

Recommendations made by the GST Council for the Housing Sector to promote Affordable Housing for the masses come into force;

Ministry of Finance

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Concessional Rate of GST of 12% extended to construction of houses constructed/ acquired under the Credit Linked Subsidy Scheme for EWS, LIG, MIG sections

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In its 25th Meeting held on 18th January, 2018, the GST Council had made several important recommendations for the Housing Sector which have come into force with effect from 25th January, 2018. The recommendations are expected to promote affordable housing for the masses in the country.

One of the important recommendations made is to extend the **concessional rate of GST of 12% (effective rate of 8% after deducting one third of the amount charged for the house, flat etc. towards the cost of land or undivided share of land, as the case may be)** in housing sector to construction of houses constructed/ acquired under the Credit Linked Subsidy Scheme (CLSS) for Economically Weaker Sections (EWS) / Lower Income Group (LIG) / Middle Income Group-1 (MIG-1) / Middle Income Group-2 (MIG-2) under the **Housing for All (Urban) Mission/Pradhan Mantri AwasYojana (Urban)**.

Credit Linked Subsidy Scheme (CLSS) is one of the components of Housing for All (Urban) Mission/Pradhan Mantri Awas Yojana (PMAY) (Urban). Under this component, subsidy would be provided on home loans taken by eligible urban poor (EWS/LIG/ MIG-I/ MIG-II) for acquisition and construction of house. Credit linked subsidy would also be available for housing loans availed for new construction and for addition of rooms, kitchen, toilet etc, to existing dwellings as incremental housing. The carpet area of houses constructed under this component of the mission would be up to 30 square meters for EWSA, 60 Square Meters for LIG, 120 sqm for MIG I and 150 Sqm for MIG II. The benefit of Credit Linked Subsidy Scheme may be taken by the Economical Weaker sections or Low/Middle Income Groups for purchase of houses under any project. **The maximum annual income for eligibility of beneficiaries under the scheme can be up to Rs.18 lakhs.** It covers a very large section of population which aspires to own a home.

So far, houses acquired under CLSS attracted effective GST rate of 18% (effective GST rate of 12% after deducting value of land). The concessional rate of 12% was applicable only on houses constructed under the other three components of the Housing for All (Urban) Mission/Pradhan

Mantri AwasYojana (Urban), namely (i) In-situ redevelopment of existing slums using land as a resource component; (ii) Affordable Housing in partnership and (iii) Beneficiary led individual house construction/enhancement. The exemption has now been recommended for houses acquired under the CLSS component also. Therefore, the buyers would be entitled to interest subsidy under the Scheme as well to a lower concessional rate of GST of 8% (effective rate after deducting value of land).

The GST Council has also recommended that the benefit of **concessional rate of GST of 12%** (effective GST rate of 8% after deducting value of land) applicable to houses supplied to existing slum dwellers under the in-situ redevelopment of existing slums using land as a resource component of PMAY **may be extended to houses purchased by persons other than existing slum dwellers also**. This would make the in-situ redevelopment of existing slums using land as a resource component of PMAY more attractive to builders as well as buyers.

The third recommendation of the Council is to include houses constructed for '**Economically Weaker Section (EWS)**' under the **Affordable Housing in partnership (PMAY)** under the concessional rate of GST of 8% (effective rate after deducting value of land). This will support construction of houses up to 30 sqm carpet area.

The Fourth Recommendation of the Council is to extend the **concessional rate of 12% to services by way of construction of low cost houses up to a carpet area of 60 sqm** in a housing project which has been given infrastructure status under notification No. 13/06/2009 dated 30th March, 2009. The said notification of Department of Economic Affairs provides infrastructure status to Affordable Housing.

Affordable Housing has been defined in the said notification as a housing project using at least 50% of the FAR/FSI for dwelling units with carpet area of not more than 60 sqm. The recommendation of the Council would **extend the concessional rate of 8% GST (after deducting value of land) to construction of flats/ houses of less than 60 sqm in projects other than the projects covered by any scheme of the Central or State Government also**.

In addition to the above, in order to provide a fillip to the housing and construction sector, GST Council has decided to give **exemption to leasing of land by Government to Governmental Authority or Government Entity**. [Government Entity is defined to mean an authority or board or any other body including a society, trust, corporation, (i) set-up by an Act of Parliament or State Legislature; or (ii) established by any Government, with 90% or more participation by way of equity or control, to carry out any function entrusted by the Central Government, State Government, UT or a local authority].

Also, **any sale/lease/sub-lease of land as a part of the composite sale of flats has also been exempted from GST**. Therefore, in effect, the Government does not levy GST on supply of land whether by way of sale or lease or sub-lease to the buyer of flats and in fact, gives a deduction on account of the value of land included in the value of flats and only the value

of flat is subjected to GST.

It may be recalled that all inputs used in and capital goods deployed for construction of flats, houses, etc attract GST of 18% or 28%. As against this, **most of the housing projects in the affordable segment in the country would now attract GST of 8% (after deducting value of land)**. As a result, the builder or developer will not be required to pay GST on the construction service of flats etc. in cash but would have enough ITC (input tax credits) in his books to pay the output GST, in which case, he should not recover any GST payable on the flats from the buyers. He can recover GST from the buyers of flats only if he recalibrates the cost of the flat after factoring in the full ITC available in the GST regime and reduces the ex-GST price of flats.

The builders/developers are expected to follow the principles laid down under Section 171 of the GST Act scrupulously. The above changes have come into force with effect from 25 January 2018.

DSM/RM

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