

SGCO & Co.LLP

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56th GST Council meeting | Impact on Real Estate sector

The 56th GST Council Meeting has made path-breaking changes with regards to rate rationalization. For real estate sector, reduction in rate of GST for inputs such as cement, bricks, marbles, white goods and other miscellaneous items will result into decrease in quantum of blocked input tax credit (as output is subject to 5% without ITC), thereby reducing cost of construction. We have done a broad calculation of percentage reduction in cost of construction post the rate rationalisation announcement, which is tabulated as under:

Estimation of cost components:

Particulars	Remarks
Estimated cost of construction per sq. ft	3750 – 5000
Cost of cement as % of cost of construction	12.5% – 15%
Cost of marbles as % of cost of construction	5% - 8%
Cost of white goods (such as air conditioner, dish washer, TVs) as % of cost of construction	4.5% - 5%
Cost of bricks as % of cost of construction	0.3% - 0.5%
Cost of miscellaneous items (Tableware & kitchenware of wood, sheets for veneering for plywood, granite etc) as % of cost of construction	0.5% - 1%

Note:

- (1) The cost of construction and components on which rate reduction has happened, may vary from builder to builder;
- (2) The builder may have to negotiate with its vendors / work contractors to pass on the benefit of rate reduction.

Calculation of % reduction in cost of construction:

Particulars	Old rate (in %)	New rate (in %)	% reduction in cost of construction
Cement	28	18	1.25 – 1.5
Marbles	12	5	0.35 – 0.56
White goods	28	18	0.45 – 0.5
Bricks	12	5	0.02 - 0.035
Miscellaneous items	12	5	0.35 – 0.07

Basis aforesaid estimation, per sq. ft. reduction on the cost of construction would be in a range of Rs. 80 – 110.

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GET IN TOUCH

MUMBAI - Head Office

Address: 4A, Kaledonia - Mack Star, 2nd Floor, Sahar Road,
Near Andheri Station, Andheri East, Mumbai - 400069

Phone: +91 22 6625 6363

Email: info@sgco.co.in

NEW DELHI - BRANCH OFFICE

Address: D-26, Ashoka Road, Adarsh Nagar, Delhi - 110033

Phone: +91 1141251489

JAIPUR - BRANCH OFFICE

Address: 205, A-6, Royal Ensign, Prithviraj Road, Near Statue
Circle, Jaipur, Rajasthan - 302001