

Business Standard

Higher GST will apply to dues on finished real estate projects: CBIC

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Indivjal Dhasmana | New Delhi May 16, 2019 Last Updated at 00:59 IST



Earlier, the GST Council had decided that with effect from April 1, builders of all under-construction houses would have two options — either pay 12% GST with input tax credit or 5% GST without input tax credit

If you've got an occupancy certificate (OC) for your house before April 1 this year, the payment of pending dues would draw 12 per cent goods and services tax (GST) rate and the builder will be able to avail of input tax credit.

The Central Board of Indirect Taxes and Customs (CBIC) has come out with another set of frequently asked questions (FAQs) to clear the air on GST on real estate.

Earlier, the GST Council had decided that with effect from April 1, builders of all under-construction houses would have two options — either pay 12 per cent GST with input tax credit or 5 per cent GST without input tax credit. While there is no GST on completed residential projects, an OC needs to be given. All new projects will have to pay 5 per cent GST without input tax credit from April 1.

In this regard, there was confusion as to how much rate would apply to pending dues on houses where OC has been given before April 1.

Abhishek Jain, partner at EY India, said the CBIC had clarified that the concessional rate of GST (5 per cent) would not apply to the payment of such dues. “Clarifications on some technical ambiguities like non-applicability of new rates for projects completed before April this year should help resolve some involved issues for this sector,” he had said.

Pratik Jain, partner at PwC India, said this clarification is important for various projects where the OC has been received, but demands are still pending to be issued.

There was another query from real estate companies whether the supply of exempt items from GST would be taken into consideration while calculating the requirement of 80 per cent of raw material purchased from registered entities. While giving the concessional rates of GST to the builders, the GST Council had imposed the condition that 80 per cent of the raw material had to be bought from registered entities.

The CBIC clarified that the items purchased from exempt entities would also be factored in while calculating this yardstick. When builders buy land from landowners to build flats or commercial offices, the latter gives development rights to the former. GST at the rate of 18 per cent is applicable on these services, but only in the case of commercial offices. However, these rates are paid on reverse-charge basis, which means builders have to pay the tax.

Clarifications were sought if the GST is payable even if landowners are unregistered. The CBIC said GST will have to be paid irrespective of the fact whether landowners are registered or not, said Abhishek Jain.