

AN IMPACT STUDY OF GST ON THE INDIAN CONSTRUCTION INDUSTRY

From Freedom to Carve the Aesthetic Ellora to the Wealth-Based Edifices

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ABSTRACT

The construction industry's worth and the real-estate sector's significance to the economy are challenging but crucial. The construction industry is vital to the nation's economy, and its importance must be emphasized to receive top billing in legislative priorities. The construction business is subject to the remarkable impacts of Goods & Services Tax on its operations and is assigned to the random sector due to the frequent use of alternatives to deal with the tax hike movements. This research paper is an attempt to analyse in greater depth the impact of the "GST" on the real estate sector and construction industry, as the GST changes were enacted for the sole goal of making housing accessible for everyone. Various provisions have changed in the past years. In the literature review, it is found that studies conducted on the effects of "Goods and Services Tax" on real estate and construction have a gap in having a proper comparative study. This study will compare the impact of the old and new GST regimes on real estate and construction. By eliminating disparities in taxation between different Indian states and creating a unified tax structure across the country, experts predict that the "Goods and Services Tax" (GST) would increase revenue and accelerate economic growth in the subcontinent. By broadening the tax base & limiting deductions and credits, GST reduces the effective tax rate and more fairly taxes both manufactured goods and services. This paper has attempted to highlight the impact of the hardship on compliance and revenue generation in the post-GST phase.

Key-words – *real-estate sector, construction industry, unified-tax, goods and services tax,*

THE CONSTRUCTION INDUSTRY:

From the aesthetic cave temples in Ellora, the perfect symmetry of the Taj Mahal areal, and gigantic stepwells, to the 80-ton stone crown of the Thanjavur temple: India hosts some masterpieces of engineering and construction. With this huge and unparalleled fact, the journey of construction sciences by humans begins.

However, in recent years, this industry has extensively contributed to the economic development of the country. Building wealth-based edifices is the new normal for the world. Adding worth to the same with the designs and modern architecture makes it volatile and demanding. So, determining the construction industry's worth and the real-estate sector's significance to the economy is challenging but crucial. The construction industry is vital to the nation's economy, and its importance must be emphasized to receive top billing in legislative priorities.

The value of the economy and the economy's worth are separate concepts, and both will vary greatly depending on the description of the sector employed. In calculating its economic worth, one must

consider the construction industry's role as a growth accelerator and driver. When the construction industry is thriving, other industries may flourish since the foundations for their success have lain.

The construction Industry in India is expected to reach \$1.4 trillion by 2025 (*Khade, 2022*). Cities Driving Growth - The urban population to contribute 75% of GDP (63% present), and 68 cities will have a population of more than 1 million (*Ians, 2019*). The construction industry market in India works across 250 sub-sectors with linkages across sectors (*Gupta, 2022*). By 2030, more than 40% of the population is expected to live in urban India (33% today), creating a demand for 25 Mn additional mid-end and affordable units (*Housing-News, 2019*).

🔗 MOTIVATION FOR THE STUDY:

Today, individuals require homes and land to secure their future investments in terms of their uses and cash. This industry confronts several challenges, mainly regulatory changes, high financing costs, and the influence of pre- and post-COVID. These are some elements that the research must clarify. This domain has not yet been the subject of extensive investigation in the past. This research was necessitated by the need to analyse in greater depth the impact of the "GST" on real estate and construction, as the GST changes were enacted for the sole goal of making housing accessible for everyone.

🔗 LITERATURE REVIEW:

Chavan et al. (2019) pointed out the main reason for GST is to replace other fees, such as valuing, including assessment, a sales charge, extract obligation, and administrative duty to reduce the hardship in the existing system. Based on research, the authors concluded that while GST reduced the tax rate for taxpayers, it also reduced revenue for both the federal government and individual states.

Srivastava, S. (2019) contended that on July 1, 2017, the "Government of India" and the Revenue Department abolished seventeen distinct indirect taxes and replaced them with a single, unified tax, GST. Its installation was meant to standardize and streamline operations across the country and do away with issues at the borders. The research, however, focused on the building industry and measured GST's effect on total income. Based on the research findings, businesses have lower tax bills under the GST regime than the previous taxing systems.

Rawal M. H. et al. (2018) described the whole structure of the Indian economy had been reorganized with the execution of the GST. The notoriously disorganized construction industry has been struck particularly hard since so many different tasks must be completed, such a sizable sum of money must be spent up front, and workers typically lack the skills to manage paperwork or their company's finances properly. Regularizing the unorganized sector, the GST negatively impacts the construction industry because of the prevalence of enhanced activities and the frequent resorting to shortcuts to cope with them.

Zainal R. et al. (2016) in their work, analyzed how GST affects building capital costs and how that, in turn, affects home builders and home pricing. Similarly, the research intends to shed information on the builders' perspective of GST and its impact on home prices. As a bonus, suggestions for future efforts that would benefit developers and consumers were discussed. It was concluded that applying GST will have the greatest impact on the expenses of construction inputs, including the purchase of building materials and land.

Malhotra, R. K (2021) stated the real estate industry is a hybrid of product and service provision. Under the GST system, the location of supply is also a tax collection location. In the real estate market, including or excluding certain properties from the supply equation is perennially contentious. The real estate industry in India is a rapidly expanding and important part of the country's economy today. Builders and buyers alike will reap the rewards of the new GST regime's favorable tax treatment of the real estate industry.

Patawari, M. (2020) described India's indirect tax system had been completely overhauled thanks to the GST. As a result, GST has affected every part of our economy. In the paper, researchers looked at how the Goods and Services Tax (GST) would affect various players in the real estate market, with an eye on how it will change the commercial and residential sectors. If people look at the Indian economy, the real estate sector is crucial since it accounts for between 6 and 8 percent of GDP (GDP).

Hazarika, K., Indapurkar, K. (2020) evaluated the downstream consequences of GST in India. Even yet, the study aimed to teach its readers about the Real Estate market before and after GST was implemented. The GST Council has revised the tax on land transactions based on suggestions from tax professionals, developers, and purchasers. The Council on Real Estate has advocated slowing down the GST to aid the real estate industry.

Kankariya, R., & Dongre, A. (2019) described the GST as both upsetting and soothing effects on the real estate market. Unlike a fast-moving consumer goods item, apartments do not come with an "MRP" or "Best before" date. The administration believes that implementing a uniform GST will result in lower pricing. The research intended to compare indirect taxes' effect on the property market before and after implementing GST.

❧ RESEARCH GAP:

In the construction sector, there has always been a need to adapt to save time, energy, and money while achieving superior outcomes. Numerous research studies have been conducted on the effects of GST on construction and real estate. However, some gaps exist in these studies, which are as follows. Various provisions have changed in the last year my study will analyse the impact of GST on the construction sector with this new provision which is also a gap. Previous studies have been conducted before 2021, so the contemporary provisions have not been clubbed.

❧ OBJECTIVES OF THE STUDY:

The paper attempts to carry the following agenda to be explored. Firstly, to study various indirect taxes levied upon construction and real estate businesses during pre-GST and post-GST regimes. Also, to understand the change in the cost of construction in pre-GST and post-GST regimes. To explore the affordability with the change taxability on Real Estate in pre-GST and post-GST regime. And undoubtedly, to study the contribution of GST on the GDP of India with special reference to the Real Estate Sector.

❧ METHODOLOGY:

The ex-post facto study would be used to study the change. The study will exclusively use secondary data for research. The secondary data will be collected from journals, official websites, magazines, articles, newspapers, papers, etc. The timeframe of the study will mainly be from 2018 to 2022.

❧ DISCUSSION: IMPACT OF GST ON CONSTRUCTION AND REAL ESTATE

To evaluate in terms of economic importance, India's construction sector ranks second (*Ansari, 2022*). The effects of GST, its provision, and the tax rates, applicable to the construction business are discussed as follows. For ease of discussion, the building business has been categorized into three main subsectors:

1. Real Estate Construction: It includes both home building and business structures.
2. Industrial Construction: Building of a manufacturing unit, pipelines, oil refinery, and
3. Infrastructure Building – Infrastructure like roads, bridges, railroads, etc., are built.

It is an indirect replacement tax for other indirect taxes in India, including excise duty, value-added tax, service tax, etc. On March 29, 2017, Parliament enacted the Goods and Service Tax Act, which took effect on July 1, 2017.

Since 1947, no robust indirect tax change has been as large or far-reaching as the GST. Value-added tax, sales tax, excise duty, and service tax are all levies that GST intends to replace. The GST is referred to, expected to impact the Indian economy significantly.

India, one of the largest democracies in the world, levies and collects its numerous taxes through a centralized federal structure. Indirect taxes are imposed and collected at various stages of the distribution process. The Indian Constitution specifies that the federal government and the individual states have the authority to collect taxes.

With the introduction of the “Goods and Services Tax,” the government will take the next step toward implementing sweeping indirect tax reform. Construction services are subject to an 18 percent GST charge. However, this percentage is consistently 1% in the affordable housing market. In addition, the input rate for building materials and services is 18%, whereas the rate for all other industries is 5%. Therefore, the GST rate for building services is between 8% and 10%, depending on whether or not ITC incidence applies.

According to the GST legislation, the construction of any civil structure, complex, building, or a component thereof, especially a building or complex intended for sale to a buyer, is a provision of service and, as such, is subject to the GST”

In contrast, according to the CGST Act, 2017, no GST must be paid on completed or move-in ready real estate. Only homes in the building process are subject to GST. When GST was implemented, it had a major effect on the housing market. This all-encompassing, multi-step tax is applied to the value added at each level of the supply chain. It replaces several other taxes—including service, excise, and value-added taxes—and guarantees minimum tax cascading, which can help curb inflation. Apartment owners who purchase a unit while still in the building phase must pay GST. If a project has acquired a completion certificate from the appropriate body, then GST is not due.

It has the greatest impact on the construction industry, which has a reputation for being disorganized because so many different tasks must be completed, such a large budget must be allotted at the outset, and too little thought must be given to the form management and the guidance of economic aspects. The construction business is subject to the terrible impacts of “GST” on its operations and is assigned to the random sector due to the frequent use of alternatives to deal with the tax hike movements.

The construction business has long had a difficult tax status, whether under old indirect taxation legislation or the new GST system. While the construction industry was initially subjected to GST's standard effective rate of 12%, this was later rationalized by introducing a concessional functional rate of 8 percent in the case of inexpensive housing projects. Despite the effective rate drop, the builder's organization has not stopped lobbying for further reductions in rates under GST to stimulate the real estate market. Thus, on April 1, 2019, a new Goods and services tax treatment was implemented.

❧ CONCLUSION:

By eliminating disparities in taxation between different Indian states (through SGST) and creating a unified tax structure across the country, experts predict that the GST would increase revenue and accelerate economic growth in the subcontinent. By broadening the tax base & limiting deductions and credits, GST reduces the effective tax rate and more fairly taxes both manufactured goods and services. GST will have an impact on all segments of the economy, including large, medium, and small businesses, as well as intermediaries, importers, exporters, dealers, professionals, and consumers. The real estate market in India is crucial to the country's overall GDP. About 7.3% of India's GDP comes from this industry. There is a wide variety of activities that fall within this sector, all of which benefit society and the economy as a whole. In the new GST regime, there are certain accommodations provided, such as a lower tax rate and the provision of credit. Contractors must not take the introduction of GST lightly. Contractors who had made the time and effort to learn about the tax may have prevented or swiftly handled many of the issues that arose after 1 April 1994. Unfortunately, not all contractors realize they

did not put in adequate effort in this regard. Given this insight, the next part will offer a structure for construction firms to adopt GST.

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