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Impact of GST (Related to Real Estate & Construction Sectors) on GDP of India

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Abstract

Property is the right to own and utilize something. Real property, to use a legal term, is the right to own and utilize land for a period of time that could be as long as a lifetime or more. According to the law, all other property is personal property. A reasonable initial step in developing research is problem definition and design. Investigations only start when something is unsatisfactory, when conventional beliefs are inadequate or questioned when facts are required to clarify an unidentified human ambiguity, and when it is possible to make negative assumptions. A issue is all that someone has when an investigation first begins. The construction sector currently makes up to 11% of the country's total GDP, with the expectation that it will contribute 13% of the country's total GDP by 2025. This enormous number compels researchers to look into the effects of GST in this area. The industrial sector contributes roughly 29% of the nation's total GDP. The largest industry in India is real estate, and this is not unusual. One of the crucial economic sectors in India is real estate. This industry contributes between 6 and 8% of India's GDP. With the introduction of the GST, this industry will undoubtedly experience some major changes in the nation. GST has a highly favourable effect on the real estate market. While other sectors of the real estate market remain stable, certain competitive segments, including rental markets, might experience swings quite easily. The properties will now be taxed at 5% instead of the previous 12% rates under the former regime. According to experts, the consolidation of taxes into a single item has contributed to the industry's expansion and accelerated growth.

Keywords: Indirect Taxes, Real Estate, GDP Regime, Real Estate, Transactions-Taxability, Property, Construction Sectors

Introduction

On July 1, 2017, the new tax (GST) went into force and completely altered all facets of the Indian economy. Since India's independence, this has significantly altered the tax system in that country. The indirect tax system has undergone changes to its appearance. The VAT, service tax, and other levies that GST primarily aimed to replace were essential in streamlining the business process. It also intends to put an end to the contested tax system between the institution and the national government and prevent tax evasion. The GST suggested a tax base for the collection of indirect taxes and streamlined the tax calculation process. The adoption of the GST has an impact on practically all economic sectors, either directly or indirectly.

Current Scenario of the Real Estate Market in India

India now has a population of more than 121 crore. As one of our basic necessities is shelter, this industry is expanding significantly. The majority of people are prepared to buy their own home. The state of the economy in our country has a significant impact on this section. To entice potential purchasers, developers created a number of new mid-income housing complexes in residential areas around cities. As the world economy revived, so did demand for homes, and low mortgage rates helped homebuyers regain their financial confidence. Because of the decline in affordability and the uncertainty surrounding their jobs, end users who had delayed making purchases started making reservations for homes. In India, the real estate industry is one of many that is expanding in a spectacular way with the aid of private banks. For personal or business purposes, these institutions offer home loans to Indians and NRIs. The majority of Indian cities, including New Delhi, Bangalore, Chennai, Mumbai, etc., are major commercial hubs and offer more work options to job seekers. The country has seen many things because of the phenomenal rise in this industry. The country's high but declining birth rate, declining infant mortality, and rising life expectancy have led to a significant increase in demand for housing and infrastructure to satisfy people's basic needs. According to one estimate, India's population, which is currently around 121 crore, would reach 150 crore by 2030. Nowadays, all families are nuclear families, and the majority of people are self-sufficient and able to fulfil their needs. Because of this, increased personal savings and robust investments result in reviving the real estate market. India will attain developed status in a few years.

The commercial real estate sector is transitioning from a transitional period in 2010 to a recovery stage in 2011, as the Indian economy shows significant signs of revival. In primary markets, institutional-quality real estate assets have started to stabilize and seem ready for a rebound. There are several obstacles in real estate's future. Despite the enormous demand, the developers in the commercial office segment may have to deal with the ups and downs of other industries because this segment, in particular, is heavily reliant on the performance of the Indian IT/ITES. The vacancy rates of the nation's future supply of commercial office space would be significantly impacted by any unanticipated decline in the industry's economic outlook.

The recent past has seen some signs of a comeback in the Indian real estate sector as a result of the adjustment in real estate pricing and re-aligning of business strategy, as per the current business environment. The confidence in the Indian financial markets and the general business climate has also increased due to a stable political environment.

Recent Developments in the Indian Real Estate Sector

By 2030, it is anticipated that India's housing market will have grown tremendously and will be worth $1 trillion. It will contribute 13% to the GDP of the nation by 2025. By 2019, India's real estate stock was projected to increase by 200 million meters each year, or 3.7 million feet. Large nuclear families are on the rise, cities are urbanizing quickly, and domestic wealth is on the rise. These factors will continue to drive real estate growth in trade, housing, and commerce. In addition, pressure on housing growth will come from the nation's growing urbanization. By 2020, urban India will contribute more than 70% of India's GDP. The CAGR for real estate in India between 2017 and 2028 was 19.5%. Approximately Rs 43,780 crore ($ 6.26 billion) in investments were made in real estate in 2019. Around 2019, private investment of US$ 1 billion was attracted to the Indian real estate market. Real estate garnered 14 billion in foreign direct investment (PE) funds between 2015 and Q3 of 2019. The first REIT, which was introduced in early 2019 by the Embassy team and the global investment firm Blackstone, also raised Rs 4,750 crore ($ 679.64 million).

The need for office space is a sign of the expansion of the BFSI, ITeS/IT, consulting, and production industries. In the high cities of India, the total area occupied by offices increased to 18.7 million square meters between April 2019 and June 2019. The office sector has requested rental sales of up to 47 million square feet throughout the first three quarters of 2019. By 2020, there will likely be 247 million square feet of warehouse space, which will cost $ 50 million ($7.76 billion) to build. By 2022, when NCR-Delhi considerably contributes to this need, it is anticipated that the absorption of Office space (Grade A) will approach 700 million feet. By 2018, sales of real estate are projected to expand by 4% yearly to 2.58 lakh units across seven main cities.

The Indian government has given the building sector a lot of help. The Union Cabinet approved 100 smart city projects in India in August 2015. The government has also raised the FDI cap for development projects in townships and residential zones to 100%. The Special Economic Zones (SEZ) also accept asset projects from 100 percent FDI. By 2019, SEZ exports totaled Rs 7.01 lakh crore (US$ 100.30 billion). As of May 27, 2019, 69 million homes had been constructed as part of the Pradhan Mantri Awas Yojana (PMAY). By 2025, it is anticipated that the Indian Government of All Housing program will have brought in $1.3 trillion in investments. Pradhan Mantri Awas Yojana (Urban) [PMAY (U)] has banned 1,12 dwellings in urban areas since December 2019 in order to generate 1.20 crore jobs. The Jojas are anticipated to promote the nation's most affordable housing and building while igniting the real estate market. A draft investment guidance for Real Estate Investment Trusts (REITs) in the non-residential sector has already been released by the government in this regard.

The sector is affected in the following areas

1. More international capital will pour into Indian real estate.
2. Business models used by developers will need to be updated.
3. Affordable housing will become more crucial.
4. There will be industrial integration; Integration and Discovery
5. REIT will go down in history as much as the Growth Catalyst.

The developer is required to pay GST in accordance with any goods and services, including government, legal, and other services, that are discovered. The developer is not permitted to change the tax to offset the tax owed on RCM when compared to GST input bills. It must therefore be paid in cash or through a bank. As previously indicated, instead of removing money from structures that cannot be erected, it has also resulted in an increase in the interest rate on completed buildings. One significant example of this is the lack of ITC transparency. Small developers have therefore been burdened by these changes, which has disrupted the total amount of investment made in the industry.

Goods & Services Tax (GST)

GST is an indirect tax (sometimes known as a consumption tax) applied on the provision of goods and services in India. It is a wide-ranging, multiple-computerized, tax-exempt tax that is considered comprehensive because it includes practically all indirect taxes. Since the production process already involves many steps, GST is added at each one. However, because it is a local tax, it is collected from the location of use rather than the point of origin and is meant to be returned to all parties involved in the various product categories, excluding the end user. Five distinct tax rates are applied to different types of goods and services: 0%, 5%, 12%, 18%, and 28%. The GST does not apply to goods like electricity, alcoholic drinks, or petroleum products, which were previously taxed separately by each state government. A unique rate of 0.25 percent of the valuable but weak gemstones and 3 percent gold is available. In addition, a discount of 22% or a price increase of more than 28% A few items, including alcoholic beverages, high-end vehicles, and tobacco goods, are subject to GST. Prior to GST, the official tax rate for the majority of items was 26.5 percent. After GST, the majority of commodities are anticipated to have a tax rate between 18 and 20 percent. With GST in existence, several indirect taxes have been replaced in India. The Goods and Services Tax Act in India is a multidisciplinary platform that is based on location gathered for value addition. It was passed by Parliament on March 29, 2017, and it went into effect on July 1, 2017. GST is an indirect tax imposed on the provision of goods and services, to put it simply. Many of India's earlier indirect tax regulations have been replaced by this. The only indirect tax in the entire nation is the GST.

Advantages of GST

The cascading effect on the supply of goods and services was eliminated by the GST. Removing the cascading effect had an impact on both the price of the items and the tax that caused the price of the commodities to decrease.

GST is a technological system. The GST Portal streamlines operations by allowing all actions, including registration, file completion, refund requests, and response notifications, to be completed online.

Research Methodology

Research is a series of organized actions to learn and construct a model or process / process of discovering concrete problem findings backed up by texts and data so that its objectives are developed and continue to make recommendations / disruptions for usage. The investigation was "a concerted effort to seek new facts," according to Redman and Mory. "A scientific and methodical search of pertinent information on a particular subject" is the definition of research. A scientific and methodical procedure is built through the in-depth study of facts and figures in research. It aids in the resolution of real-world issues and fosters fresh understanding of the various fields of knowledge. Research is defined as "an in-depth investigation or enquiry, primarily by searching for new facts in any subject of expertise" by the Advanced Learner's Dictionary of Current English.

Sampling Methods

The sample procedures used in statistical studies refer to how the researcher chooses a sample from the population that will be studied. If the sample wasn't chosen at random, it might be skewed, and the information might not be representative. There are various choices for selecting a sample, some good and others bad.

The Study's Sampling Framework

The information about indirect taxes has been gathered from the Pre and Post GST guides in accordance with the specified goals. Data on 10 cities to assess the effects of GST on prices and apartment construction as well as the impact of GST on India's GDP are available from various government and non-government sources, along with new changes to the GST laws that have been in effect since February 2019.

Sources of Data

The secondary data used in this study were gathered from a variety of journals, periodicals, publications, and newspapers.

Data Analysis Tools

Using the proper statistical and accounting methods, the data has been evaluated and interpreted. In the appropriate context, mathematical techniques like Minima, Maxima, Means, Standard Deviation, Correlation, Chi Square Test, Z Test, and Analysis of Variance (ANOVA) are utilized.

A variety of indirect taxes on real estate during and after the GST regime

The information gathered from the manuals on GST compliance in countries where the Goods and Service Tax (GST) is charged on the delivery of goods and services will be used to analyze the various new and old informal taxes. All value additions are subject to the comprehensive, categorized Indian Goods and Services Tax Act. The following table lists the tax rates that were in effect during the VAT regime and are currently in effect under the GST regime.

GST Impact On Real Estate Prices

A sample of ten significant Indian cities was purposefully chosen for the study in order to represent North, South, East, West, and Central India. Ahmedabad, Bangalore, Chennai, Delhi, Hyderabad, Jaipur, Kolkata, Lucknow, Mumbai, and Patna are the cities in question. Data are gathered from the most trustworthy sources, in particular NHB Residex. To oversee the creation of indices and new practices for the creation and dissemination of indices, the NHB RESIDEX (TAC) Technical Advisory Committee was established. It is made up of representatives from the Indian government's Department of Housing and Urban Poverty Alleviation, Department of Finance, Department of Statistics and Program Implementation, National Housing Bank, Banks, HFC, Builders organization, Reserve Bank of India, and a number of renowned statistical experts.

Results and Discussion

Real Gross Domestic Product (GDP) or Gross Domestic Product (GDP) at constant prices (2011–12) for the years 2019–20 is estimated to be worth 145.66 lakh crore, up from the initial revised estimate of 139.81 lakh crore for the years 2018–19. Estimated GDP growth for 2019–2020 is 4.18%. The World Economic Outlook (October-2019) of the IMF projects that India's (nominal) GDP would be $3,202 billion at current prices in 2020. In accordance with the currency rate, India provides 3.54% of the global GDP. India accounts for 2.4% of global land area and 17.7% of global population. According to this forecast, India's economy would rank fifth in the globe. India ranks third among Asian nations, behind China and Japan. India contributes about 9% nominally to the total GDP of Asia. India's GDP is expected to reach an international value of $12,363 billion in 2020, ranking third in the world behind China and the United States. India makes about 8.27% of the global GDP (PPI). India contributes more than 16% of Asia's total GDP (PPP).

When measured in terms of purchasing power parity (PPP), India's GDP is 3.89 times larger than when measured in terms of nominal GDP.

Share of construction & real estate sector in GDP of India

Table 1: Share Of Construction & Real Estate Sector In GDP Of India From 2011- 12 To 2019-20 (Rs. In Crores)

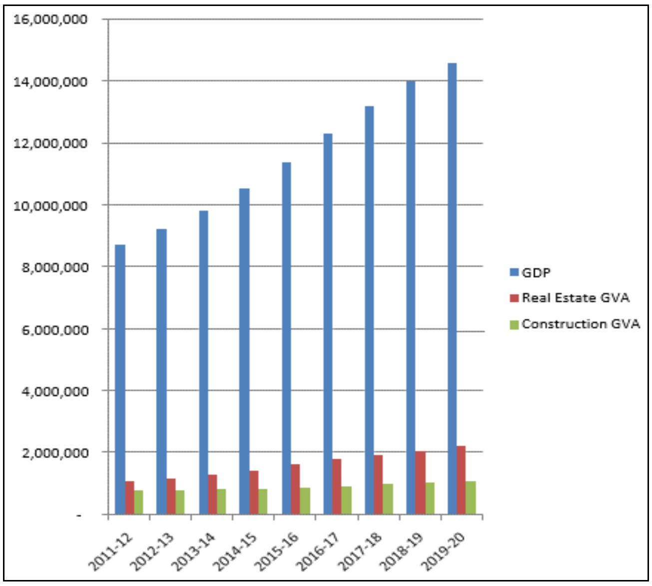
Financial Years	GDP	Real Estate GVA	Percentage of Real Estate GVA to GDP	Construction GVA	Percentage of Construction sector GVA to GDP
2011-12	87,36,329	10,50,652	12.0	7,77,334	8.9
2012-13	92,13,017	11,50,240	12.5	7,80,050	8.5
2013-14	98,01,370	12,89,494	13.2	8,00,771	8.2
2014-15	105,27,674	14,16,460	13.5	8,35,229	7.9
2015-16	113,69,493	16,21,999	14.3	8,65,335	7.6
2016-17	122,98,327	17,97,341	14.6	9,17,754	7.5
2017-18	131,79,857	19,22,437	14.6	9,69,194	7.4
2018-19	139,81,426	20,64,697	14.8	10,11,322	7.2
2019-20	145,65,951	21,96,838	15.1	10,68,462	7.3

***Source*:** Central Statistical Organization, Ministry of Statistics and Programme Implementation, Government of India, New Delhi.

Nota Bene: Real estate comprises real estate, home ownership, and business services.
The information from table has been pictorial displayed in the paragraph that follows.

Share of construction & real estate sector in GDP of India
Following is the share of the construction and real estate sectors in India's GDP from 2011–12 to 2019–20, according to data analysis (above Table):

1. The GDP of India has been growing each year at constant prices since 2011, with the GVA rising from Rs 87,86,329 crores (year 2011–12) to Rs 14565921 crores (year 2019–20).
2. At constant prices, the real estate sector's GDP contribution to GDP-which includes home ownership and commercial services-has risen each year. From 2011–12 to 2019–20, the gross value addition of the real estate industry has increased by two times, or from Rs. 10,50,652 crores to Rs. 21,96,838 crores at constant 2011 prices.
3. The GDP contribution of real estate services-which includes real estate, home ownership, and business services-is steadily rising. For instance, during the research period, the real estate services sector's contribution to GDP might rise from 12.1% in 2011–12 to 15.1% in 2019–20 (at 2011 prices), representing a 3.1% increase. The housing sector currently contributes roughly 15.1% of India's GDP.
4. It should be observed that from 2011–12 to 2019–20, or from Rs. 7, 77,334 crores to Rs. 10,68,462 crores at constant prices from the year 2011, the Gross Value Addition of the Construction Sector increased from year to year in absolute terms.
5. The construction sector's contribution to the overall GDP in 2011–12 was 8.9 percent; this percentage dropped to 7.3 percent in 2019–20; and following further declines, it is currently hovering around 7.3 percent in 2019–20. The employment in the construction sector may have declined as a result of the sector's relative decline.



***Source*:** Central Statistical Organisation, Ministry of Statistics and Programme Implementation, Government of India, New Delhi.

Fig 1: Share of construction & real estate sector in GDP of India from 2011-12 to 2019-20 (Rs. In Crores At 2011 Constant Prices)

Conclusion
GST is anticipated to assist bring about much-needed accountability and clarity overall. Additionally, developers should be able to benefit from the fulfilment expansion because to the anticipated free flow of financing. We still don't know whether these advantages are waning for customers because pricing in the industry are frequently set by market forces rather than by the need for regulations. From the standpoint of the customer, a decrease in the value of the property tax and a considerable improvement in the tax structure could be the first advantages.
GST will also aid in the reduction of pointless paperwork and the time that reliable suppliers must spend travelling across borders. The effects of the GST will be felt even later, that much is certain.
Before the introduction of the GST, builders and developers were required to charge customers with a specific indirect tax.
GST, though, lessened the cascading effect. Real estate sales are significantly impacted by GST because its implementation caused builders' construction costs to rise. After demon-making and GST activities, the real estate market has suffered. The RERA Act presents additional difficulties for developers. The government is making progress in this direction. Builders' Rules & Procedures are being introduced by CBIC to address price (1 to 5 percent of the sale of apartment projects beginning on or after April 1, 2019). Government-sponsored housing is available. The GST in the real estate sector will eventually benefit from the new category in India.
With economic independence, India's real estate market has advanced significantly because of the rise in business

opportunities and labour migration that has followed, which has increased demand for both commerce and real estate. Due to expanded work possibilities, labour migration, trade and real estate, rental housing, recreational space, information technology, etc., as well as the adoption of marketing methods, the real estate sector has gained prominence in India.

Only agriculture employs more people than the real estate sector, which is the largest employer overall. This is because the sector is interconnected with other economic sectors, particularly the housing and building sectors. The housing sector depends on over 250 auxiliary businesses, including those that produce cement, steel, bricks, wood, and building supplies.

In conclusion, the GST has the following effects on the construction and building sector:

- Positive Impact, Simple Harmony, and Availability of Tax Credits
- Price reductions could occur. The GST would replace the excise tax, value-added tax, and service tax.

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