buildings, paying GST on the construction at rates of 18% or 12%, without the benefit of ITC. The government taxes both the construction of rehabilitation buildings and the sale component, resulting in no tax leakage.

However, we would like to bring to your notice that GST authorities have proceeded to levy GST on the rehabilitation component of such schemes. This has resulted in poor occupants of slums and dilapidated buildings being required to pay GST on flats they already owned. Such a levy is not only anti-poor but also against the spirit of the GST regime, effectively amounting to double taxation.

**Maharashtra Chamber of Housing Industry**

Maker Bhavan II, 4<sup>th</sup> Floor, 18, V. Thackersey Marg, New Marine Lines, Mumbai - 400 020.  
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CREDAI-MCHI CHAPTERS : THANE | KALYAN-DOBIVLI | MIRA BHAYANDAR | RAIGAD | NAVI MUMBAI

BHIWANDI | PALGHAR BOISAR | SHAHAPUR-MURBAD | URAN-DRONAGIRI |  
VASA VIRAR | AURANG | KARIAT-KHAIAPUR-KHOPOLI | YOUTH NMR

In Mumbai, redevelopment is the predominant form of real estate construction, as 50-55% of the city's population resides in slums. Additionally, over 1 lakh buildings are in urgent need of redevelopment. Redevelopment of MHADA and other publicly owned housing societies is critical to safeguarding lives and providing additional housing stock through vertical expansion.

In light of this, we humbly submit our key issues and suggestions for GST relief, particularly for the real estate sector in MMR, which we have annexed for your reference. We respectfully request an appointment at your earliest convenience to explain these issues in detail so that they may be raised in the next GST Council meeting.

We look forward to your positive response.

Yours sincerely,

For **CREDAI-MCHI**

**Domnic Romell**  
President

Encl.: As above

**Dhaval Ajmera**  
Hon. Secretary



**Annexure 1****1) Treatment of flats given free of cost to existing occupants, slum dwellers, MHADA tenants, society members in redevelopment projects****A) Valuation of service being the flats provided free of cost in redevelopment projects to the existing slum dwellers, society members, MHADA tenants & existing occupants (hereinafter referred to as "Rehab Component")****Present Treatment as propounded by the GST Department:**

The value of the developer's first sale agreement is being considered as the value of apartments handed over to the Present Owners, for the purpose of levy of GST (as if these apartments were sold to the Present Members at this rate, which is not the case).

**Suggested Valuation of Flats given in rehab component:**

Even if the same argument is accepted the valuation of the said flats given free of cost in the rehab component should be at Cost of construction of the same multiplied by the area of the permanent alternate accommodation. The cost of construction should be as per ASR rates and in absence of the same, as per PWD cost of construction.

Rationale:

- a) The existing occupants already had a flat/residence before the proposed redevelopment
- b) The flats are given by the developers free of cost.
- c) The flats are not meant for sale in the open market and neither for commercial exploitation by the existing occupants.
- d) Value of flats given in Rehab component are already subsumed in the value of flats sold in the open market (sale component) by the developers on which the Developer is already discharging GST liability on units sold under construction.
- e) There is no ITC benefit for the real estate industry and under the circumstances, GST is already paid on input good and services used for construction of Rehab Component like steel, cement, contractors charges etc for which no GST set off is claimed.

**B) Tax rates to be applied to the Value of service (as derived above i.e. Construction cost as per ASR/PWD X area of flat given as permanent alternate accommodation) given free of cost from the Rehab component in the Redevelopment projects:****Present Tax rate as propounded by the GST Department:**

Presently, in case of redevelopment projects, GST is being levied at the rate of 5% (for non-affordable housing units) or 1% (for affordable housing units), as the case may be on the apartments handed over to the Present Owners.

**Suggested GST rate to be applied to value of service given in Rehab component:****i. Affordable Housing projects as per government of Finance notification bearing F.No. 13/1/2017-INF dated 24<sup>th</sup> August 2018.**

In housing projects which fall under the broad definition of affordable housing as per above mentioned notifications, the flats provided free of cost from the Rehab Component should be taxed at concessional rate of 1% on the value so arrived as above (Area of flat given as permanent alternate accommodation X rate of construction as per ASR/PWD cost of construction). As per the said notification, affordable housing is defined as a Housing Project using atleast 50% of the Floor Area Ratio (FAR)/ Floor space Index (FSI) for dwelling units with carpet area of not more than 60 square metres.

**ii. Other Projects:**

For housing projects other than affordable housing projects as above, GST on flats given free of cost from the rehab component should be charged at 5% on the value as derived above. (Area of flat given as permanent alternate accommodation X rate of construction as per ASR/PWD cost of construction)

**2) Affordable Housing:**

**Affordable Housing as per Notification No. 11/2017 \_Central Tax Rate as amended up-to date is follows**

*(xvi) the term "affordable residential apartment" shall mean, -*

*(a) a residential apartment in a project which commences on or after 1st April, 2019, or in an ongoing project in respect of which the promoter has not exercised option in the prescribed form to pay central tax on construction of apartments at the rates as specified for item (ie) or (if) against serial number 3, as the case may be, having carpet area not exceeding 60 square meter in metropolitan cities or 90 square meter in cities or towns other than metropolitan cities and for which the gross amount charged is not more than forty five lakhs rupees.*

For the purpose of this clause, -

*(i) Metropolitan cities are Bengaluru, Chennai, Delhi NCR (limited to Delhi, Noida, Greater Noida, Ghaziabad, Gurgaon, Faridabad), Hyderabad, Kolkata and Mumbai (whole of MMR) with their respective geographical limits prescribed by an order issued by the Central or State Government in this regard;*

*(ii) Gross amount shall be the sum total of; -*

*A. Consideration charged for the services specified at item (i) and (ic) in column (3) against sl. No. 3 in the Table;*

*B. Amount charged for the transfer of land or undivided share of land, as the case may be including by way of lease or sub lease; and*

*C. Any other amount charged by the promoter from the buyer of the apartment including preferential location charges, development charges, parking charges, common facility charges etc.*

*(b) an apartment being constructed in an ongoing project under any of the schemes specified in sub-item (b), sub-item (c), sub-item (d), sub-item (da) and sub-item (db) of item (iv); sub-item (b), sub-item (c), sub-item (d) and sub-item (da) of item (v); and sub-item (c) of item (vi), against serial number 3 of the Table above, in respect of which the promoter has not exercised option to pay central tax on construction of apartments at the rates as specified for item (ie) or (if) against serial number 3, as the case may be.*

**Suggested Definition of Affordable Housing**

*(a) a residential apartment in a project which commences on or after 1st April, 2019, or in an ongoing project in respect of which the promoter has not exercised option in the prescribed form to pay central tax on construction of apartments at the rates as specified for item (ie) or (if) against serial number 3, as the case may be, having carpet area not exceeding 60 square meter in metropolitan cities or 90 square meter in cities or towns other than metropolitan cities and for which the gross amount charged is not more than forty five lakhs rupees.*

For the purpose of this clause, -

*(i) Metropolitan cities are Bengaluru, Chennai, Delhi NCR (limited to Delhi, Noida, Greater Noida, Ghaziabad, Gurgaon, Faridabad), Hyderabad, Kolkata and Mumbai (whole of MMR) with their respective geographical limits prescribed by an order issued by the Central or State Government in this regard;*

*(ii) Gross amount shall be the sum total of; -*

*A. Consideration charged for the services specified at item (i) and (ic) in column (3) against sl. No. 3 in the Table;*



- B. Amount charged for the transfer of land or undivided share of land, as the case may be including by way of lease or sub lease; and
- C. Any other amount charged by the promoter from the buyer of the apartment including preferential location charges, development charges, parking charges, common facility charges etc.

(b) an apartment in a project which commences on or after 1st April, 2019, or in an ongoing project under any of the schemes specified in sub-item (b), sub-item (c), sub-item (d), sub-item (da) and sub-item (db) of item (iv); sub-item (b), sub-item (c), sub-item (d) and sub-item (da) of item (v); and sub-item (c) of item (vi), against serial number 3 of the Table above, in respect of which the promoter has not exercised option to pay central tax on construction of apartments at the rates as specified for item (ie) or (if) against serial number 3, as the case may be.

**3) Option To Choose Between The Scheme of 12% GST WITH ITC (8% With ITC For Affordable Housing) and Composition Scheme OF 5% Without ITC (1% Without ITC For Affordable Housing).**

- The government vide Notification No. 3/2019 of Central Tax dated 29<sup>th</sup> March 2019 introduced a composite scheme for charging GST on residential projects commencing on or after 1<sup>st</sup> April 2019 wherein a flat rate of 1% was charged on affordable housing and 5% on non-affordable residential housing whilst doing away with input tax credit (ITC). Meanwhile commercial projects continued to remain within the ambit of the earlier Assessment Scheme wherein the applicable rate of GST is 12% with ITC.
- GST was a completely new way of taxation and it was noticed inadvertently or otherwise that the complete benefit of ITC was not received by the end users and hence with a view to over simplify the taxation process a flat rate of GST was brought in. The clinching argument at the time of conceptualization of the composite scheme was that it is revenue neutral. Although in principle the composite scheme may be revenue neutral for the Government, it puts housing projects with low land cost at a distinct disadvantage. The increased costs due to removal of ITC has made many affordable housing projects unviable since they operate on a volume model rather than a high margin model. They are highly sensitive to cost deviations and the last few years have seen a drastic increase in input costs like steel, cement etc which have added further pressure on the viability of the projects.

**Relief Sought:** It is respectfully submitted that, regardless of whether the Project is residential or commercial, the developers should be given an option to choose between the 12% GST rate with ITC (Assessment scheme) and 5% GST rate without ITC (Composition Scheme) at the commencement of the project.

As a failsafe mechanism for projects being undertaken in ITC model, to ensure that the benefit of GST credit is passed on to the eventual customers, the project proponent shall ensure that effective GST being charged from the customer is not more than in the composition scheme.