

# A Work in Progress

GST has been billed as the country's most ambitious economic reform in decades. It aims to make tax administration more efficient, bring in transparency, and remove red tape. As the tax enters its second year, *Sourcing Hardware* spoke to various stakeholders. Leaders across the industry are of the opinion that despite the initial hiccups, the system is up and running, and that in its second year the focus of the GST Council, besides ironing out rough edges, should be on greater compliance and easier procedures...

By *Gyanendra Kumar Kashyap & Mrinmoy Bhattacharjee*

“THERE IS always scope for improvement. Key areas of future action will include simplifying and rationalising the rate structure and bringing more products into the GST. I am confident that once revenue stabilises and the GST settles, the GST Council will look into these carefully and act judiciously,” Arun Jaitley, Union Finance Minister, in a piece ‘The GST Experience’

Jaitley's words are indicative of the government's thinking as GST enters the second year. It is worth mentioning that GST was rolled on 1 July, 2017 and its introduction marked the end of decades of power struggle to build a consensus across party



lines, and has thus revealed a new template for co-operative federalism.

The skepticism of naysayers found quick acceptance in the initial days, thanks to the frequency of change in rules/clarifications/notifications/FAQs etc, coupled with complexities in return filing, and to say the least, the technical snags on the GST network. In fact the IT system was the greatest let down. Further the revenue collection in the initial few months added to the anxieties. As per available data, GST collections in July 2017 was over ₹95,000 crore, while in August the figure was over ₹91,000 crore. In September, it was over ₹92,150 crore, in October it was ₹83,000 crore, in November it was ₹80,808 crore and in December

it stood at ₹86,703 crore. But with ₹1 lakh crore in April 2018, those anxieties have been finally put to rest.

While a few teething troubles continue to exist, the new tax has taken firm roots and is altering the economic landscape positively, and the GST Council has been working in a systematic way to iron out major concerns. “GST has created a seamless market flooded with new opportunities and growth triggers. It has improved our ability to identify and establish business relationships with only genuine vendors and suppliers, as now the complete value chain can be tracked. Consequently our relationship with vendors, suppliers, channel partners as well as the retailers has also improved,” shared Nitin Aggarwal, CEO of Prayag Polymers. Amit Ruparel, managing director of Ruparel Realty, remarked, “Implementation of GST has brought a radical change in the real estate sector and has helped to bring in a lot of transparency in the sector. Initially, the market witnessed a sluggish trend, but now it is slowly moving towards recovery.”

The Economic Survey, 2017-18, indicates that there has been a 50% increase in the number of indirect taxpayers, besides a large increase in voluntary registrations, especially by small enterprises that buy from large enterprises and want to avail ITC - deduction for taxes already paid. In the second year too, it is expected that the tax base will broaden further and that the compliance level, which is currently around 65%, would increase significantly. The caveat, though, is the robustness of the IT back-bone of the GST network. “The biggest advantage is that GST has brought in total accountability by tracing every supplier who can be held accountable and responsible in future,” says Ravish Kapoor, director,

## Hits & Misses

### Hits

**Widening of tax base:** there has been a 50% increase in number of indirect taxpayers

**Inflation under control:** the mutli-slab tax structure has ensured that incidence of tax doesn't rise and kept inflation under check

**Single national market:** the dismantling of check posts has created a seamless market

**One commodity, one tax:** consumers in any part of the country pay the same tax

### Misses

**Poor IT system:** this has been the greatest letdown

**Cumbersome registration process:** multiple registration requirements have complicated things for industry

**Compliance is still low:** though it is at around 60%, a simplified filing system will help the cause

**Refund woes:** especially for the export oriented sector, this system needs serious interventions and not just interim relief

**New cesses:** GST initially subsumed cesses; but the introduction of compensation cess, etc takes it back to what it sought to eradicate, ie multiplicity of taxes and cesses

Elan Group.

Revenue collection too has been stabilising. Collections were ₹94,016 crore, ₹95,610 crore and ₹96,483 crore for the months of May, June and July 2018 respectively. However, the numbers are still below the ₹1.04 lakh crore necessary to achieve the Centre's budget target for GST collection of ₹7.44 lakh crore.

It is expected that with the base broadening and compliance increasing, meeting the target would just be a matter of time.

In its second year the GST regime must be purposefully rationalised, is the common refrain coming from the stakeholders we spoke to. Discussions are underway that GST may witness addition of more items under its ambit. Currently, alcohol, real estate and petroleum products such as natural gas, aviation turbine fuel (ATF), crude oil, petrol, diesel among others are taxed in accordance with the pre-GST tax system. In fact, deliberations regarding the inclusion of natural gas and ATF under GST have already begun. Further, there is also scope for reducing the number of items from the 28% percent tax slab. Besides the e-way or electronic-way bill that was rolled out on April 1 this year, which aims to plug revenue leakages, the government is also banking on the implementation of some more anti-evasion measures such as the new single return filing system and reverse charge mechanism to boost revenues, increasing compliance and preventing leakages.

While it has been made amply clear that there cannot be a single GST rate, having six GST rates - 0%, 3%, 5%, 12%, 18% and 28% - has only compounded the confusion of taxpayers, many of whom are still facing problems complying with GST. But with a number of items being brought under a lower slab rate, there is hope that going

forward the 12% and 18% slabs may be merged. If not a single rate, there is certainly room for collapsing at least two of the current rates, feel many trade experts. An issue that will be addressed is the GST refund mechanism, especially for the exporters who have been finding it difficult to get their refunds on time. "More than ₹10,000 crore could be stuck due to software challenges. There are exporters who have been waiting for last 12 months for their refunds, and there are exporters who are unable to file claims due to non-modification of the software," said Dr Ajay Sahai, director general and CEO of Federation of Indian Exporters Organisation (FIEO) in a press statement.

Further, a unique component envisaged in India's GST regime - matching of invoices for granting tax credits - has been kept on hold for fear of adding to taxpayers' pains. Also, the reverse charge mechanism has been deferred till September 2019. Going forward, as the IT backbone gets in place, these two mechanisms could come into effect in one form or the other. In its second year, the GST Council

### GST Heroes

#### GST Feedback & Action Room

The war room analysed grievances, feedback received from various stakeholders, etc and suggested remedial actions - rejigging of slab rates, deferring of dates, etc

#### GST Council

The Council has found solutions based on consensus, to issues under its consideration and has provided a template for co-operative federalism

is expected to pursue a time-bound approach to execute plans already announced to ease taxpayers' woes, such as an e-wallet for exporters and a simpler return form. "From a realty developer's point of view, compliance to file the returns thrice a month is a concern. This makes the filing of returns both tedious and difficult for businesses with less number of accounting professionals. We also look forward to a structured legal mechanism to deal with protection against defaulters," shared Ruparel.

GST, for all its hits and misses in the first year, is indeed a remarkable

achievement and must be cherished. The mere implementation of an economic reform in a country like India shows not only political will and deft, but is a case study for arriving at a rare political consensus. Haseeb Drabu, the former finance minister of Jammu & Kashmir and one of the most indefatigable champions of GST, has rightly expressed in a column in the national daily Mint, "There is still a long way to go before 'one-nation-one-tax' is achieved in letter and spirit. But there is no denying that one tax, one commodity is already a reality." ●



## We are Optimistic about the Potential of GST

Shishir Baijal  
CMD, Knight Frank India

The real estate industry has significant forward and backward linkages with other industries that are pre-dominantly in the informal sector. With the unified Goods & Services Tax (GST) regime, the stakeholders are now witnessing the benefits of integration in the supply chain and the consumer will be the ultimate beneficiary of this landmark reform. Business has benefited with a multitude of indirect taxes on construction inputs being streamlined into one, while house buyers have benefited on account of uniformity brought about by GST being levied at a standard rate and on consistent basis of calculation across the country.

On ground, the impact of cost benefit varies across markets and product categories. Within the housing segment, house buyers particularly in the low to mid income segment have witnessed a cost reduction on account of both the benefits of input tax credit and lower tax rate of 8%. The premium housing market has witnessed a moderate pressure due to unabsorbed input tax credit. On the warehousing front, consumers have benefitted on account of consolidation of warehouse facilities into large and automated logistics parks.

Considering that we have spent just a year in this new regime and the teething problems are being addressed on a regular basis, we are optimistic about the potential of this reform, which will eventually have a transformatory impact on the country's property market.

### Pravin Patel

Darshan Hardware, Ahmedabad



"In the initial days when the GST was rolled out there were a few hiccups and most of it had to do with return filing and the technical glitches on the website. The frequency of changes, though for the betterment of us traders and industry, added to the confusion.

But I must say that as months passed by, the entire process got better and better. A year on, I feel that the way the reform was carried out has been good.

For businesses in the organised sector, who have transparency in their business dealings and book of accounts, GST is an icing on the cake. 'No bill/invoice' was an issue and it used to lead to loss of customers for us. But now everyone has to give an invoice and be a part of the formal system.

Though the rate for hardware products have been brought down to 18%, after much negotiation with the government, I still consider it to be high; there is room for further rationalisation. It should be brought down to 12%.

Though e-way bill is good, we traders face a challenge. I order goods from a company in Delhi, to be supplied to say Ahmedabad. An invoice is generated - with product details, number, vehicle number, transporter ID, etc - the goods reach us; we find that a few items are not as per the quality we sought. I need to return a few of them. In the pre e-way bill system this was not a problem; but now I need to generate an invoice/e-way bill to return the defective goods. This needs to be looked into and a remedial measure must be found."

### Rajeev Bhargava

Trends & Styles, Jaipur



"I feel GST will be good for nation because it will help in better tax management, easy processing, no duplicacy of taxes and it's something which will eventually bring down the costs and goods will be cheaper."

### Ram Siva Prakash D

Purple Bay Home Decors, Coimbatore



"I feel that GST will be good for the nation because there will be no tax evasion and no multiple taxes. In the long run if everyone is brought into the tax net, our effective taxes will come down. More people in the tax net also means there is more money in the hands of the government, which it

can use to develop infrastructure and provide growth.

I feel that the trader community will be benefitted from GST because fake traders (fly-by-night traders) will cease to exist and only those who maintain clean books will continue to do trading. Further the online system promotes transparency - tax filing is transparent and is hassle free."

### Satish Bhargav

Aparna Enterprises, Hyderabad



"GST allows for uniform tax system pan-India; it avoids multiple submittals to different statutory bodies. GST also provides for revenue equality to both the state and the central government. Post the implementation of GST, the landing cost of goods has considerably come down, and filing

of returns through single window has made it hassle free."

### Srikanth

Nirmala Home Mart, Bhimavaram, AP



"I feel that GST will be good for the nation because it promotes one India one tax structure. If the government tightens its shackles then the tax revenue will be so enormous that it can be used for the development of the country. Our rupee will also become stronger."

# Competitive Edge of Fintech is Intact

VAYANA NETWORK

## It was Expected to be Challenging in the Short Term

Sanjay Phadke, EVP-platform & FI business head

**G**ST has been a mega step in formalising the Indian economy. The transformation from a cash-based disconnected one to a digital, data-rich ecosystem has accelerated with the unveiling of GST.

Overall, the financial services sector, including the fintech sector, has been a major beneficiary due to the increasing availability of live data, leading to better health indicators for digital lending.

Being a huge change, GST was expected to be challenging in the short-term. However, the high number of registrations

along with streamlining of the monthly returns process has been a big benefit. The rollout of a number of features initially and then rollback has been somewhat confusing, but in retrospect it may have been too difficult to avoid, as it was not easy to predict how this would play out.

The benefits of GST-driven changes in compliance and data availability are there for all players in the ecosystem, whether traditional or new. It is however expected that fintechs, being more nimble, would be able to leverage this better given their tech-savvy.



RUBIQUE TECHNOLOGIES

## Impact has been Mixed

Manav Jeet, MD & CEO

**G**ST has played a pivotal role in removing the cascading effect of taxes on goods and services. The impact on MSME has been mixed. The government, after considering suitable feedback, has slightly modified the rules. Composition scheme applicability has been enhanced and compliance requirements have been relaxed for enterprises having turnover less than ₹1.5 crore.



INDIFI

## Lending is More Than Just Access to Data

Siddharth Mahanot, co-founder & COO

**T**he fintech sector will benefit immensely from GST implementation as now it's possible to do true 'flow based lending' to MSMEs with minimal documentation. GST data will be more standardised and real time, as compared to any other data source available to lenders.

In view of greater compliance by MSMEs following implementation of GST, I do not necessarily believe that



the competitive edge of fintechs will reduce vis-a-vis the traditional financial channel, as data availability is just one part of the lending business. How data is being used and consumed by the underwriting models of different players is what will lead to differentiation.

Just as an example, prior to

GST most financiers were using the same data sources to lend to customers. However, we see in the ecosystem very different default rates across different categories of lenders. In a nutshell, lending is not only about availability of or access to data, but also about what insights one derives from the data. This is where data-driven fintech lenders should have an advantage.

PREST LOANS

## Registration & Return Filing are Signs of a Good Borrower

GST compliance by MSMEs has resulted in faster loan approval and disbursement, says Ashok K Mittal, CEO

### What has been the impact of GST on the Indian economy, and fintechs operating in the MSME lending space?

GST is the biggest tax reform in India on the concept of one tax instead of multiple taxes (taxes such as VAT, CST, Service Tax, CAD, SAD, Excise) at several stages, applied from July 2017 with an aim that it would offer a win-win situation for all.

The new system has just completed one year, hence it would be too early to analyse the impact of GST. However the short-term impact has varied from industry to industry. The first reaction was the difficulty in understanding the technology-driven processes and compliances as most professionals were quite confused about implementing and filing the returns. Gradually we have witnessed increased transparency in the taxation system and better tax collections by the government. While initially it created hassles for small manufacturers and traders, later they adopted the system very well. It has been a big positive for the Indian economy. As far as the fintech sector in MSME lending is concerned, it is a welcome move as fintech lenders like www.prestloans.com can verify the turnover of borrowers or applicants online and assess their credit worthiness. We consider registration of GST and return filing as sign of a good borrower.



### What were the hits and misses of GST in the first year?

There has been a mixed impact of GST implementation.

Hits - (a) Plastics and steel majorly benefited and accepted GST easily, and increased their turnover and margins; (b) transparent and higher amounts of collection by government; (c) despite issues, it has been implemented and adopted.

Misses - (a) Realty and garments majorly impacted in terms of margin and turnover; (b) in many small segments the tax slab has increased; (c) small-scale manufacturers and traders have not preferred registration initially due to higher cost of compliances; (d) Government kept changing dates and formats for filing the returns.

### How has GST helped you serve MSME customers?

GST has been a great help to us in servicing our MSME customers

as this is an online transparent tool to get the data and analyse it. First of all we give higher weightage to GST registered borrowers vis-à-vis non-registered borrowers. Secondly, the GST returns filed by the client give us an idea about their turnover, and this makes it easy to take credit related decisions. Thirdly, a customer who is filing returns on time is considered a disciplined borrower. We have also seen that GST registered and paying customers are more confident and prudent in their dealings. For these reasons the entire process has become faster and more efficient, resulting in faster loan approvals and disbursement.

### How do you expect the new tax system to benefit MSME borrowers?

We have already seen many positive steps being taken by the government on GST, like simplification of processes, reduction in rates etc. All this will help the MSME segment to grow faster. We expect that lenders (banks and NBFCs) shall be able to fetch GST data with prior consent of the loan applicants, and analyse it for faster processing and decision making. We also expect more and more small businesses and MSMEs to get registered for GST to take advantage of it. Prest Loans shall continue to provide support to all MSMEs and small businesses who adopt GST. ●

# Small or Big, Everyone is on Equal Footing

A pre-paid tax account, 2% turnover tax, and free filing software are some radical suggestions that IBMA president Ajit Garg has to offer the government when it comes to talk about GST. We sat down with Garg to get his take on how GST has performed, what has been its impact on the bathroom fittings industry, and what's in store for small businessmen.



AJIT GARG  
President, IBMA

**I**T HAS BEEN A YEAR since GST has been in force and it's for the good. Yes, there were teething troubles, but one must acknowledge and appreciate the government's resolve to get the reform going, listen to the concerns of the stakeholders, and make necessary changes in terms of rate rationalisation, issue notifications or clarifications on key decisions, run awareness campaigns, set up return filing centres, etc. Even to this date the government continues to engage with the stakeholders. This willingness on the part of the government, to listen to the grievances and act on genuine feedback from the ground, has made all the difference. Of course, there are concerns that continue to be raised, and the government has given enough indication that it is acting on them – the refunds to exporters being one of the many.

We must accept that while we were doing business in the pre-GST regime too, the business environment

then was not conducive to sell or procure goods on invoices. This has been one of the major changes in the GST era. One of the major challenges still being faced by businessmen is the non-payment of refunds. It is worrisome and gives an impression that the government is not keen to give out refunds. Having said that, I must add that this apparent attitude could be due to draining of the exchequer by some unscrupulous businessmen, who filed fraudulent refund claims in connivance with rogue officials. This could have led to the belief that anyone who claims a refund is a cheat.

The E-way Bill mechanism is a must if GST has to succeed. The E-way Bill will help curb the practice of multiple use of single invoice, under-invoicing as well as non-invoicing. However, I must admit that despite all the benefits of the E-way Bill system, there are still a few concerns. The problem with the present system is that even for minor clerical errors in the invoice,

the officials are penalising the businessmen. For instance, the invoice number is correct but in the vehicle number a letter or numeral is wrong. In such cases the businessmen should be let off with a warning rather than imposing a penalty. The officials should educate and create awareness rather than harass.

Also, the validity of the E-way Bill, for local purposes, is just a few hours. This can certainly be reviewed. Further, to generate the E-way Bill you require the vehicle number, transporter's ID, etc. However, the transport sector is least organised, and many do not have IDs. Many a times they ask us to first send the goods and only then will they share the details; now with the present system this is not at all possible. Thus there is a need to align the transport sector.

**O**verall, the implementation of GST has had a very positive impact; businesses are now better organised, tax collection has improved. Cashless economy is on the rise. But there's a need for continuous monitoring and running awareness campaigns.

So far so good; but I have a suggestion here. There should be a common server to which all our computer systems, which we use to file our returns, should be linked so that generating invoices, tax deduction, etc become seamless and chances of error in filing are minimised.

Also, business entities should be able to deposit a certain amount in advance, and whenever they generate an invoice the tax can be deducted from that account, or in case an input credit is to be claimed it can be credited to the same account. In case of a low balance, a message can be sent to the owner, quite like pre-paid cards.

Furthermore, given the slim

margins our industry works on, I would advise the government to charge a 2% tax on turnover.

With continued reiterations e-filing of returns has now become easier as compared to the cumbersome manual filing procedure. However, Internet connectivity is still an issue in many parts of the country. As for software, some of the companies that help in filing the GST returns are over-charging. I have a suggestion to make here. The government can work with the likes of Tally, Marg, Busy, etc to come up with a centralised software that may be given out free of cost to business entities. The entities can download it on their system and work on it to upload their returns, invoices, input credits, etc.

Working capital requirements have no doubt increased. The industry has shifted to full invoicing. The increased requirement of working capital is being met either through internal revenues or by loan financing. The capital requirement will further increase. The good part is that now dealers pay us on time or else they lose out on their input credit. In fact, the credit cycle has become more realistic now. I believe that a six-month timeline is too long for correcting mismatch and should be reduced; that would bring more discipline to the trade.

From the perspective of the bathroom fittings industry, GST has been a negative. I believe that investment expansion is on hold and is nearing stagnation. In the pre-GST regime there was a threshold for small players, but now everyone is on equal footing. There is no way the small players can survive; in fact bigger players will likely eat up the smaller ones. The only way out is for the smaller ones to work as ancillary units of large players, or perish. ●

## Recommendations

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# Cascading Tax Effect has been Almost Nullified

**W**ITH 50% MORE assessee entering the tax net GST has obviously been positive, if not immediately, at least for the long term. The country's GDP however has moderated since its start. But I think that is more due to global headwinds and not so much due to GST. As expected, the highly digitised and completely new model of GST did bring some teething troubles with it. On the whole, the cascading tax effect has almost been nullified. Of course, no one can deny the improvement in ease of doing business. Barring the impact of global headwinds, the economy seems to be on the path of progress.

The building materials industry has received its share of benefits on account of reduction in rates to 18%, which is a lower tax when compared to the earlier regime. Pass through credit has made it easier for a new breed of tax payers to enter the net. This will create a good level playing field, as the organised players will have better prospects for growing their business.

As we move into the second year, the next steps in GST should be further simplification, improvement of technology for compliance, and speedier refunds to exporters. Among the key positives of the first year of GST implementation were a smoother than expected start, seamless transfer of input credit and goods at

borders, and improved transparency in transaction.

There were a few negatives too. The key issues were negative impact on working capital cycle, some cost of input still being left out of pass through, and some sectors still not a part of the system.

Implementation of GST was quite satisfactory and industry players were quick to identify problem areas. Adoption of the new system was quite fast by all stakeholders, given the time frame and long history of the older tax regime. Going forward, I believe that the realty sector will be fully integrated into GST. For building material suppliers this will be a positive with full pass through. The focus of suppliers will be less on tax related disputes, leading to more time for productive development of business.

As for the e-way bill, it has of course improved ease of doing business. The new system is less prone to corruption and has also reduced transit time. The results are already visible. ●



ASUTOSH SHAH  
MD, Duravit India

# Second Year Would be a Game-changer

**W**atertec India's CEO Bantwal Ramesh Baliga is of the opinion that GST implementation in itself was the biggest hit in the first year

## How did GST impact the economy and the building products industry?

The impact of GST has been very positive though it has taken time for the economy and the people to understand the advantages. It has long term benefits which would be seen in the coming days. As far as the building material industry is concerned, the impact has been positive after the initial couple of months of launch. Now the logistics are better placed, product movement is faster, and ease of doing business in small towns and with small retailers is the other positive.

## What more changes do you expect as GST enters the second year?

In the beginning we had a 28% tax slab which was eased out by the Council last year, and this helped our industry recover from the initial loss. Now that e-way bill has been implemented, we believe that more advantages of GST would become visible to companies that are following good practises. The e-way bill mechanism will ensure that the retailers move away from the old practice of doing business without invoicing and other malpractices.

## What were the hits and misses the first year?

The implementation itself was the biggest hit of the first year, even

though it started off with lots of confusion. Both the government and the end-user were not prepared. In fact the first few months were disruptive for business. However, quick corrections and counselling of businessmen, and keen listening to the industry on the part of the government, all this is to be appreciated. I believe the cooperative attitude of the government can be viewed as a hit. Today we are almost working on schedule and this is going to benefit the industry. We should get more reforms in ease of implementation, timely input credit, etc so that the industry can focus on its growth.

## Do you expect real estate to be included in GST? What impact will it have on the building products industry?

Inclusion of real estate in GST will lead to transparency on the part of the developers and that will positively impact buyers' confidence. All the existing taxes would be simplified, and with input credit the price advantage may be passed on to the buyers. Anyways, the affordable segment is not proposed to be covered under GST. But the building products industry will surely see a positive impact when that happens. ●



BANTWAL RAMESH BALIGA  
CEO, Watertec India

## GST is Encouraging Deep Interior Coverage

### How would you explain the impact of GST on the kitchen business?

With a single tax GST across the country, shipment and sales of goods across the country has become easier, thus opening up the Indian economy further. While the local players are facing a lot more stiff competition, the bigger players are gaining in the process by offering better quality products at better prices. The transport cost of course has decreased due to fewer hassles and paper work and shorter transit time, thus saving on the stock holding cost. More stock would now flow into the market. Further, GST is leading to regional depot concepts, as the cost of logistics has come down. Smaller the local transport delivery circle, lower is the cost of damages and transit time as well as the rotation of money. This benefits the kitchen industry by encouraging deep interior coverage.

### What would it take for kitchen companies to build a national presence?

I see that happening very soon, as in my opinion kitchens is the fastest growing segment within the building products sector. This is evident in the way the kitchen industry is mushrooming across the country. But a national player will need to act locally. For that, he would need regional production facility for customisation and reduced delivery



NAMIT BAJORIA  
Director, Kutchina

times. He would also need to have local presence of service teams. Only then would it be possible to successfully attain and maintain a national presence.

### What are the bottlenecks that small kitchen suppliers face while operating in vast geographies?

Logistics is a major factor when it comes to kitchens, especially when consumers have made partial payment for order confirmation. They want it fast. The making of panels, accessories, etc and sending them to the site, and then getting everything installed takes up to 20 days or more. The regional players would obviously take less time, given their geographical vicinity. Also, there is no concept of full load transport in kitchens; it is individual. So not only does this make logistics costly by adding to product cost, it also delays execution. Non-availability of installation teams at multiple sites is a problem and that too increases the turnaround time.

## Implementation Reflects Quality of Governance

GST has been a mixed move. Business has simplified in terms of ease of transacting across India. However, the increased quantum of compliances has added to the complexity and cost of business. But I see the overall impact as positive. The initial hiccups have gone and the system is more or less streamlined now. In terms of the impact, any system that makes things smoother and simpler and lowers the incidence of taxation is welcome.

I believe that initially the benefits of the new system were not explained very clearly. Although the government was issuing statements and experts were commenting, it would have been better if the new system and its benefits had been explained in a more simplified, common language



SATINDER CHAWLA  
MD, Span Floors

so that the public could cooperate with a full heart. Animated videos could have been used, or rather, still should be used.

The government was quiet proactive, and our suggestions were heard out and implemented in a nice manner. The revision of rates and the news that

further simplification of the tax structure is on the cards reflects well on the quality of governance.

## Good, Bad or Ugly

A year after GST implementation, the only real clarity that exists for property buyers is on the prevailing GST rate of 12% on under-construction projects



ANUJ PURI  
Chairman, ANAROCK Property Consultants

THE GOODS AND Services Tax (GST), has made India a 'tax-neutral' nation – and while it evoked a response best described as 'mixed' from real estate buyers, most of them are in favour of it. This is natural, as the unitary tax compliance system has simplified the homebuying process – and with the passage of Input Tax Credit (ITC), there may not be a significant additional burden to buying a home. Homebuyers in the affordable housing segment – specifically homes of up to 60 sq.m carpet area in size – have benefited significantly from the reduction of GST by 4% (from 12% to 8%).

However, even almost a year after GST implementation, the only real clarity that exists for property buyers is on the prevailing GST rate of 12% on under-construction projects. There is still confusion about the amount of rebate that a prospective homebuyer is entitled to on the back of the pass-over of ITC. The confusion is not only about the percentage of ITC but also on the mode and tranche of the rebate.

On their part, developers are stating that they have to do multiple calculations to arrive at ITC and will pass it on only during the final tranches only. With this lack of transparency on ITC, homebuyers are understandably upset because as of now, their overall payment has increased.

### The Ready-to-move Vs Under-construction Debate

On the one hand, ready-to-move (RTM) properties which have been issued completion certificates are out of the GST ambit and attract no tax from homebuyers.

On the other hand, under-construction (UC) properties attract 12% GST with full input tax credit (ITC). This is causing homebuyers to abstain from the UC option, which was earlier the more attractive one due to the cost arbitrage developers offered on them.

The added benefits to ready-to-move-in property buyers are immediate possession – read instant gratification – and freedom from stress with regards to completion risk and the uncertainty of construction-linked home loan EMIs.

### Ongoing Challenges

Real estate stakeholders still face considerable challenges in the metamorphosis period from the pre-GST regime to the post-GST era. These include - complex tax slabs, hiccups in the deployment of supporting IT infrastructure, confusion about the integration of ITC, and various blurred components of GST such as abatement for land values and anti-profiteering provisions. The lack of clarity on the rules and regulations under the anti-profiteering clause which was incorporated to pass on the benefits of ITC to end-users is a particularly prominent pain-point with GST.

### GST's Impact on Pricing & Transparency

Although it was anticipated that GST will reduce property prices pan-India, we have in fact not seen such a significant impact on the ground. If the stamp duty and registration fees would be subsumed under the GST regime, we would definitely see the overall cost of property purchase come down.

GST definitely is reducing developers' construction costs by negating the morass of double or triple taxation to a more moderate level through input tax credit. While there are no significant variations in the overall taxes, GST has certainly eliminated the tax-on-tax system. Also, shady transactions are being minimised considerably, bringing in transparency and accountability into the sector.

However, end-users have not received a consummate benefit because of the inherent ineffectiveness of the anti-profiteering provisions. They will only benefit if the base property prices are reduced and the developers pass on the tax credits to their customers.

While the tax-on-tax has been eliminated with the advent of GST, the overall outgo from homebuyers' pockets seems to have increased, considering that even after passing on of ITC, they may have to pay 3-4% more than in the earlier service tax + VAT regime. However, shady transactions are definitely reducing to a considerable extent and the cause of bringing more transparency and accountability into the sector is served. Additionally, the input tax credit is a boon to developers as it aids in bringing down the construction cost.

### The Road Ahead

As the realty sector becomes more streamlined on the back of GST and other landmark reforms such as RERA, investor and consumer sentiments will become more positive and further strengthen the entire system in the future. ●