JLL & PwC co-authored thought leadership initiative

Impact of GST on residential markets

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Preface

Radical changes, specially disruptors, bring along challenges and transitory pains. And if this wasn't so, the change wouldn't have taken so long in coming and wouldn't be so disruptive. For real estate, the implementation of GST is both disruptive and calming. Whilst it throws into chaos an earlier order, it brings about a more transparent and uniform taxation system throughout the country.

The impact of GST, specifically on residential markets is what this paper outlines. The case of real estate in general and more specifically for residential markets is unique, because unlike an FMCG product, neither does an apartment have an ***'MRP',*** nor a ***'Best before'*** date. The government hopes that with a standard GST levy, and the benefit of input tax credit, residential prices should see a downward shift. But the challenges for this to actually happen are real and need to be addressed. Since the final price of a real estate product is not governed by an MRP and is at best an estimate for what the markets will be like over 4–5 years, it is difficult for a developer to adopt an appropriate mechanism to allocate benefits of input tax credit today, over various projects and build those into a future price benefit for the consumer.

Moreover, an apartment has no ***'Use by'*** date. In fact, the biggest challenge is the allocation of input tax credits to under construction projects, where part of the work was completed before GST came to light and the balance post GST. Some cement, from the bag of cement which was purchased prior to GST, could have been used for an apartment for part construction prior to GST, while some could be used for the remaining construction of the same apartment post GST, in the same project! So, how should a developer price his product, to pass on the benefit to the consumer and also be on the right side of the Anti-Profiteering Authority?

And is taking one-third of the total contract value as the land value for deduction, justified for all locations? Considering the fact that the cost of land could be as much as 50–60% of the total cost incurred in tier-I cities, this aspect may need to be re-looked. How will a developer pass on the benefits of input tax credits, if other escalating costs are not allowed to be offset? A survey of developers outlined hesitation on their part, in commenting outright on the impact of GST on residential pricing. Whilst all agreed that a transparent, uniform taxation system is good, the exact nitty-gritties of 'how' to implement this need to be addressed swiftly. ***This paper observes that overall, there may be only a minor impact on the pricing of residential products and that too will mostly be subject to demand and supply forces.***

While the GST law itself has to mature and the compliance-related process should be refined further, there are considerable awareness issues, not only amongst taxpayers and end customers but also among tax officials who implement the law at the ground level. This can not only lead to unnecessary litigation, but also result in precious working capital getting locked, due to pre-deposited disputed taxes.

The government has issued certain clarifications on some issues in the real estate sector; however, the clarifications that have emerged till date have not resolved these queries to a large extent. The urgent need of the hour for the government is to set up discussion forums across locations and engage with stakeholders at different levels. Perhaps, it is time for the tax authorities and the developer fraternity to get together at a forum - in order to address the major concerns which need clarity once and for all, so that business can get on as usual and markets can gain the needed momentum. This alone shall address the concerns of this important sector, which plays a significant role in impacting the sentiments of the economy.

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GST – a brief introduction

The Goods and Services Tax (GST)—India's biggest tax reform post-independence—was implemented on 1 July 2017. The new tax regime seeks to transform the Indian economy with its 'One Nation, One Market, One Tax' principle by subsuming a host of indirect taxes charged at varied rates by the Centre and states, therefore bringing uniformity in taxation across the country. ***Its primary objective is to simplify the complex tax structure on the supply of goods and services.*** While this reform may have certain short-term negative impacts on the economy, it will have long-term benefits for the country.

The 'Good and Simple Tax' is aimed at reducing the final prices for the consumer, but this will depend on market forces and the effectiveness of the NAA.

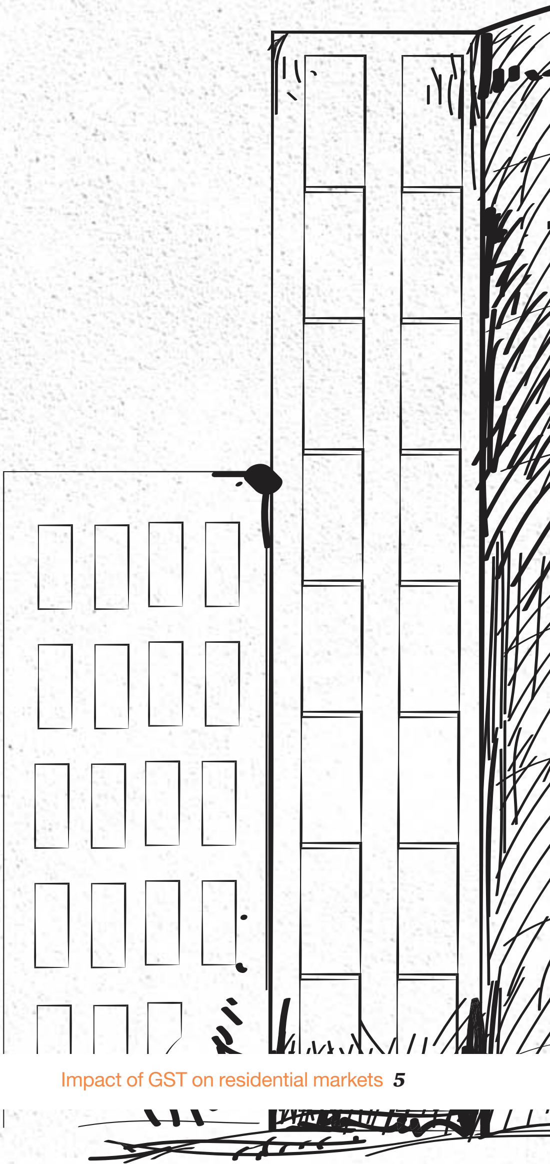
The earlier indirect tax framework had challenges of multiplicity and cascading of taxes, apart from other issues/complexities, both technical as well as from the perspective of ground-level practices. The tax reform, also referred to as a 'Good and Simple Tax' by the honourable Prime Minister of India, ***is aimed at benefiting various industries by way of increased credits, reduced prices, uniformity of pricing across the country, free movement of goods, etc., and the real estate sector should be no exception.*** The key feature of GST is to remove the cascading effect of taxes by making credits fully fungible. The objective is to ensure that businesses only act as a pass through for all taxes and that GST is finally borne by end consumers rather than businesses. This is aimed to ultimately benefit end consumers by virtue of reduced prices as businesses are expected to pass on the benefit of reduced tax costs to end consumers in cases where the tax costs are eliminated. While this is the intention of the GST framework, how soon the same happens would ultimately be determined by market forces and possibly the effectiveness of the measures that the government takes from an anti-profiteering perspective.[1]

Until recently, the Indian real estate sector was experiencing slow sales, rising costs and stagnant prices since the great recession of 2008-09 following demonetisation. The sector has now been subjected to another wave in the form of GST. While developers are taking all the necessary precautions and safeguards to prepare themselves, consumers are waiting for the right time to sign a deal. Although it has been less than a year since the implementation of GST, ***this paper attempts to shed light on its impact thus far on the real estate market, specifically on residential markets.*** It also looks at the benefits of GST, if any, which can be foreseen from the perspective of end customers. The challenges faced by developers under this new regime are examined, with some of the major concerns highlighted. A dipstick survey of developers was conducted to gather their views on the impact of GST, and the key outcomes have also been discussed.

The combined results drawn from the technical analysis of the new indirect tax law and the practical approach being adopted

No significant reduction in property prices due to GST.

by developers in the market suggest that price benefit out of cost savings due to GST is a likely event, but only in the distant future. ***Developers are in the process of evaluating the per unit benefit arising on account of the implementation of GST (which is based on multiple factors such as the percentage of construction completed, net increase in input tax credit considering the withdrawal of input tax restrictions and the composition scheme, change in the valuation method for computing taxable value, negotiations on price reduction from suppliers and amount of transition credit[2]) prior to any price reduction.*** Clearly, GST would be seen as an additional benefit to end consumers in the long term, especially after the recent pressure on prices in real estate post demonetisation.



1. The GST National Anti-profiteering Authority (NAA) has been established by the government to ensure that the full benefits of input tax credits and reduced GST rates on goods and services are passed on to end consumers.

2. Transition credit: Credit available on purchases made prior to GST implementation.

The pre-GST era

State-levied Value Added Tax (VAT) and Centre-levied Service Tax were the main taxes levied on the sale of under construction projects. A transaction involving the sale of property which included the supply of materials is chargeable under VAT and the supply of labour is chargeable under Service Tax. However, with a single consideration being charged from customers for supply of goods and services, the Statutes provide for abatement on such value to ensure VAT is charged only towards supply of goods and Service Tax on labour component.

Sr. no.	Nature of transaction	Applicable tax	Value liable to tax
1	Goods portion of works contract	VAT	70% of construction value arrived at after standard deduction of 30% (which is total contract value less land value) provided towards 'labour and like charges', where the same are not available based on actuals
2	Services portion of works contract	Service Tax	40% of construction value (total contract value less land value) to be deemed as the taxable value for computing Service Tax

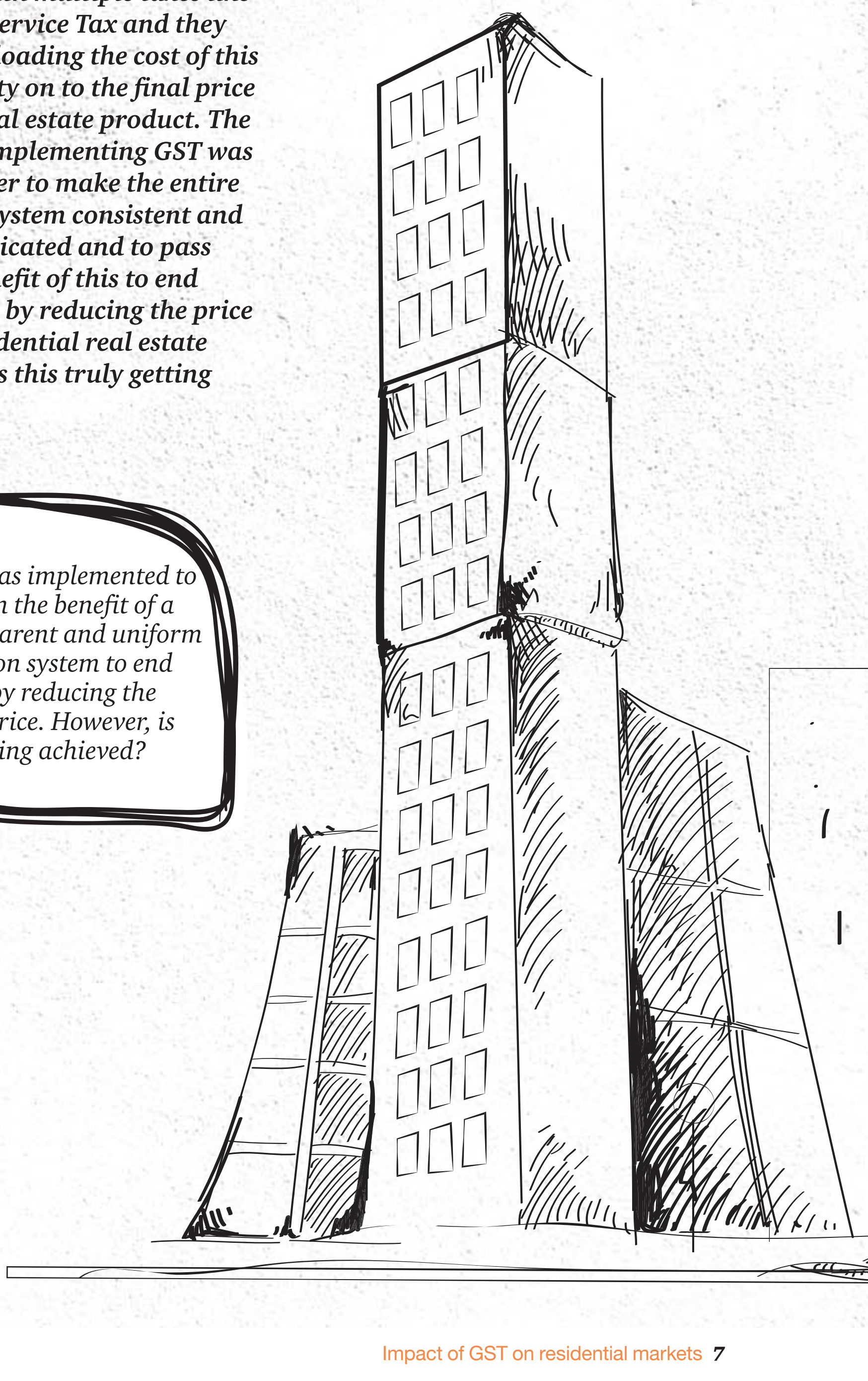
It must be noted that while some states applied the above methodology to tax construction services, others taxed the entire contract value under a composition scheme of between 1–4%.While there was abatement under both laws, the tax was imposed on 110% of the total value (VAT on 70% of the contract value and Service Tax on 40% of the contract value). This position underwent a change based on whether the land value was included in the contract value or otherwise, depending on state-specific stamp duty laws. In summary, the effective tax rate (covering VAT and Service Tax, but excluding stamp duties) on buying apartments was approximately 10–15%, depending on the type of tax treatment adopted by a developer.

Further, developers were not eligible to avail any input tax credit for excise duty, central sales tax and entry tax paid on procurements, which were therefore included in the price charged to end customers. These tax costs involved in the procurement of materials were not visible to end customers as they were factored in the price of the property itself. Additionally, ambiguity in land valuation, the method of computing tax liability, eligibility of input tax credits, applicable tax rate, etc., were some of the common disputes faced by this industry.

The lack of clarity in such areas resulted in developers becoming more conservative in their tax positions. This also led developers to shift the additional tax costs and their related burden to end customers.

What we can infer is that in the pre-GST regime there was inconsistency in the method of calculating tax and the eligibility of input tax credits. Added to this, developers were dealing with multiple taxes like VAT and Service Tax and they ended up loading the cost of this uncertainty on to the final price of their real estate product. The need for implementing GST was felt in order to make the entire taxation system consistent and less complicated and to pass on the benefit of this to end customers by reducing the price of the residential real estate offering. Is this truly getting achieved?

GST was implemented to pass on the benefit of a transparent and uniform taxation system to end users by reducing the final price. However, is this being achieved?



Tax implications post-GST

Under GST, the tax rate has been pegged at 18% (12% for specified housing projects), with an abatement of one-third being provided towards land value. Accordingly, the effective tax rate for construction services shall be 12% (8% for specified housing projects) of the entire agreement value.

Having said that, in order to understand the actual tax implications on the sale of apartments post the implementation of GST, various aspects need to be understood related to the status of project completion, the time when raw materials were purchased, land value and the location of the project.

Classification under GST: 'Construction of building', 'works contract supply' and any other 'construction-related activities'—these transactions have been specifically classified as 'supply of service' and are therefore taxable under GST. With the specific inclusion of the supplies mentioned above as 'services', the GST law has mitigated the long-standing dispute regarding the nature of supplies (i.e. goods vs services) between developers and tax authorities and the taxability thereon.

Project Occupancy Certificate (OC) status: GST is applicable on those properties which have not received OC till 1 July 2017 and on all properties starting construction and sales in the post-GST period (1 July 2017). Hence, OC received properties would be outside the ambit of GST.

Land value: The land cost component's reflection in the sale price of a project varies greatly, depending on whether the project is city centric or located in the suburbs or extended suburbs. It also matters whether the project is in a Tier I city or a Tier II/III city as the land cost varies as per the city size.

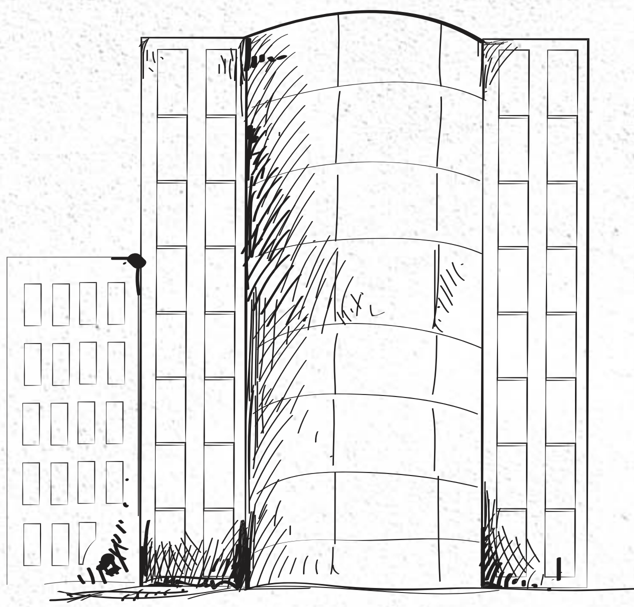
Valuation: The valuation of construction services and their taxability has been illustrated in the table below.

Sr. no.	Nature of transaction	Tax rate under GST	Total agreement value (INR)	Taxable value (INR)	Tax under GST (INR)	Remarks
1	Sale of a flat under a single agreement before receipt of OC	18%	100 including land value	66.67	12 (18%*66.67)	Deduction of one-third of the contract price towards land
2	Sale of an undeveloped plot	NA	100	Nil	Nil	Non-taxable supply under GST
3	Sale of a flat with separate agreements for land and construction portion	No tax on land value	40 – towards land	Nil	Nil	While this should be the intention of the law, a strict reading could consider the entire value (100) to arrive at the taxable value of 66.67 as mentioned in 1 above
		Construction portion taxable at 18%	60 – towards construction	60	10.80 (18%*60)	
4	Sale of a flat post receipt of OC or first occupancy	NA	100	Nil	Nil	Non-taxable supply under GST
5	Sale of commercial property before receipt of OC	18%	100	66.67	12 (18%*66.67)	Deduction of one-third of the contract price towards land
6	Renting of a residential unit for residential purposes	NA	20	Nil	Nil	Exempt supply

Will having two separate agreements for land and construction portion be truly beneficial? Also, will RERA[3] allow this model?

Developers need to be aware that changing the contract model is not permissible under RERA.

In some markets in South India, two separate agreements for land and construction portion exist. However, we may see a shift from this model under RERA.



3. RERA - The Real Estate (Regulation and Development) Act, 2016

There still persist ***certain grey areas*** which are yet to be evaluated by developers and tax experts to stand the 'test of law'. Some of them are:

- Taxability of club house charges, electricity and water deposits, preferential location charges, car park charges and eligibility of one-third land deduction abatement on such charges. The authorities could demand a full GST of 18% on these charges, given that the one-third deduction may not be extended to these amounts;
- Taxability of land value where the same exceeds one-third of the total sale price and the developer has contracted separate agreements for the supply of land and construction portion;
- Ineligibility of refund to developers under the inverted duty structure considering inputs are procured at a higher rate of tax, whereas output is charged at a lower tax rate.
- Adopting different tax computation methods for different projects/phases of the same project.

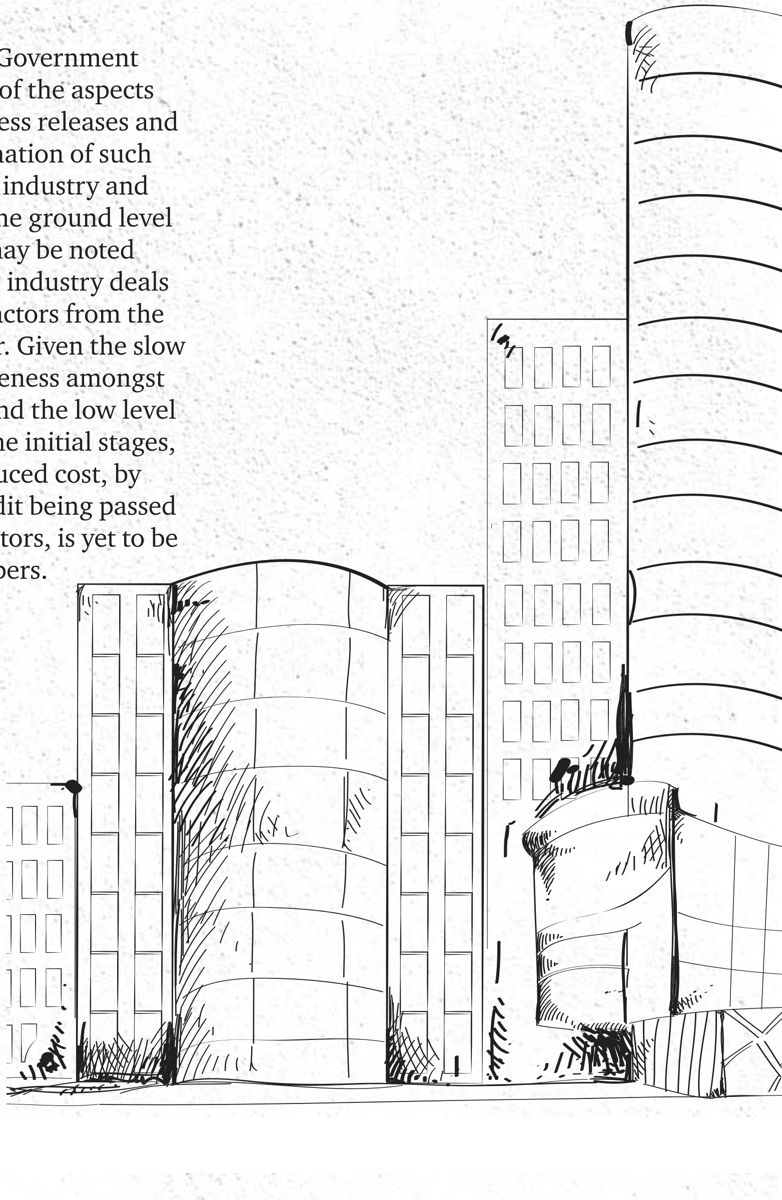
Considering the land price of the project and the construction cost involved, developers may opt to adopt either a single price contract model (say, where the land price is less than one-third of the total contract price) or a dual contract model for the sale of land and construction portion (where the land price is more than one-third of the total contract price). ***A consumer may benefit where there are separate agreements and the land price is more than one-third of the total contract price.*** However, the GST authorities would want to tax such projects in a manner similar to a single price contract model and thereby demand GST on two-thirds of the total apartment value including land value, which would be higher than collecting GST on only the construction portion. ***The current lack of clarity on the GST authority's view on the dual contract model could be a cause for concern amongst developers.***

Availability of credits

Developers would be eligible to avail ITC of GST paid on procurement of materials and services used for the construction of building. Further, there is an expectation that such availability of credit should reduce the cost of construction for developers. However, the method of computing such benefits has not been prescribed under the GST Act and may prove to be complicated considering factors such as extent of completion of project and nature/value of procurement involved. To illustrate, materials may have been purchased at the time of commencement of the project but the benefit shall be required to be transferred at different stages of sales being made to customers.

Additionally, with recent clarifications being issued by the government on ineligibility of transition credit on inputs already consumed in the project, the benefit of tax credits on under-construction projects is likely to be low.

While the Central Government has clarified some of the aspects through certain press releases and FAQs, the dissemination of such information to the industry and their adoption at the ground level has been slow. It may be noted that the real estate industry deals with a lot of contractors from the unorganised sector. Given the slow reach of GST awareness amongst such contractors and the low level of compliance in the initial stages, the benefits of reduced cost, by virtue of input credit being passed on by such contractors, is yet to be realised by developers.

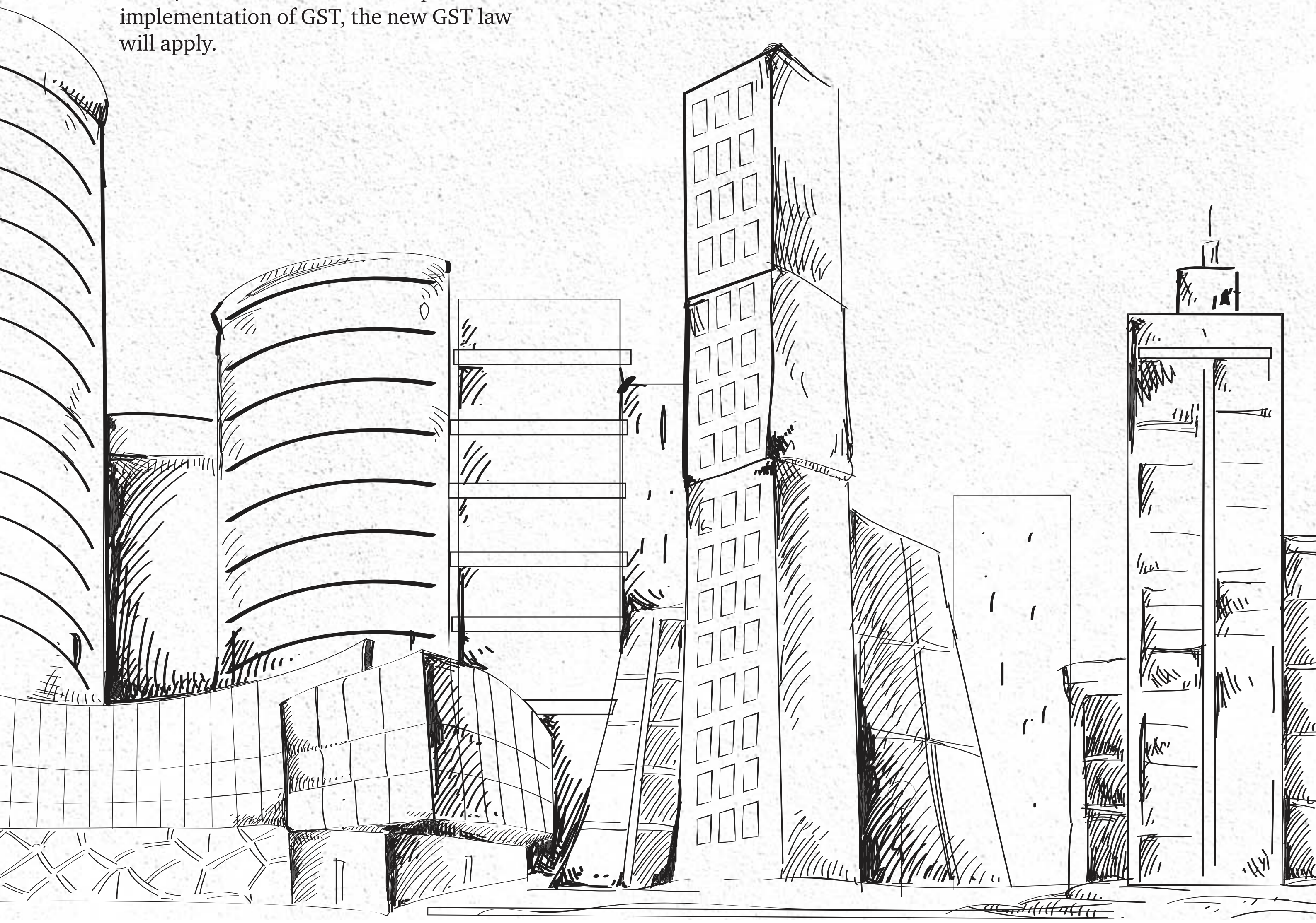


Impact of GST on existing contracts

The provision for transition from the earlier indirect tax regime to GST provides that any supply of goods or services which was charged to tax under the erstwhile Value Added Tax Act of a state or to Service Tax shall not be chargeable to tax under GST in order to avoid the duplication of taxation. Accordingly, for amounts paid by customers where developers have remitted taxes under the earlier law, such values shall be excluded from the taxable value for GST computation purposes. The same may be understood from the following table.

For those properties which are under construction and partly sold, the earlier laws of VAT and Service Tax will apply for invoices or demand notes raised prior to the implementation of GST (1 July 2017), while for invoices raised post the implementation of GST, the new GST law will apply.

Sr. no.	Taxable value of the contract	Demand note raised by developers till 30 June 2017	Amount chargeable under VAT	Amount chargeable under Service Tax	Amount chargeable under GST
1.	100	100	70 (100*70%)	40 (100*40%)	NA
2.	100	40	28 (40*70%)	16 (40*40%)	60
3.	100	Nil	NA	NA	100



Impact of GST on residential property prices

With the market opening up beyond state boundaries, GST's immediate benefit to developers is visible in an increase in the credit flow of taxes paid on procurements. Further, the GST law mandates the passing on of benefits arising due to increased credits to customers by way of reduced prices. However, ***the timelines and manner of computation of such benefits are not clear under the law. Further, with maximum benefits available to projects which are yet to commence and minimum benefits to those nearing completion, it will be an uphill task for developers to compute the overall benefits arising due to GST and the quantum of such value transferable to customers.***

While the maximum benefit is for projects which are yet to commence, consumer interest remains more focused on projects nearing completion.

The cascading effect of taxes has been mitigated under GST, with construction services specifically being classified as 'supply of service'. Further, as highlighted earlier, the tax rate has also been pegged at 18%, with an abatement of one-third being provided towards land value, thereby reducing the effective tax rate to 12% of the entire agreement value. ***While this may be beneficial to projects where the land value is closer to one-third of the total contract value, where the land cost is considerably higher, a low deduction of one-third of the contract value towards land may not be sufficient. To a large extent, the tax impact on Tier I cities is higher than that on other cities, primarily on account of the actual value of land being higher than one-third of the total contract value.***

Land cost varies considerably across locations and a standard deduction of one third of the total contract value for levying GST is not appropriate.

The impact of GST on property prices is also dependent on ***segmental classification of projects.*** Customers opting for affordable housing projects are expected to reap the maximum benefits, whereas such benefits are expected to reduce as the segment moves towards luxury and ultra-luxury sectors. The following table provides a comparative analysis of the expected impact in the respective project segments:

Factor affecting property prices	Affordable housing segment	Mid-segment property	Luxury and ultra-luxury segment
Rate of output tax	Gain : **Lower output GST rate of 12% on affordable houses constructed, leading to an effective rate of 8% under the 'Housing for All' (Urban) Mission/ Pradhan Mantri Awas Yojana and on low-cost houses having a carpet area of 60 sq m per house.**	Loss: The output GST rate of 18% (with effective rate of 12%) on houses under this segment will have an additional tax burden on property prices, as compared to the affordable housing segment	Loss: The output GST rate of 18% (with effective rate of 12%) on houses under this segment will pose an additional tax burden on property prices, as compared to the affordable housing segment
Value of land and manner of computing deduction towards land value	Gain: Actual land prices are typically less than one-third of the total property price and, therefore, deduction towards land of one-third is higher than the actual value of land	Less gains/possible loss: Typically, value towards land price for such property ranges between 30–40% and, therefore, the deduction towards land of one-third may almost be equal to the actual value	Loss: Land value for such property ranges between 40–60% depending on the location and city tier. Hence, the deduction towards land of one-third may not be sufficient, as GST will be levied on a higher base value
Lower input tax rate	Gain: Works contract services received by a developer towards this segment shall be taxed at lower rate of 12%	Loss: Benefit of lower input tax rate not available on mid-segment projects	Loss: Benefit of lower input tax rate not available in this segment
Exemption from tax on certain input supplies	Gain: Exemption from GST on pure labour service contracts used for such project schemes	Loss: No such exemption available	Loss: No such exemption available
Eligibility of input tax credit on imports	Indifferent: Considering that a majority of procurements made for such projects are sourced domestically, no major impact on property prices expected due to eligibility of ITC on imports	Indifferent: Imports in minimal quantities are effected for such projects, eligibility of which shall not cause material deviations in property prices	Gain: Considering the volume and amount of imports made for the construction of such projects, significant gains are expected to flow to developers in the form of input tax credit

The table below provides a comparison of the taxability of various inputs pre and post GST implementation and its likely impact on project costs.

Sr. no.	Nature of supply	Taxability under earlier tax regime	Taxability under GST	Likely impact on project cost
1	Bricks, natural sand, blocks of marble and granite, lifts, elevators, tiles and sanitary fittings*	5.5–28%	5–18%	↓
2	Labour and like charges, including service charges by subcontractor	15%	18%	↑
3	Cost of acquisition of land	NA	NA	—
4	Renting of commercial space	15%	18%	↑

* On all supplies provided on or after 15 November 2017 when the rate of tax was reduced from 28% to 18%.

While there is a reduction in the total tax component of inward supplies of materials, there is also a corresponding increase in the tax cost on services received. However, with unrestricted flow of credits available under GST, as compared to restrictions under the earlier regime, developers shall benefit with a higher credit pool and therefore, from the government perspective, be required to pass on such benefits to customers by way of reduced prices.

It may also be noted that the GST law requires businesses to mandatorily pass on the benefit derived from any reduction in the rate of tax or benefit from the input tax credit to customers. With regard to the real estate sector, on the one hand, the industry is grappling to determine the actual benefit on account of GST and, on the other hand, there is lack of clarity on how the benefit, if at all any, has to be computed (the period to be considered, the factors to be considered, etc.). The government has been very aggressive, especially with the real estate sector, to investigate businesses for non-compliance with the anti-profiteering provisions. Against this backdrop, businesses should take appropriate steps to evaluate the quantum of benefit to be passed on and the methodology for passing on such benefit, if any, to customers.

There is a possibility of the market perceiving GST to be a 'by default' agent for a price drop *for all projects,* whereas the actual factor for such price reduction is business and market requirements.

Developer survey results

JLL conducted a quick dipstick survey to analyse developers' views on the impact of GST on residential markets. The analysis threw up a mixed bag of responses.

On change in prices on offer for residential projects: Almost 57% of the developers surveyed stated that there was a reduction in prices on offer; 36% of the developers stated that the prices were constant and the balance were non-committal. Further, 57% of the developers stated that the reason for the reduction in prices was due to market dynamics, but 43% stated that the new GST regulation was a reason for this reduction.

While input credit is expected, there was lack of clarity on the exact amount of benefit. Typically, small developers felt that the impact of GST on their sales would be negative as it would create an additional burden on the developer accompanied by lack of clarity on the exact amount of input credit s/he will receive. However, large developers stated that the impact on pricing would be marginal (likely 2–3% reduction), with some committing to pass on the benefit of input credit received to the buyer.

Form of discount: When asked about the form of discount that developers were offering 36% of the developers stated that they were offering upfront discount on quoted prices. However, a much larger number (50%) mentioned that they were offering freebies and subvention schemes. Further, 50% of the developers interviewed also said that they were offering discounts on stamp duty, registration and GST charges. These discounts are typically given on a case-to-case basis, considering factors such as timing of purchase, payment terms finalised and limited period offers, and discounts are not offered as a general policy.

Total discount on offer: We decided to question developers a little deeper and find out what the total discount on offer was. In this regard, we had surveyed with the following options:

- Less than 5%
- 5–10%
- 10–15%
- 15–20%
- More than 20%

The results showed that most developers were offering 5–10% or 10–15% discounts overall.

Total input credit expected: There were diverse views on total input credit expected and, in some cases, complete lack of clarity. Some developers stated that the input tax credit would be in the range of 3%, and others stated it would be closer to 5–6%. Large developers stated that they expected an input credit benefit of 2–3% overall, which they would be willing to pass on to consumers. Here, the anti-profiteering clause of the GST law, which states that 'any reduction in rate of tax on any supply of goods or services or the benefit of input tax credit shall be passed on by way of commensurate reduction in prices', seems to be on the mind of developers. Developers state that while input tax credit may be received, there has also been an increase in costs, especially borrowing costs, which will need to be adjusted to arrive at a realistic estimate of profits.

Price change visible for which stage of construction (under construction; completed projects without OC): Of the developers surveyed, 64% felt that the price change was visible for under construction projects. Further, 50% of the respondents said that the price change was visible for completed projects without OC. GST impact will be felt on projects which are under construction or projects which are completed but have not yet received OC. The migration from the earlier VAT and service tax regime for under construction projects to the new GST regime seems to involve complex calculations for developers.

Any upward revision in prices? Queried on whether there was any upward revision in prices, all developers unanimously said there was none. Small developers stated that as such there was difficulty in achieving sales, so there was no question of an increase in prices.

Particular geography in which price discount is visible (city centre, suburbs, extended suburbs): In specific cases of price discount offered, more cases were found in suburbs and extended suburban locations.

Price discount category (luxury, mid-segment, affordable): Of the developers surveyed, 64% stated that a price discount was available in the mid-segment category. Further, 50% of the respondents stated that it was also available in the luxury category of the residential market and almost 30% stated that discounts were available in the affordable category. This data is applicable only to the universe of those limited projects that are offering any kind of discount and the data does not apply to the entire project universe.

Concluding remarks: *While this is a dipstick survey, JLL concluded that currently there is lack of clarity among developers on the exact implications of GST. Developers feel that the exact impact will be understood only after a thorough analysis of the implications on each input cost (in the form of labour and raw material, namely steel, cement, bricks, etc.).*

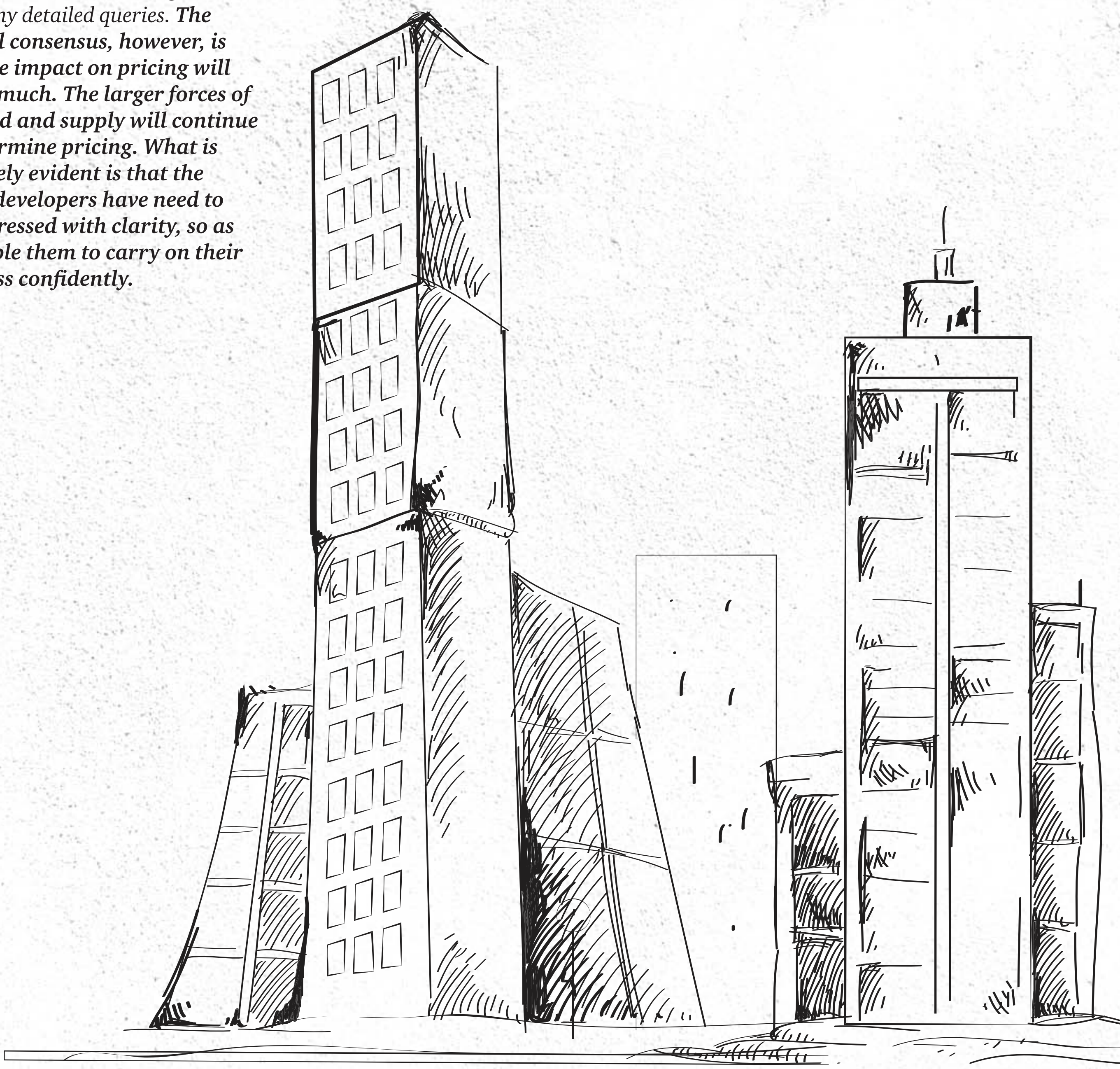
With regard to other raw material inputs—namely cement, steel, bricks, tiles, etc.—the challenge lies in estimating the cost of these commodities over the entire life cycle of the project. Since the purchase of these supplies is linked to construction progress, it is difficult for developers to estimate upfront the costs and input tax credit received for the same. This becomes specially challenging because unlike products with an MRP, real estate experiences a price fluctuation and the developer can only estimate the average price of the apartment and work out the average costs. In addition, there is the complexity of being on the right side of the NAA by passing on the benefit of input tax *credit to the customer, despite an increase in any other costs.* ***There is no specific mechanism provided for offsetting any other increase in costs against the benefits of input tax credit.***

Tax treatment of ongoing projects which were earlier under the VAT and service tax regime and will now migrate to GST is complex, and accounts departments as well as chartered accountants state that it is not just a simple change in an Excel formula and involves a much deeper understanding of how input tax credit is to be calculated.

With lack of clarity on various parameters of GST, developers were hesitant to comment outright on too many detailed queries. ***The general consensus, however, is that the impact on pricing will not be much. The larger forces of demand and supply will continue to determine pricing. What is definitely evident is that the issues developers have need to be addressed with clarity, so as to enable them to carry on their business confidently.***

A short discussion with developers in Maharashtra revealed their GST wish list:

1. Align land ready reckoner rates with the actual rates prevailing in the market to arrive at a realistic land cost (GST is levied after one-third deduction for land).
2. Land cost deduction should be allowed on the basis of actual cost of land and not one-third, especially in cities like Mumbai as the land cost is often 50–60% of the total cost incurred by a developer.
3. Instead of applying GST @18% and then availing of input tax credits, a flat rate of 5% without tax credits should be levied.
4. Clearly outline the methodology to be adopted for allocating the input tax credit benefit to the final price of the apartment given the fact that raw material expenses are incurred over an average project life cycle of 4–5 years.



The estimated benefit may not be significant.

Conclusion

While GST has simplified the tax treatment for the realty sector and has resolved some of the long-standing issues of valuation, nature of supply, etc., the significant benefit appears to be only with regard to increased input credit on the procurement of materials. The rate of GST on residential contracts has not necessarily reduced to a large extent.

The increase in input credit should ideally reduce the construction cost. However, in an apartment, in addition to construction cost, the land cost also plays a significant role. ***The maximum benefit under GST would be available only to projects that are mostly or entirely executed post implementation of GST. In the case of projects which have already commenced and are nearing completion close to the GST start date, there may not be any significant benefits that the developer can pass on to the end customer. In any case, for most projects, the estimated benefit may not exceed 3% of the overall construction cost. This benefit may not translate into a significant reduction in prices for consumers.***

The effective rate of tax has not seen too much deviation, with the earlier rate ranging from 10–15% and now moving to 12% under GST. Therefore, it may appear that GST would result in savings of at least 3–4% to the end customer; however, the ground-level reality may be different. The cost of land involved in the project would significantly impact the ultimate savings the end customer may derive under GST. In projects where the land cost is low, the savings can be significant and closer to the estimated savings. However, where the land cost is high, the savings on account of GST may not be significant.

In summary, end customers may be technically entitled to some amount of relief, and builders would be better off explaining the rationale behind their position depending on their fact pattern.

About JLL

JLL (NYSE: JLL) is a leading professional services firm that specialises in real estate and investment management. A Fortune 500 company, JLL helps real estate owners, occupiers and investors achieve their business ambitions. In 2017, JLL had revenue of $7.9 billion; managed 4.6 billion square feet, or 423 million square meters; and completed investment sales, acquisitions and finance transactions of approximately $170 billion. At the end of 2017, JLL had nearly 300 corporate offices, operations in over 80 countries and a global workforce of 82,000. As of December 31, 2017, LaSalle had $58.1 billion of real estate assets under management. JLL is the brand name, and a registered trademark, of Jones Lang LaSalle Incorporated. For further information, **visit www.jll.com**

JLL has over 50 years of experience in Asia Pacific, with over 37,000 employees operating in 96 offices in 16 countries across the region. The firm won 23 awards at the International Property Awards Asia Pacific in 2017 and was named number one real estate investment advisory firm in Asia Pacific for the seventh consecutive year by Real Capital Analytics and ranked among Fortune Magazine's World's Most Admired Companies list third year in a row. **www.ap.jll.com**

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JLL is India's premier and largest professional services firm specializing in real estate. With estimated revenue for FY 2017-18 expected to be ~INR 3,200 crores, the firm is growing from strength to strength in India for over the past 20 years. JLL has an extensive geographic footprint across 10 cities (Ahmedabad, Delhi, Mumbai, Bengaluru, Pune, Chennai, Hyderabad, Kolkata, Kochi and Coimbatore) and a staff strength of over 9,500. The firm provides investors, developers, local corporates and multinational companies with a comprehensive range of services. This includes research, strategic advisory and consultancy, capital markets, transaction management, project and development services, integrated facilities management, property and asset management. These services cover various asset classes such as commercial, residential, industrial, retail, warehouse and logistics, hospitality, healthcare, senior living and education.

JLL was recognised as one of the 'Best Places to Work in India 2017' in the annual survey of 'India's Best Companies to Work For' - a joint study conducted by Great Place to Work® and The Economic Times. The firm has also been acknowledged as 'Property Consultant of the Decade' at the 10th CNBC-Awaaz Real Estate Awards 2015 and the Best Property Consultancy in India at the International Property Awards Asia Pacific 2016-17. For further information, please visit **www.jll.co.in**

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