

IMPACT OF GOODS AND SERVICES TAX ON BUILDING CONSTRUCTION PROJECTS AT ISLAMPUR CITY.

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Abstract: Goods and services tax or GST as it is known is all set of game changer for Indian economy. In, India there are different indirect taxes apply on goods and services by central and state government. GST is intended to include all these taxes into one tax with ITC and charged on both goods and services. Thus excise duty, special additional duty, service tax, VAT are replaced and added into GST. For successful implementation of GST, it is necessary that the government at both central and state levels agree to merge all their taxes into SGST/CGST. In building construction projects GST is now applied mostly on materials. The materials having major role in building construction projects. In building construction projects required 60% to 70 % cost for materials. The material rates are changes due to new taxation system, therefor it changes cost of construction projects.

Keywords: GST for construction, CGST, SGST.

I. INTRODUCTION

The Goods and Services Tax has revolutionized the Indian taxation system. The GST Act was passed in the Lok Sabha on 29th March, 2017, and came into effect from 1st July, 2017. India which replaced multiple cascading taxes levied by central and state governments. The GST is governed by GST council and its chairman is the finance minister of India. Under GST, goods and services are taxed rates 0%, 5%, 12%, 18%, 28%. Goods and services tax is single tax system on the supply of goods and services. The composite supply of works in building construction sector will fall under 18% GST rate with full input tax credit (ITC)^[1]. The VAT payable varies across states ranging from 1-15% and is applicable on supply of goods^[2]. The effective tax for an average construction in pre-GST era is typically in the range of 11-18%^[2]. The difference is more pronounced for construction services which fall under the service tax exemption category. Under GST, sale of under construction real estate properties would be classified as a supply of services and would be liable for payment of GST. However, sale of completed real estate properties and land exempted there would be no changes in the stamp duty and

registration charges. The GST rate for construction of buildings intended for sale to buyer, where the value of land is included in the sale value. In case the land and construction values are identified through separate agreements the GST rate applicable is expected to be 18%^[1]. The GST rates are higher than the current tax rate (VAT + service tax) in most states^[5]. This will increase the net effective tax rate under GST. In the GST there are mentioning that the effective GST payable on purchase under construction residence or commercial properties from a builder to the buyer is 12% with full input tax credit system^[6]. Input tax credit means at the time of paying tax on output, you can reduce the tax you have already paid on inputs and pay the balance amount. In this system supplier who construct building, flat, shop or independent floor etc. either through works contractor or on his own for the purpose consideration, will not be able to take any credit of taxes charged on input services used in the construction of such buildings, flats etc. due to specific restriction. For commercial purpose is taxable but benefit of input tax credit is not extended which is against the principle of taxation system. It is results into increased cost of constructions and higher rents of such commercial properties. The relation between properties and prices is known fact, in the VAT system the construction price is increase where the housing price of properties drop as construction cost. In the construction sector faced scenario similar to it in which introduction of GST influences the price of building input and thus affects the developers profit and eventually the profit value.

II. METHODOLOGY

At Islampur city is one of taluka place in the Sangli district of state Maharashtra. Being taluka place the city is spreading in all directions. Number of housing projects are being executed in all parts of city. Here attempt has been made to identify impact of GST on construction activity in Islampur city.

a) Data Collection

The traditional and advanced both types of materials are used in the practices, traditional construction materials like steel, Portland cement, timber etc. are often

used in many projects of building construction. Modern materials are like polymers, composites, AAC blocks etc. Various services are used in building construction projects in Islampur city.

TABLE NO 1: VAT and GST rates for building materials

Materials	VAT Rates	GST Rates
River sand	5%	5%
Coarse aggregates	5%	18%
Steel	19.5%	18%
Cement	12.5%	28%
AAC blocks	12.5%	18%
Tiles & Granites	18-28%	12.50%
RMC	13%	28%
Electric materials	14.5%	28%
Plumbing materials	13.5%	28%
Fabrication	12.5%	18%
Wooden doors	12.5%	28%

b) Case Study Details

Site name- Balaji Icon
 Location- Near Shani Mandir, Kacheri Road, Islampur. Tal- Walwa, District- Sangli.
 Plot area- 1128 Sq.M
 Builtup area- 878 Sq.M Each floor
 Structure- G+4
 No. of flats- 36
 No. of shops- 36

Material Cost under VAT and GST

In this project various types of materials are required, therefore total cost of project is floor wise measured under VAT and GST rates.

TABLE NO. 2: Material Cost under VAT and GST

Floor	Material cost Under VAT (Rs.)	Material cost Under GST (Rs.)
Lower ground floor	42,66,404	66,75,507
Upper ground floor	39,56,800	44,16,802
First floor	57,72,853	63,97,313
Second floor	55,43,487	63,46,232
Third floor	56,72,350	63,07,958
Fourth floor	55,56,870	62,81,832
Total cost	Rs.3,07,68,764	Rs.3,64,25,644

Cost Difference-

Cost Difference =
 Material cost under GST – Material cost under VAT

Rs. 3,64,25,644 – Rs. 3,07,68,764 = Rs. 56,56,880 /-

Services cost for Project

Various construction services are used for this project, services are required 30% to 35 % cost of project. There are no GST applied on services.

TABLE NO. 3: Services Cost

Services	Cost (Rs.)
Excavation	1,36,000
Centring	68,05,440
Brickwork & Plaster	53,87,640
Flooring & Dado	7,46,100
Granite work	2,33,820
Plumbing	2,68,350
Electrification	3,37,500
Wall putti	5,61,730
Supervisor	2,64,000
Architect	29,49,000
Structural Engg.	29,49,000
Total cost	Rs.2,06,38,580

Total services cost is required for this project is = Rs. 2,06,38,580/-

Total Investment under VAT and GST

In this project for total investment various costs are considered, i.e. material cost, service cost, waterproofing, lift installation, land cost etc.

TABLE NO. 4: Total Investment under VAT

Particulars	Investment under VAT	Investment under GST
Material cost	3,07,68,764	3,64,25,644
Service cost	2,06,38,580	2,06,38,580
Waterproofing	3,69,000	3,69,000
Lift cost	3,50,000	3,50,000
Land cost	1,44,00,000	1,44,00,000
Lumpsum 1%	6,65,260	7,21,832
Total cost	Rs. 6,71,91,604	Rs.7,37,40,520

Difference in total investment

Under GST – Under VAT
 $7,37,40,520 - 6,71,91,604 = 65,48,916$

Difference in total investment = Rs. 65,48,916/-

Difference in total investment in percentage

$Rs. 7,37,40,520 / Rs. 6,71,91,604 = 1.09$

Due to implementation of GST investment cost is increased by 9 %.

Difference in investment per unit

Built up area = 56,683 Sq. feet

1] Investment under VAT = Rs. 6,71,91,604/-

Rate per sq. feet = $6,71,91,604 / 56,683$
 = 1,185

Investment under VAT per sq. feet = Rs.1185/-

2] Investment under GST =

Rate per sq. feet = $7,37,40,520 / 56,683$
 = 1301

Investment under GST per sq. feet = Rs.1301/-

Difference in investment per unit-

Investment under VAT per sq. feet –
 Investment under GST per sq. feet

$$1301 - 1185 = 116$$

Difference in investment per sq. feet = Rs. 116/-

Total sale amount under VAT

In this project lower and upper ground floor consisting commercial shops had Rs.6,500/- per sq. feet salable rate and the first, second, third and fourth floor consisting residential flats had Rs.2,500/- per sq. feet salable rate under VAT system.

TABLE NO. 5: Total Sale Amount under VAT

Floor	Salable area (Sq.ft)	Rate/ Sq.ft	Amount(Rs.)
Lower ground floor	2,659	6,500	1,72,83,500
Upper ground floor	5,680	6,500	3,69,20,000
First floor	6,916	2,500	1,72,90,000
Second floor	6,916	2,500	1,72,90,000
Third floor	6,916	2,500	1,72,90,200
Fourth floor	6,916	2,500	1,72,90,200
Total amount			Rs.12,33,63,500

Developers profit under GST

Total sale price = Rs.12,33,63,500/-

Developers profit =

$Rs. 12,33,63,500 - Rs. 6,71,91,604$
 = Rs. 56171896/-

Total sale amount under GST

In this project lower and upper ground floor consisting commercial shops had Rs.7000/- per sq. feet salable rate and the first, second, third and fourth floor consisting residential flats had Rs.2700/- per sq. feet salable rate under GST system.

TABLE NO. 6: Total Sale Amount under GST

Floor	Salable area (Sq.ft)	Rate/ Sq.ft	Amount(Rs.)
Lower ground floor	2,659	7,000	1,86,13,000
Upper ground floor	5,680	7,000	3,97,60,000
First floor	6,916	2,700	1,86,73,200
Second floor	6,916	2,700	1,86,73,200
Third floor	6,916	2,700	1,86,73,200
Fourth floor	6,916	2,700	1,86,73,200
Total amount			Rs.13,30,65,800

Developers profit under GST

Total sale price = Rs.133065800

Developers profit =

Rs.133065800 – Rs.73740520

= Rs.59325280

Selling amount increase due to GST in percentage

Rs.13,30,65,800 / Rs. 12,33,63,500 = 1.07

Selling amount increase 7% due to GST.

GST returns for developers

GST is applied 12% on construction industry, the 12% of sale amount is levied on total salable amount. As per input tax credit system GST returns reduced, means already paid GST on materials purchase which subtract from total GST amount.

TABLE NO. 6: GST Amount on Materials

Materials	GST amount (Rs.)
Steel	6,82,817
RMC	11,66,508
Sand	19,250
Cement	1,75,812
Coarse aggregates	28,512
Binding wire	7,742
AAC blocks	7,70,117
Chemical bags	3,27,409
Flooring tiles	4,18,824
Granites	2,52,759
White cement	6,968
Fabrication work	1,96,653
Railing	1,42,443
Electric materials	5,48,485
Plumbing materials	4,67,208
Wall putti	1,15,488
Wooden & Laminated doors	2,63,648
Slidings	37,79,32
Total cost	Rs.59,68,575

As per ITC provision-

Total sale price = Rs.133065800

Developers profit =

Rs.133065800 – Rs.73740520

= Rs.59325280

GST on total sale = 12%

12/100 x 133065800 = Rs.15967896

Already paid GST on materials

= Rs.5968575

Remaining GST for developers

= Rs.15967896 – 5968575

= Rs.9999321

GST returns for developer for Balaji Icon Project

= Rs.9999321 /-

III. CONCLUSION

1. Most of construction materials fall in 18% GST slab. Previously same was taxed for 11% including VAT and other taxes.

2. Implementation of GST to the construction materials leads to substantial increase in cost of construction. For the study we found 11% increase in cost of construction after GST implementation. As a result of this the selling cost is increase 7 % and construction cost increase by 9 %.

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