

# Impact of RERA and GST on Construction Sector

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**Abstract**—The real estate industry serves as a catch-all for addressing a nation's housing and infrastructural needs. It significantly improves five sub-divisions, including dwellings, infrastructure, shopping, lodging, and business. As a common practice across the nation, the real estate industry lacked professionalism, uniformity, and consumer protection. A new era in the Indian real estate industry has been assured with the introduction of the Real Estate Regulator Bill (RERA), which was approved by the Indian Parliament in March 2016. This measure, which was approved by the Indian parliament, creates a more open, accountable, and reliable framework for the construction industry, with a primary focus on the real estate market for selling and buying homes. The newly implemented Goods and Services Tax (GST) also introduced tremendous changes in the Real Estate Market. This made Real Estate Market slow in its Initial Stages which left Builders and Contractors to stay away from the Business for a particular period of time, to confront themselves with the new laws and the new taxation system.

**Key Words**— RERA, GST, Impact, Construction Sector, Real Estate Market.

## I. INTRODUCTION

In the History of the Indian Real estate sector The Real Estate Regulation and Development Act (RERA) 2016 proves to be a revolutionary Act. It is introduced to boost the investment in the real estate sector and also to protect home buyers' interests. The Act encourages fair practices in the Real Estate Sector and aims to improve transparency. The Act applies to new projects as well as the projects under construction (which were to be registered before 31st July 2017). Commercial and Residential projects are included under this act as well as Real estate agents or brokers are also included under the umbrella Moreover, the developers will have to submit the project layout, government approvals and land title status the regulatory authority. Failing to

do so will result in penalty in the form of fine or imprisonment or both, depending upon the severity. The Real Estate Sector was in a desperate need for such a transparent system to improve the market sentiment and to preserve the customer's investments. The Bill also mandates buyers to pay their payments to developers within the stipulated time, failing which suitable action can be taken against them.

The GST (Goods and Service Tax) Bill was approved in the Lok Sabha on March 29, 2017, with four supplementary Legislations i)The Central GST Bill, 2017 ii) The Integrated GST Bill, 2017 iii) The GST (Compensation to States) Bill, 2017 iv) The Union Territory GST Bill, 2017. The GST has changed the entire scenario of the indirect taxation system in India. It is considered as the biggest ever tax reformation since 1947. GST unifies all the indirect taxes under one umbrella and created a smooth national market. The main objective behind implementing GST is to avoid duplication of taxes and thus focus on one nation one tax. By 2020 the India Real Estate Sector is expected to grow 12% annually. In Real estate sector, a huge percentage of each project expenditure goes unrecorded in the books earlier. GST has helped cut down this percentage due to cloud storing of invoicing. Real estate sector also has benefited with new tax law having a positive effect on all ancillary industries.

Need for Study: -

Real Estate is an important part of any economy. The Real Estate Sector aims to be one of the most globally recognized sectors. In India, real estate is stated to grow at 30% over the next decade and is the second largest employer after agriculture. This sector comprises of four sub sectors: - a) Housing b) Hospitality c) Retail and d) Commercial. The growth of this real estate sector is well complemented by the growth of the corporate environment and the demand

for office spaces as well as urban and semi-urban accommodations. Among the 14 major sectors, the construction industry ranks third in terms of direct, indirect and induced effects in all sectors of the economy.

It is accountable for an extensive part of its development investment, advancement of the nation's infrastructure stand & major originators of trade and industrial activity. The economy of a country is highlighted by its infrastructural growth.

The real estate sector has strong connections with various industries such as tiles, paints, fittings & fixtures, cement & steel etc. If the real estate sector declines, there will be adverse effects on all other industries related to this sector.

RERA being a new act needs to be studied thoroughly so that the real estate sector prospers and preserves the motive of its implementation.

The interest of buyers in the real estate sector needs to be maintained as the market depends on the consumers; hence their interest on this sector is a major concern. A lot of apartments are left unsold for the past few years due to incremented prices.

Objectives: -:

1. To analyze the Impact of RERA on Real estate sector.
2. To assess the taxation system based on GST for the construction industry.
3. To analyze the effect of GST on the Indian real estate sector.
4. To propose statements that can be added to the systems would benefit to both the parties.

Methodology: -

a) Data Collection:

The primary data will be obtained from the literature. The secondary data will gather through a questionnaire survey targeted at some contractors, clients, and consultants in construction projects

A questionnaire will assess the perceptions of clients, consultants, and contractors on the relative importance of causes and effects of factors in the construction industry and the responses will be recorded

b) Factors considered for Questionnaires content-

Factors related to schedule of the project

Economic factors

Factors related to owner-client

Factors related to consultant of the project

Factors related to contractor of the project

Factors which are related to material, manpower and equipment

External factors.

## II. LITERATURE REVIEW

✚ Nivedita S Karnawat Asst. Prof. Harshita Ambre, "Study on Impact Of RERA and GST on Construction Sector" [1], in this paper study shows

1. Due to implementation of RERA, the major victim of the real estate sector is the developer/ promotor now. The transactions will not go unaccounted. The real estate sector has become more competitive. The status of Indian real estate is expected to rise. Indian real estate is improving towards global standards and practices.

2. For ready possession projects, only the construction cost i.e. the material cost and labour cost affect the cost of a property. Other indirect taxes (service tax, value added tax, GST) are not applicable, where as for new projects the new taxes are applicable.

✚ Abhijit Sanjay puri, Prof. Kiran ghorpade, "Implications of RERA, GST And Covid 19 Effects on Construction Industry in India" [2], in this paper study shows

Though the act is very new, it is accepted very easily by the seller and buyers. The scope of study is limited to Pune area region. Amendments are still going on. It is very early to study the results of this act in terms of both the parties. Single window system plays an important role in the success of the RERA Act. 1. Real Estate (Regulation and Development) Act, (RERA) 2016 is brought better transparency and accountability. 2. This act is helps to mitigate so many causes of delay that are enlisted above. 3. Due to single window approval system it helps to speedy approvals at beginning of project and also at project closure stage. 4. Escrow account is very good concept. It controls the diversion of money from one project to another, also the chances of corruption will reduce. 5. Ongoing projects are affected by the RERA. Especially those projects which are project closure stage. 6. RERA is beneficial for both consumer and builder. It can be easily observed from the above calculations that even though ITC is not taken in consideration, there has been a considerable reduction of up to 1.2% of the Project Cost by application of GST. If the ITC studies are taken in consideration, then this cost will reduce even more & hence, it can be

said that it is a good effect of GST on construction industry. It is also seen that only the Labour Contracts are at total loss which is to be paid attention by the contractors bidding for labour contract. Therefore at present, it can be concluded that cost of under construction residential unit will increase post GST implementation. This will be a hefty blow to industry, which is already suffering from slow sales. Industry bodies need to urgently engage with government to minimize this impact by clarifying position on works contract, composition scheme and already paid service tax and VAT by developers.

✚ Gokhale Siddhi Sunil, A. T. Pawar, “Feasibility Analysis of Impact of GST and RERA on Building Construction Projects and Real Estate Sector at Pune Region” [3], in this paper study shows

- Since RERA approval is given only after completion of all the required formalities by the builder, copy of RERA approval is a must to find a place along with other documents of the buyer.
- It can be easily observed there has been a considerable reduction of up to 1.2% of the Project Cost by application of GST.
- GST has lend a whole lot of transparency in the real estate sector while also playing a major role in minimizing unscrupulous (black money) transactions.

✚ Harsh Bhushan “Impact of RERA in Real Estate Sector in India: An Analysis” [4], in this paper study shows

We can say that with the introduction of the Real Estate Act, transparency has also been brought to the system as project efficiency has increased. now, developers focus on adhering to the real estate act guidelines creating a regulate sector and a safe and secure environment for buyers.

As far as the positive effect of current act on the real estate business is concerned, the introduction of concept of ‘reserve account’ and various other mandatory requirements under the Real Estate Act perhaps may result in a rise of the cost of home and flats. On the other hand, the developers/promoters will also get relief from the Act as it impose severe penalty on the beneficiary in instance of delaying the payment on prescribed time and the builder has the option to approach the regulator in such instances where the buyer is at fault.

✚ Shekhar Pawar, HemanshuAhire “Study of Impact in Construction Project Due to Introduction of RERA in Pune” [5],

in this paper study shows

The act is a positive change in terms of increasing transparency in the real estate sector, increasing accountability of the promoters and developers.

RERA is likely to attract more number of buyers as well as investors in the real estate market hence marking a positive outlook for the Indian real estate sector.

As per survey, we can see that builders are more likely to be negative because of mahaRERA. Due to MahaRERA mostly builders are facing financial problems.

Due to MahaRERA all customers are positive, but they have doubt in construction quality and process of flat purchasing.

✚ Hanee N Patel, Dr. Jigar V Pandya, Dr. Samir Patel “To Analyze Impact of RERA on Real Estate Market” [6],

in this paper study shows

In country like India a standardized Real Estate Regulatory Act is necessary to have uniform standards throughout the country and to bring transparency in transaction, awareness in terms of customers, promoters etc. It is not mandatory to register project which are smaller than 500 Square meter and 8 apartments.

Fund escrow account is dependent upon 10% of total booking amount, Compensation pays to the customer with the interest rate of MCLR+2% of SBI from missing date of possession, and RERA registration charges.

Small developers can-not do multiple projects after implementation of RERA because increase in project legal cost, unable to complete project on time, and developers will have to disclose balance sheet for financial year and income tax returns of last 3 years on RERA website, so it impacts on sale.

Time delay in project is seen because of annual audit of project account by chartered accountant and increase in cost of construction, architecture, engineer and labor.

After RERA builders are now giving possession on time because developer will have to pay penalty of 10% of total project cost for any non-compliance with rules of RERA authority and after implementation of

RERA act construction quality has improved and project also gets completed on time.

Design and its changes are dependent upon three factors 70% escrow account, advertisement of project and compensation to the customer from the missing date of possession.

✚ Swati P. Sangolkar, S.S. Wadalkar “Impact of GST On Construction Industry” [7], in this paper study shows

**Tax Credits – Implications**

Procurement	Pre-GST Position	Post-GST Position
Materials	No Cenvat of excise duty, CVD etc. paid on materials No VAT credit on materials.	Full ITC available
Input Services	Cenvat credit of service tax was available	Full ITC available
Capital Good	Cenvat credit of excise was available in two trenches	Full ITC available in the year of receipt

**PRE & POST GST**

Particulars	Service Tax	VAT	Total	GST
Sale of Flats and Units- Under Construction	4.50%	1%	5.5%	18% (1/3 Reduction of Land)
Joints Development- Owner Area	4.50% to 6%	NIL	4.50% to 6%	18% (1/3 Reduction of Land)
Rehabilitation of Flats	6%	NIL	6%	18%

✚ Dr. Chavan Sachin U., Dr. Khaladkar Manisha R., Ms. Ashwini Patil “The Impact of GST on Construction Industry” [8], in this paper study shows

GST has led to increase in revenue generation of the sector which is also the biggest employment generation sector. Improvement in the quality of work by the contractors as there is a fixed time duration on cash flow in a project. Builders as well as the other agencies working in this sector have started a panel working on the untouched areas of working on the principles of construction management & risk management of the projects having huge significance in the construction society. An out of the box approach to the various technological option of doing the work has emerged to counter act the cost effect of GST.

**III. CONCLUSION**

**Recommendations - RERA**

1. Make government agencies accountable for the delay in granting approvals Single-window disbursal of all regulatory approvals
2. Mechanism required to monitor fund transfer from an escrow account for land acquisition clearly define ‘structural defects’ and fix liability on to the developer
3. Set timeline for allottees to communicate opinion on layout changes
4. Both Centre and state must collectively resolve any future conflict arising out of RERA implementation
5. This Act shall exclude Registration For Smaller Projects up to 20,000 Sqft
6. The purpose of the act is good , but the list of compliances is too long and too complicated for small scale a Registration Process is need to faster and REA dispute resolution process is very poor.
7. Building information module system to be added for more clarity and advance working.

**Recommendations GST**

1. The GST rate on composite supply of works contract for residential real estate should be reduced with Input Tax Credit benefit
2. Higher GST rates on goods for residential real estate are quite prohibitive. Accordingly, either GST rate on these goods may be reduced to 12% or residential real estate projects may be allowed refund of ITC in the form of ‘inverted duty structure’ together with refund of input services as well.
3. The exemption is restricted to only industrial units or for setting up infrastructure for financial

service sector. Similar benefits should be extended to land allotted to nonprofit institutions, educational institutions, hospitals or similar institutions where outward supply is exempt from GST.

4. The service by developers under SRA should be considered as construction service to society members / tenants / land owner and be charged at full rate of tax only on cost of construction and not land. Tax cost borne by the Developer on the construction service provided to SRA / Society under the SRA and Redevelopment project respectively, should be allowed as credit as the said cost is incurred by the Developer for the purpose of earning the revenue from the sale building Input Tax Credit towards the construction expenses incurred for the units to be given to existing occupants without consideration
5. The adjustment of procurement of inputs and input services should be permitted for the entire duration of the project instead on each financial year basis.
6. Rates should to reduced as it directly impacts end user and concept of affordable housing is hampered
7. GST compliances and application on joint development projects are very high and complicated. This is giving rise to fake invoices, bogus entries etc. therefore it should be revised.

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