



The Impact of Gst On Construction Sector

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CHAPTER - 1

INTRODUCTION

Goods and Service Tax (GST) is a destination-based tax on the consumption of goods and services, under which the tax accrues to the taxing authority which has jurisdiction over the place of supply is termed as consumption is made. It is taxed at all stages, from manufacturing through ultimate consumption, with set-off allowed for taxes paid at prior stages. In India, GST has been introduced with effect from July 1st, 2017. Under the GST regime, the Central Government, as well as the State Government/ Union Territory, is empowered to levy Central Goods and Services Tax (CGST) and State Goods and Services Tax (SGST)/ Union Territory Goods and Services Tax (UTGST) on every intra-state supply of goods or services or both under the provisions of Central Goods and Services Tax Act, 2017 (CGST Act) and the State Goods and Services Tax Act/ Union Territory Goods and Services Tax Act, of the respective State/Union Territory, respectively.

The goal of this research is to find out how the construction sector feels about the implementation of the goods and services tax. Another goal of this study is to examine the price effect from the standpoint of the building sector. The government of India's introduction of the goods and services tax (GST) has created a lot of confusion in the construction business. The construction industry is one of India's most important industries, with tremendous growth not only in cities but also in small villages. Another change that will have a big influence on this industry is the GST. Let's look at how GST affects the construction industry and the construction sector. GST on property under development - Affordable housing It's worth noting that if the GST exemption is extended to affordable housing developments (affordable housing is presently free from service tax, and the government is anticipated to clarify the GST exemption), expensive dwellings may become more affordable under the GST regime.

Therefore, Construction has been struck the worst since there are many activities involved, a huge budget is originally desired, and intelligence about form management as well as the direction of economic elements is not done according to the needed criteria. Often, an alternative to dealing with tax-increase activities is to designate the construction industry as the random sector, making it immune to the harmful impacts of GST on its operations. There is a sense that the construction sector is slowing down as a result of GST. Nevertheless, the exact situation is being explored. GST has increased the cost of materials, gadgets, and staff.

Construction Services, other than those specifically exempted under Notification No. 12/2017- Central Tax (Rate), dt. 28-6-2017 and those specified under Schedule III of the Central Goods and Services Tax Act, 2017, are chargeable to tax under the GST regime. Section 7(1A) of the CGST Act states that when certain activities or transactions meet the requirements of subsection (1), they are classified as either a supply of goods or a service supply as described in Schedule II. The Act's Schedule II defines the activities or transactions that are to be recognized as supplies of goods or services. The activities specified in Schedule II to the Act are related to construction services or are related to a real estate project.

1.1 AIMS AND OBJECTIVES OF THE STUDY

The aim of this research is to analyze the issues pertaining to GST in Construction Sector in India. This study analyses the measures taken to address such issues and resolve the issues.

1. To examine the effect of the GST on the construction sector.
2. To analyze the GST, will increase the cost of material procurement in the construction sector.
3. To study the pre and post-GST regime, and the difference in tax percentage in the construction sector.
4. To analyze the Reverse charge mechanism under GST in the construction sector.
5. To elucidate the distinction between construction service and works contract service.

1.2 SCOPE AND LIMITATION OF THE STUDY

The researcher makes an analytical study on the urge to bring solutions to the challenges posed by GST on the Constructional sector with respect to taxation and the study focuses on the Pre and Post Goods and Service Taxation in relation to the price of the building materials and the study analyzes the implementation of GST on constructions material procurement creates more difficulties to developers and most burden born to the end consumers.

1.3 RESEARCH PROBLEM

The GST had a significant impact on the construction sector, because the overall residential properties, and commercial properties rates have increased implementing in the Lowest rate for luxury properties, an increase in the GST Percent on the building material cost, and services charges like labor cost, so the developers fixed the construction properties rate is too high and it was fully borne by the end consumers only and higher EMI on house loans. Due to increase in the Rate of GST on labor costs, and

material procurement costs would cause a delay to carry on the construction project work and the developer also found a financial tightness due to over cash flow and delay of the building projects.

1.4 HYPOTHESIS

Based on the research problem, the following hypothesis is framed.

- Due to the implementation of a high percentage of GST in the construction sector, the prices of the construction materials procurement got increased which has ultimately caused burden to end consumer and developers find loopholes for avoiding the tax.

1.5 RESEARCH QUESTIONS

Based on these studies, research questions are framed:-

1. Whether GST increases the cost of home loans?
2. Whether there is a huge difference between pre and post-GST in the construction sector?
3. What is the benefit to the construction sector and if there are any changes in the prices of materials under the construction process?
4. What are the challenges faced by the construction sector due to the implementation of GST?
5. Whether Project construction work is to be slow after the implementation of GST?
6. Whether ITC avail by the builders for all construction materials?

1.6 RESEARCH METHODOLOGY

In view of the aforesaid purpose of objectives and scope of the study of the research, the researcher has followed the doctrinal research and Analytical legal research on the Goods and Services Tax Act on Construction Sectors in India.

The research work is doctrinal in nature and the analytical method is used for the purpose of the research. For realizing the objective of the study materials from both primary and secondary sources have been utilized. The analytical legal research is to look over the pricing effect of Pre GST and Post GST legislations on Material cost. The primary sources are the central government notification and the circulars of the central board of indirect taxes. The secondary sources are based on the relevant books, journals, data from scholarly journals, newspapers, review articles, and other materials such as websites are used.

1.7 REVIEW OF LITERATURE

V.S.Datey, in his book, "*GST on works contract and real estate transactions*"¹ (2022) by citing the decision of the advance ruling case the author found that the Contract of design, build, operation, and transfer of road is taxable under 9954. The supplier of service is entitled to avail entire input tax credit of goods and services received by him - Nagpur Mukangarh Highways P. Ltd. In re (2018) 70 GST 721-98 taxmann.com 338 (AAR -Rajasthan).

In his book, the author states that the works contract service is a type of construction service. However, this conduct has unique significance because it is described as a "deemed sale" in India's constitution. Since

¹ V.S.Datey, *GST on works contract and real estate transactions*, 455,(Taxmann Publications (P.) Ltd., NewDelhi,6th,2022).

then, job contracts have been a very litigious topic. After the introduction of Goods and service tax on services, the complications of a “works contract” grew as the issue of valuation, TDS, and reverse charge became more complicated. He concluded that after the implementation of GST and the elimination of the difference between goods and services, the notion of a “works contract” has resurfaced.

Patel Kaushikbhai Rasikbhai, Ankitkumar Somabhai Patel, in their Research article titled, *“Impact of GST in Construction Industry”*² (2020) referred to the cost increase caused by GST and exempt taxes as a negative impact on the developer’s cash flow. In order to preserve profit and offset risk, the developer will raise the home price, which will be paid by the final customers. The impact of GST on the construction industry is significant, as the industrial sector accounts for 29% of overall GDP (Gross Domestic Product). The construction industry accounts for 11 percent of the industry sector’s 29 percent. This appears to be a significant number in terms of the country’s income-generating. The adoption of GST has had a considerable influence on major building cost components. Only the building costs, such as material and labor costs, determine the cost of a property in ready-to-move-in developments. The author concluded that the GST will undoubtedly raise government income, but the government must also pay attention to the people and others. The only way to avoid this interruption is to make the GST transition easier. The GST introduction has had a considerable influence on a key building cost component.

Swati P.Sangolkar, S.S. Wadalkar, in their article titled, *“Impact of GST in Construction Industry”*³ (2020) their views about GST effects on the construction industry, When opposed to the previous service tax regulations, a notable difference under the GST legislation is that under the GST reverse charge system, a person who is GST-registered businesses must pay GST on all of their purchases. services and commodities obtained from a third party are not subject to the GST. This has greatly broadened the scope of the project. It is a reverse charge mechanism for all taxpayers and will have a negative impact on developers. Furthermore, the tax using the reverse charge method, the developer cannot deduct GST from the price. GST paid on inputs can be used as an input credit. However, it must be paid in cash or via bank transfer.

The authors concluded in this article, that with the combined effect of the GST levy on services obtained from unregistered persons, as well as the necessity to discharge the reverse tax on items received from unregistered suppliers, the builders are worse off under the GST. This will undoubtedly raise prices for developers, particularly small firms who previously obtained products and services through unregistered vendors and did not incur the full cost of taxes.

² Patel Kaushikbhai Rasikbhai & Ankitkumar Somabhai Patel, “Impact of GST in Construction Industry” 6 *International Research Journal of Engineering and Technology* 6294 (2020).

³ Swati P.Sangolkar & S.S. Wadalkar, “Impact of GST in Construction Industry” 5 *IJASRET* 94 (2020).

CA Satyadev Purohit, in his book, "GST on works contract, construction and real estate related services"⁴ (2020) cited this case, BG Elevators & Escalators (P) Ltd., In fre (2021) 99 ITPJ (SG) 549 (AAR-Karn), the rate of GST applicable to erection and commissioning BF lifts or escalators installed for domestic use is 18%, as the said services are covered under Lift and Escalator installation services, falling under SAC 995466, Notification No. 11/2017 (central tax rate), dated June 28th, 2017, as an amended.

Nikhil P. Rane, and Pranav K. Lende, in their article, "Impact of GST in Construction Industry"⁵ (2020) analyzed that the Concrete is a major construction material, and the current GST tax rate is 28 percent. Before the GST, the taxability of the solid blend and the immediate solid blend were separate. The solid mix was eliminated, and Ready Mix Concrete (RMC) was determined. Before GST RMC was subjected to a 12.5 percent GST charge, and the VAT rate was adjusted 12% from one state to another. Both are now subject to a 28 percent GST assessment. With because ITC is not available for new private operations, the cost is expected to increase.

CHAPTER - 2

TAXATION OF WORK CONTRACT SERVICES UNDER GST

There were a lot of confusing and variable tax regulations in place before to introduction of GST in construction. Any construction operation, technically known as a works contract, entails the delivery of products (construction materials) and services (actual construction work involving building or renovating a structure). Both of these operations were taxed separately, and if a new product appeared after finishing a works contract, it was subject to Central Excise as well. GST aims to eliminate the necessity for these three separate types of taxes by introducing a single tax for the entire country and removing the disparity in tax rates between states.

2.1 WORKS CONTRACT IN PRE-GST REGIME

According to pre-legislation, works contracts consist of three types of taxable activities. It entails both the provision of goods and the provision of services. If a new product is developed over the course of the work contract, the manufacturer becomes a taxable event. According to the lists, a works contract covers the construction of a building, the maintenance, and repair of equipment and machinery, as well as the installation, repair, and alteration of any movable or immovable property⁶.

Works contract activities	Tax
Supply of goods	VAT
Supply of services	Service tax

⁴ CA Satyadev Purohit, *GST on works contract, construction, and real estate related services* 150 (Taxmann Publications (P.) Ltd., NewDelhi, 4th, 2020).

⁵ Nikhil P. Rane & Pranav K. Lende, "Impact of GST in Construction Industry", *International Journal of Research in Engineering, Science and Management* 489 (2020).

⁶ CA Shiva Goyal, "GST on works contract", *TaxGuru*, January 25, 2022, available at: <https://taxguru.in/goods-and-service-tax/gst-works-contract.html>, (last visited on May 20, 2022).

If a new product is discovered while finishing a work contract.	Excise duty
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The VAT and Service Tax position with the Works Contract.

2.1.1 Value Added Tax

The Hon'ble Apex Court concluded in the matter of Gannon Dunkerly that the major aim of a works contract is the execution of works, which is a service, and there is no element of sale of commodities. The contract cannot be split up to impose VAT on the sale of products used in the performance of the works contract since it is one indivisible contract. Following this decision, the government modified the Indian Constitution to include Article 366(29A) (b), which allows state governments to collect VAT on the transfer of property in goods, execution of a works contract, involved such products, or some other forms⁷.

2.1.2 Service tax

A works contract is one in which the transfer of property in commodities is involved, as specified in section 65B of the Finance Act, 1994. The execution of such a contract is subject to taxation as if it were a sale of commodities. And such a contract is for the construction of a building, erection, commissioning, installation, completion, and fitting out are all terms used to describe the process of constructing a structure. Repair, maintenance, refurbishment, and modification of any movable or immovable object for the acquisition of movable property or for the conduct of any other comparable activity in regard to such property, or a portion thereof.

The service component of the works contract was classified as a declared service under Section 66E of the Finance Act of 1994. As a result, Service Tax could only be charged to the work contract's service element. Rule 2A of the Service Tax (Determination of Value) Rules, 2006, outlined the rules for separating the value of products.⁸

2.2 SERVICE ACCOUNTING (SAC) CODE FOR WORKS CONTRACT UNDER GST

SAC Designation is a numerical code used to identify different services under the GST system (similar to HSN Code for classifying goods). It is required to be mentioned in GST invoices and GST returns⁹. First and foremost, the HSN code is only relevant to items, according to the GST Council, whereas Work Contracts belong under the category of 'Services', and the code for services is termed as SAC (Service Accounting Code). The SAC code for Work Contracts is 9954 since the GST rate for works contracts is 18%. The GST rate for works contracts relating to the construction or building of a unit for the purpose of sale, on the other hand, is 12 percent. SAC 9954 (work contracts) is a four-digit SAC Code that deals with construction services. It has several sub-classifications, and when that particular code (from sub-classified words) is added to it, it becomes a six-digit SAC Code.

⁷ Puniya, "Impact of GST on works contract", LegalRaasta, September 30, 2021, available at: <https://www.legalraasta.com/blog/gst-on-works-contract/>, (last visited on May 23, 2022).

⁸ *Ibid.*

⁹ CA Abhishek Soni, "SAC (Services Accounting Codes) List & GST Rates on Services", Tax2win, October 27, 2021, available at: <https://tax2win.in/guide/sac-codes-for-services>, (last visited on May 28, 2022).

2.3 TAXATION ON VARIOUS TRANSACTIONS UNDER GST

There are various types of transactions under GST. We will discuss about it briefly.

2.3.1 Work contract

A contract for the building, manufacturing, finishing, elevation, assembly, setting over, development, alteration, correction, administration, reconstruction, modification, or licensing of any immovable property in which property in goods is transferred. A “works contract” is one in which the execution of a works contract is involved either in products or some other forms. Therefore works contract as defined in section 2(119) of CGST Act, 2017 is ‘supply of service’ – para6(a) of Schedule II of CGST Act. Article 366(29A) of the Indian constitution [as amended by the 46th Amendment to the constitution in 1982] defines a tax on the transfer of property in goods (whether as goods or in some other form) involved in the execution of a works contract as a deemed sale of goods. The GST has simplified the taxation process. This indicates that a works contract will be recognized as a service, and tax will be levied appropriately (rather than as goods or partial goods/services).

2.3.2 Composite supply

A composite supply is defined in Section 2(27) of the CGST Act as follows: It refers to a supply that consists of two or more goods/services, one of which is a major supply, that is naturally bundled and provided with each other in the regular course of business. The goods are not available individually. Conditions for any supply of goods or services will be treated as composite supply if fulfills both the following criteria:

1. Providing two or more items or services at the same time, AND
2. It's a natural bundle, which means that items or services are frequently given together in the course of business. They are unable to be separated¹⁰.

The supply of goods, packing materials, transportation, and insurance, for example, is a composite supply when goods are packed and transported with insurance. Insurance and, transport cannot be done separately if there are no goods to supply. These goods are to be supplied and are considered the principal supply. Tax liability will be the tax on the principal supply i.e., the GST rate on the goods. If these are not fulfilled the second criteria then it is considered as a mixed supply¹¹.

2.3.3 Mixed supply

Two or more supplies of goods or services independently, or in any combination, are joined together for the same ie price by a taxable person under GST. Each of these components is treated as self-contained and not a dependent on others. If these things are delivered individually, it will not be considered a mixed supply. A mixed supply including two or more supplies is taxed at the highest rate of tax on the item. An example of a mixed supply is a food package that includes canned meals, chocolates, bottled water, aerated drinks, and fruit juices and is sold for a single price on an aircraft. Assuming that aerated drinks have the highest GST rate,

¹⁰ Subham Pophalia,” Composite and Mixed Supply under GST”, *TaxGuru*, May 20, 2021, available at: <https://taxguru.in/goods-and-service-tax/composite-mixed-supply-gst.html>, (last visited on June 13, 2022)

¹¹ *ibid*

they will be considered the principal supply, and the aerated drinks GST rate will be applied to the single price charged¹².

2.3.4 Job works

A process carried out on items owned by another registered taxable person by person. No GST is charged on goods delivered to a job worker by a registered taxable owner (principal) (Section 43A). Goods may also be passed from one job worker to the next. It's worth noting that 43A doesn't apply to exempted nontaxable products or unregistered individuals. ITC for inputs delivered to job workers, ITC is granted if non-capital goods are returned within one year of the task being completed (3 years in the case of capital goods provided in job labor days are tallied from the day the job worker receives the inputs if they are sent out immediately¹³.

2.4 TAXATION OF WORKS CONTRACT UNDER GST - OVERVIEW

2.4.1 Works contract – only immovable property

“Land, the profit flowing from land, and things fixed to the ground, or permanently affixed to anything linked to the earth, will be regarded immovable property,” says section 3(26) of the General Clauses Act of 1897. Section 3 of the Transfer of Property Act, 1882 excludes standing timber, growing crops, and grass from the definition of “immovable property.” As a result, neither act's definition of immovable property is comprehensive. Turnkey projects include steel mills, cement plants, power plants, refrigeration/air conditioning units, elevators, and escalators. Factories, office buildings, warehouses, theatres, exhibition halls, and multi-use constructions would all be considered immovable property. There is no requirement that immovable property is used in the course of or in support of commerce trade in order for the word to apply. The definition preview would also cover a charitable transaction of immovable property.

Multiple dictionaries define the term “building” as follows, A “building”, according to the New Oxford Dictionary, is “a structure with a roof and walls, such as a house, school, or factory”. As a result, the following is a definition of “building”, “a structure defined by walls, not necessarily having a roof, but typically erected for residence, shelter, storage, trade, production, religions, trade, training, and other matters of this nature”. Commercial structures such as commercial properties, display and wedding halls, mall, motels, restaurant, airlines, railway or highway terminals, car parking, petrol stations and service stations, theatres, and other non-residential buildings such as educational institutions, hospitals, clinics, including veterinary clinics, religious establishments, courts, prisons, museums, and other non-residential buildings.

2.4.2 Decentralized System of Service Registration

Everyone whose annual turnover exceeds Rs.20 lakh (or Rs.10 lakh in the Special Category States) is obliged to register under the CGST Act. This also applies to a Works Contract's suppliers. As a result, each

¹² Prमित Pratim Ghosh,” Mixed supply and Composite supply under GST”, *Tally*, January 10, 2022, available at: <https://tallysolutions.com/gst/mixed-supply-composite-supply-gst/>, (last visited on June 12, 2022).

¹³ *Ibid.*

state where a works contractor maintains a project office will be obliged to register if the threshold limit is breached.¹⁴

2.4.3 Scheme of Composition

Because works contractors are considered a service under GST, they are not eligible for the composition program. The composition program is only open to commodity providers and the restaurant industry (not serving alcohol). He must register as a regular provider if he achieves the \$20,000 level¹⁵.

2.4.4 Abatement

There is no abatement for works contracts under the GST Act.

2.5 TAXATION OF SUPPLY OF SERVICES UNDER WORK CONTRACT

Schedule II clause 5(b)

Schedule II entry no. 5(b) and 6(a) [Section 7 of the CGST Act'2017] speak about what would be considered as "Supply of Service" if a Works contract has been mentioned. The notion of a Works Contract is linked to immovable property, a Works Contract is a service, regardless of the combination of goods and services, and thus SAC (Service Accounting Code) will apply. Building structures, constructions, civil engineering works, or a significant part of them, including facilities or building sites intended for sale to a buyer, in whole or in part, unless the entire amount is paid, which happens either before the company makes its first professional look or after the appropriate body has issued a completion certificate, as essential". Clause 5(b) Construction, building structure, civil works, or a portion thereof, including a complex or constructing work intention is to sell to a consumer. This paragraph governs work contracts in the civil construction industry. If a works contract for a building, complex, or any civil structure is sold before completion, it is viewed as a provision of service¹⁶.

Schedule II clause 6(a)

The following composite supplies, as described in clause (119) of section 2 Analysis, must be classified as a supply of services: -

- (a) The most indispensable point to emphasize here is the impact of GST on real estate buyers. In the pre-GST scenario, the state composite VAT ranged from (1 to 4) percent on the whole price of the property, without even any input tax benefit in various states, while the service tax on real estate transactions was 4.5 percent, with a set-off for the input service tax components. Residential construction services will be subject to GST at a rate of 12% (if land value is included) and 18% (if land and construction services are separately identified), which will

¹⁴ Rajat Kumar Basu et. al, *Work Contract under GST*, 12, (ICAI, New Delhi, 1st, 2018).

¹⁵ *Ibid.*

¹⁶ Satya S Mahasuar, "Practical Implications of Works Contract under GST Law", *The Institute of Cost Accountants of India* 15 (2017).

apply to developers selling residential units before they are completed to home buyers, where transaction costs will rise due to higher tax rates, but input credit will be available on both services and materials. In the event that no input credit is passed on by developers, property transaction costs will rise by 6% (plus 12% GST). The increase in housing prices might be limited to 1-2 percent of developers passing on the input credit to buyers. However, if the developers pass on all of the benefits and lower the base prices, house purchasers may gain modestly¹⁷.

2.6 TAXATION OF OTHER SERVICES

1.	Plumbing Contracts	If the plumbing is part of immovable property, it cannot be removed without causing damage to those particular goods or the particular property, which may be considered a works contract ¹⁸ .
2.	Electrical Installations	If the installation of Electrical items is part of immovable property, it cannot be removed without causing damage to those particular goods or a particular property, which may be considered a works contract.
3.	Supply and installation of doors at the site	28% is the GST Rate for the doors. If fixing the doors is considered a works contract, then 18% is the GST Rate for that doors. Therefore this supply of door and incidental fixing or permanently fixing of the door to be considered the immovable property. The decision is to be taken as a controversial matter.
4.	Lift/elevator installation	These installations come under the contract relating to the immovable property. Hence it is considered to be a works contract.
5.	Installation of Air handling units	Installing the Centralized air conditioning units is considered to be immovable property. So it comes under Works Contract
6.	Installation of fire fighting equipment	Installing the fire fighting equipment will be regarded as a works contract if it is installed as immovable property.
7.	Painting contract	A painting contract comes under the immovable property, so it is considered a works contract.
8.	Repairs of Car	Doesn't considered as a works contract

¹⁷ Geetanjali Pandey, "Schedule II-Activities to be treated as Supply of Goods or Services", *TaxGuru*, May 10, 2020, available at: <https://taxguru.in/goods-and-service-tax/schedule-ii-activities-treated-supply-goods-services.html>, (last visited on June 4, 2022).

¹⁸ *Supra* note 1.

9.	Annual Maintenance Contract	Doesn't considered as a works contract ¹⁹
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2.8 GST RATE OF WORKS CONTRACT SERVICES

S.NO	SERVICES	RATE
1.	Construction of a complex, building, civil works, or a portion thereof, including a complex or building intended for sale to a customer, in whole or in part, unless. After the competent authority issues the completion certificate, if needed, or after the first profession, whichever comes first, the complete consideration has been obtained. (For the purposes of valuing this service, the provisions of paragraph 2 of this notification apply.) ²⁰	9%CGST + 9%SGST
2.	Clause 119 of Section 2 of the Central Goods and Services Tax Act, 2017 defines a composite supply of works contract.	9%CGST + 9%SGST
3.	Construction, erection, commissioning, installation, completion, fitting out, repair, maintenance, renovation, or alteration of, as specified in Section 2(119) of CGST Act, 2017, given to the Government, a local authority, or a governmental authority (a) a national historical monument, archaeological site, or remnants, archaeological excavation, or antiquity as defined by the Ancient Monuments and Archaeological Sites and Remains Act, 1958 (24 of 1958); b) a canal, dam, or another irrigation project; c) a pipeline, conduit, or plant for water delivery, (ii) water treatment, or (iii) sewage treatment or disposal.	6%CGST + 6%SGST
4.	Building, erecting, licensing, implementation, finishing, setting out, replacement, management, reconstruction, or adjustment of the following items as described in Section 2(119) of CGST Act, 2017: (a) a public road, bridge, tunnel, or terminal (b) a civil work or any other original structure pertaining to this yojana scheme	6%CGST + 6%SGST

¹⁹ *Supra* note 1.

²⁰ Mukesh Kuriyal, "Analysis of new GST rate for works contract services", *Caclubindia*, January 19, 2022, available at: <https://www.caclubindia.com/articles/analysis-new-gst-rate-for-works-contract-services-wef-1st-january-2022-46634.asp>, (last visited on June 10, 2022).

	<p>(c) a civil works or any other original structure pertaining to the Housing for All (Urban) Mission/Pradhan Mantri's "In-situ rehabilitation of existing slum dwellers using land"</p> <p>(d) a civil works or any other original structure related to the Housing for All (Urban) Mission/Pradhan Mantri Awas Yojana's "Beneficiary led individual dwelling construction/enhancement"</p> <p>e) a pollution control or wastewater treatment facility unless it is manufacturing; or</p> <p>(f) a structure used for a deceased person's funeral, burial, or cremation²¹.</p>	
5.	<p>Construction, erection, commissioning, or installation of original works pertaining to, as defined in clause (119) of section 2 of the Central Goods and Services Tax Act, 2017, works contract of composite supply are as follows:</p> <p>(a) railroads (excluding monorail and metro)</p> <p>(b) a solitary residential unit that is not part of a larger residential complex</p> <p>(c) low-cost dwellings with a carpet area of 60 square meters in a housing project certified by a competent body under the Ministry of Housing and Urban Hunger Alleviation's 'System of Affordable Homes in Partnership'</p> <p>d) low-cost dwellings with a carpet area of 60 square meters in a housing project recognized by the competent authority under (1) the Housing for All (Urban) Mission/Pradhan Mantri Awas Yojana's "Affordable Housing in Partnership" component (2) any housing plan of a State Government</p> <p>e) agricultural produce post-harvest storage facilities, including cold storage for such reasons or</p> <p>f) a mechanical food grain handling system, technology, or equipment for units that prepare agricultural output as food, excluding alcoholic drinks. Construction, erection, commissioning, installing, completion, setting out, repair, management, reworking, or alteration of ²²</p> <p>(a) civil works or any other original structure meant predominantly for use other than trade, industry, or any other business or commercial and (b) a structure meant predominantly for using an educative facility for the Central Government, State Government,</p>	<p>6%CGST + 6%SGST</p>

²¹ *Supra* note 17.

²² *Supra* note 17.

	Union Territory, a local authority, or a governmental authority specified in para 3 of the Schedule III of the CGST Act, 2017 ²³ .	
6.	Other than (i), (ii), (iii), (iv), (v), and (vi) construction services	9%CGST + 9%SGST

CHAPTER – 3

AN ANALYSIS OF TAXATION ON THE RESIDENTIAL AND COMMERCIAL SECTORS.

The Goods and Service Tax regime has a lot of improvement in the society as per the government side of view. The government does, however, introduce different adjustments from time to time. Even yet, the government has yet to address the causes and consequences. GST, on the other hand, has streamlined the prior tax system's complications. For example, under the former tax system, a single transaction was subject to a variety of state and federal taxes. However, with the advent of GST, many indirect taxes were merged into one and we were given a unified system. Similarly, in the Construction sector, different adjustments have been made to the real estate activities, Commercial Sector, and Residential Sector²⁴.

3.1 GST ON THE RESIDENTIAL SECTOR

3.1.1 Affordable Housing

As part of the 33rd GST Council Meeting, the relevant criteria for residential property eligibility in the affordable housing category were changed, and GST rates for residential real estate became effective on April 1, 2019. According to the 33rd GST Council Meeting, GST on residential properties that fall under the affordable housing category would be imposed at 1% without ITC²⁵.

The primary affordable housing sector qualifying criteria for a residential property in India are as follows:

- In metropolitan areas, the total carpet area of a residential property cannot exceed 60 square meters.
- in non-metropolitan cities and towns, the total carpet area of a residential property cannot exceed 90 square meters.
- In both metropolitan and non-metropolitan areas, the total value of a property cannot exceed Rs. 45 lakh²⁶.

The concessional rates will apply solely to residential property transactions, not commercial property sales because the GST council has not yet considered GST on commercial properties. Affordable housing being

²³ *Id.*
²⁴ Neeraj Bhagat, "GST Rate structure for Real Estate Sector", *TaxGuru*, January 15, 2022, available at: <https://taxguru.in/goods-and-service-tax/gst-rate-structure-real-estate-sector.html#:~:text=No%20GST%20is%20levied%20on,applicable%20on%20renting%20commercial%20properties>, (last visited on May 23, 2022).
²⁵ Sunita Mishra, "GST on real estate: All about GST on flat purchase, rates in 2022 and impact on home buyers", *TaxGuru*, January 26, 2022, available at: <https://housing.com/news/gst-real-estate-will-impact-home-buyers-industry/>, (Last visited on May 29, 2022).
²⁶ *Ibid.*

developed in ongoing projects under existing federal and state housing plans was currently entitled to an 8% GST reduction (after 1/3rd land abatement).

3.1.2 Non-Affordable Housing

GST will be paid at a rate of 5% on residential properties that are not included in the affordable housing category, with no Input Tax Credit, on the building of:

- a. All homes other than low-cost houses in upcoming projects
- b. All houses in new developments, save those that are inexpensive.
- c. Shops, offices, and other business apartments in a Residential Real Estate Project (RREP) when the carpet area of commercial apartments does not exceed 15% of the total carpet area of all units.

Conditions

The tax rates of 1% (on affordable housing construction) and 5% (on non-affordable housing construction) will be available subject to the following conditions:

- a) No input tax credit will be available
- b) At least 80% of inputs and input services must be acquired from registered people. In the event of a purchase shortage of more than 80%, the builder must pay tax at the rate of 18% on an RCM basis.

However, under RCM, tax on cement obtained from an unregistered person must be paid at a rate of 28 percent, and tax on capital goods must be paid at the appropriate rate.

3.2 GST ON THE REAL ESTATE SECTOR

The real estate industry as a whole was experiencing a collapse at the time of GST introduction in July 2017, owing mostly to demonetization and the adoption of RERA (Real Estate Regulation and Development Act, 2016). Early in 2018, however, demand and supply for real estate increased, owing to the substantial expansion of inexpensive and mid-income housing. Housing prices, on the other hand, were either flat or somewhat rising across the country, while in bigger areas like Delhi prices were estimated to be down 2% in 2018. However, such price drops were mostly due to oversupply rather than the impact of GST, as developers did not pass on ITC gains to home buyers in most cases. Even when ITC advantages were passed on to homeowners, the price difference was insignificant²⁷.

3.2.1 Rates under GST for Real Estate properties

Particulars	GST Rates
Residential real estate projects included under affordable house	1% without availing of Input Tax Credit

²⁷ Arpit Kulshrestha, "Impact of GST on Real Estate Sector in India", *Sag blog*, March 30, 2022, available at: <https://blog.saginfectech.com/gst-impact-real-estate-india>, (Last visited on June 10, 2022).

Other residential real estate projects	5% without availing of Input Tax Credit
Commercial space inclusive within residential real estate project ²⁸ (i.e., commercial space is less than 15% of the total carpet area)	5% without availing of Input Tax Credit
Other commercial projects	12% with availing of Input Tax Credit
Selling of land	Not Available
Cases, wherein, a completion certificate is issued by the competent authority and entire consideration is received after the completion certificate	Not Available

3.2.2 GST on Government Housing Schemes

The government has clarified that government-led mega housing projects meant for the common man, will attract only 1% GST under the new regime. These include many yojana schemes and other state government housing schemes.

3.2.3 GST on purchase of flats

In 2022, if anyone purchases the flats and apartments related to under-construction developments in India's megacities would come under GST. However, the GST on flat purchases does not include finished constructions. A finished project is one that is acquiring a certificate of completion from the competent authority²⁹.

Property name	GST rate up to march 2019	GST rate from April 2019
Affordable house	8% with ITC	1% without ITC
Other than affordable house	12% with ITC	5% without ITC ³⁰

While the new tax rate would apply to all new projects without an input tax credit (ITC), builders were given a one-time opportunity to choose between the old and new rates for their existing projects. This deal was

²⁸ *Ibid.*,

²⁹ Mishra, "GST on real estate, GST on flat purchase and impact on home buyers", *Housing.com*, June 16, 2022, available at: <https://housing.com/news/gst-real-estate-will-impact-home-buyers-industry/>, (last visited on June 20, 2022).

³⁰ *Ibid.*

applicable only for the incomplete projects as of March 31, 2019. After the developer community indicated worries about tax liabilities in the absence of ITC, the government made its decision.

GST calculation on affordable property

Affordable house	GST on Low-cost, Before April 1, 2019	GST on Low-cost, After April 1, 2019
Property cost per square feet	Rs 3,500	Rs 3,500
GST rate on flat purchase	8%	1%
GST	Rs 280	Rs 35
ITC benefits for the material cost of Rs 1,500 at 18%	Rs 270	Not applicable
Total	Rs 3,510	Rs 3,553

GST on the calculation of luxury property

Luxury house	Before April 1, 2019	After April 1, 2019
Per sq ft of property cost	Rs 7,000	Rs 7,000
% of GST on purchases of flats	12%	5%
GST	Rs 840	Rs 350
ITC benefits for a material cost of Rs 13,000 at 15%	Rs 126	NA
Total	Rs 7,714	Rs 7,350

Under the new GST rates, consumers of luxury property would save more than they would have earlier tax rates.

GST on related construction services

The building includes taxes that apply to a variety of real estate transactions and can be treated as part of the GST on Real Estate applications. The following is a list of GST rates that apply to some types of construction-related services in the real estate industry³¹:

GST ON THE CONSTRUCTION SERVICES	TAX%
Under construction properties [inclusive of those under credit-linked subsidy schemes].	12%
Under construction properties [exclusive those under credit-linked subsidy schemes].	12%
Works contract of composite supply for Low-cost house.	12%
Works contract of composite supply [inclusive of government / local bodies].	12%
Works contract of composite supply [excluding government sector / local bodies / Low-cost house ³² .	18%
Works contract [exclusive government structures].	18%

Because all components utilized in development work are subject to GST, the Goods and Services Tax (GST) includes real estate in India through works contracts and construction and constitution activity. Simply expressed, the new system applies to the Indian construction sector, which maintains to be prone to increased tax rates as a result of a combination of charges placed on the purchase of various building construction supplies. The GST rate on construction and building products ranges from 5% to 28%.

GST Rate on the Construction Material

The construction business in India is subject to two forms of GST on real estate: taxes on goods and taxes on services. Taxes on goods are charged on the purchase of building materials, whereas taxes on services are levied on the construction service itself. Different rates are applied to various categories of commodities and services. For the owner, these charges add up to an increase in the overall cost of the building. The total GST liability is computed by calculating the State GST (SGST) and the Central GST (CGST) in equal proportions. For example, the total GST is 18% since SGST is 9% and CGST is 9%. This is valid for all GST rates.

GST on the Sand

- 5% for All varieties of Natural sand and metal-bearing sand are exclusive ones.
- 18% for the Oil shales and tar sand, asphalt, and asphaltic rock³³.

³¹ *Supra* note 1.

³² *Id.*

³³ Anirudh Singh Chauhan, "GST Rate chart for construction material", *99acres*, June 13, 2022, available at: <https://www.99acres.com/articles/gst-rate-chart-cement-sand-steel-bricks-and-stone-gst-rates.html>, (last visited on June 18, 2022).

GST on the Cement

28% for the portland blocks of cement, slag cement, super sulfates, and similar hydraulic types of cement³⁴.

GST on the Bricks

5% for Building brick and other fossils bricks and other siliceous earth bricks. The GST Council had decided to increase the tax on the bricks supplied to 12% with the benefits of ITC. On April 1, 2022, this increase in the brick supply's GST went into effect. The registration threshold for these providers has also been lowered from Rs. 40 lakhs to Rs. 20 lakhs as of April 1, 2022, under a special composition plan. Under the concept, bricks would be subject to a 6% GST rate with no input tax credit. "Bricks would otherwise be subject to a GST rate of 12 percent with ITC", the GST Council declared following its meeting on September 17, 2021. 18 percent for tiles, hard bricks, and clay items.

28% for Substances made of concrete, artificial stone, or cement, such as stone, bluestone, basic structure, mineralized bricks, and materials and building components; crystal pavements, such as blocks, ceramic tile, concrete pavers, rolled glass items used in the construction project, decorative cubes, and tiny glass items for decorative purposes, such as leaded lights, foam glass used in blocks, sheets, and boards, etc.

GST on the Stone

5% for Pebble, gravels, and crushed stones are used in concrete.

GST on the Marbles

12% for the marbles and granite block.

28% for the Marbles, and granites.

GST on the Building Stones

5% for the sandstones, and other monuments or building stones, both, in block and slab.

GST on the steel

18% for the iron block, wires, roll, and rod.

GST on the Tiles

5% for the Earthen tiles or roof tiles.

18% for the Bamboo floor tiles.

28% for the Cement, concrete, artificial stone, floor covering of plastic in roll or in the way of tiles, walls or ceiling coverage of plastic, panel, board, block and similar articles of vegetable fibers of straw or chip, particle, sawdust or other waste, of wood, cement, plaster or other minerals, ceramic floor blocks, support tiles, articles of plaster-like sheets, panels, tiles and similar articles, ceramic mosaic cubes, glassed ceramic, wall tiles.

³⁴ *Ibid.*

GST on the Coal

5% of the interior materials are used in the construction works.

GST on the Mica

12% for the mica.

GST on the Electrical Machinery

28% for the Electrical machinery and equipment parts.

GST on the Paint and Varnish

28% for the Paint, varnished, enamel based on synthetic polymer or chemically modified natural polymer, resin blocks of cement, caulking compound, painter's fillings, non-refractory surfacing preparations for façade, indoor wall, floor, and ceiling.

GST on the Bathroom Fitting

18% for the Tubes or pipe fitting like elbows made up of coppers, aluminum, plastics, iron, and steel.

28% for the other bathroom fittings other than mentioned above.

GST on the Wallpapers

28% for All types of wallpaper.

CHAPTER – 4**ANALYSIS OF THE COMPARATIVE STUDY OF PRE AND POST-GST REGIME**

The new GST regime raised the tax rate on the construction sector from 15% (service tax regime) to 18% in contrast to the prior tax. However, a deduction of land value equivalent to one-third of the total amount paid by the developer has been approved for GST purposes. The result is that the actual GST rate is now 12.5%. In order to boost demand and somewhat reduce the tax burden on consumers, not entirely, and in the goal of simplification and rationalization of tax rates, especially for the residential real estate business, the government changed the tax structure under the GST in April 2019. The GST Council is providing this as a one-time option for ongoing building projects.

4.1 AN OVERVIEW OF CONSTRUCTION SECTOR

Construction is derived from Latin development (from con-“together” and structure “to accumulate”) and Old French development, and refers to the art and science of shaping products, frameworks, or relationships. The action term is progress is the display of construction, and the object is progress is to, how it would be constructed, and the concept of its structure. In its broadest sense, progress refers to the processes involved in bringing structures, frameworks, and technical structures, as well as connected activities, to a stunning conclusion. It usually starts with planning, finance, and preparation and continues until the benefit is

made and ready for use³⁵; the project involves repairs and maintenance work, any attempts to expand, widen, or enhance the benefit, and its eventual destruction, destroying, or deactivating.

Innovation as a profession generates over 10% of global GDP (6-9 percent in developed countries) and employs over 7% of the global population (approximately 273 million people). In 2001, the worldwide construction industry's production was predicted to be worth \$10.8 trillion. This does not imply that several thousands of workers will lose their jobs. It's unreasonable thinking since, as the saying goes, "tomorrow would adopt one's own path". In a larger sense, increasing production will enrich every citizen of the country, whether directly or indirectly.

4.1.1 Old Tax System

Name of Duty	Tax rate	Circumstances tax to be paid
VAT	1 to 4%	On the sale of under-construction properties
Service Tax	4.50%	On the sale of under-construction properties
Registration Charges	0.5 to 1%	On the sale of under-construction properties
Stamp Duty Charges	5 to 7%	On the sale of under-construction properties

4.1.2 Difference in tax rates on building materials – pre and post GST

There are the building materials, the rate of new GST regime increases is not very high but it will affect the overall cost of the material and affect the End consumers only at the time of purchasing the immovable property³⁶.

Analyze the tax rate difference in building materials under the construction sector³⁷

S.NO	NAME OF THE MATERIAL	UNIT	OLD TAX RATES	GST REGIME	THE DIFFERENCE MENTIONED IN THE PERCENT
1.	Cement Ordinary Portland Cement (OPC).	Bag of 50kg	18%	28%	10%
2.	White cement	Per kg	27%	28%	1%

³⁵ kavitha, "GST impact on construction and service sector", 6 *IJSDR* 59 (2021).

³⁶ *Supra* note 35.

³⁷ Harshita Ambre, "IMPACT OF GST ON CONSTRUCTION SECTOR IN INDIA" 8 *AEGAEUM JOURNAL* 1569 (2020).

3.	Waterproofing compound	Per kg	27%	28%	1%
4.	FE 450	M. Tonne	17.50%	18%	0.50%
5.	FE 500	M. Tonne	17.50%	18%	0.50%
6.	FE 500 D	M. Tonne	17.50%	18%	0.50%
7.	Base plate	No	17.50%	18%	0.50%
8.	U- Head	No	17.50%	18%	0.50%
9.	Runner Beam	Cubic meter	17.50%	18%	0.50%
10.	I Beam	Kg	17.50%	18%	0.50%
11.	Plyboard	Sq.M	17.50%	18%	0.50%
12.	MS Prop	No	17.50%	18%	0.50%
13.	Sikhanja	No	17.50%	18%	0.50%
14.	Shuttering oil	Litre	17.50%	18%	0.50%
15.	Joint Putty	No	17.50%	18%	0.50%
16.	Sandpaper	No	17.50%	18%	0.50%
17.	Cement PPC	Bag of 50 kg	27%	28%	1%
18.	Wallpaper	No	18.5%	28%	9.5%
19.	Plaster	No	26%	28%	2%

Analysis of the tax rate difference in labor contracts under the construction sector³⁸

S.NO	DESCRIPTION	OLD TAX RATE	NEW GST REGIME	DIFFERENCES
1.	Head Manson	15%	18%	3%
2.	Manson	15%	18%	3%
3.	Mazdoor	15%	18%	3%
4.	Bhisti	15%	18%	3%
5.	Carpenter	15%	18%	3%
6.	Carpenter helper	15%	18%	3%
7.	Fitter	15%	18%	3%
8.	Fitter helper	15%	18%	3%
9.	Painter	15%	18%	3%
10.	Painter helper	15%	18%	3%
11.	Polisher	15%	18%	3%
12.	Rigger	15%	18%	3%
13.	Rigger helper	15%	18%	3%
14.	Surface hacker	15%	18%	3%

FACTORS AFFECTING THE IMPACT OF GST IN THE CONSTRUCTION INDUSTRY³⁹

S.NO	TYPES OF FACTORS	FACTORS AFFECTING THE IMPACT OF GST IN THE CONSTRUCTION INDUSTRY	BEFORE GST	AFTER GST	SUMMARY
1.	Building material	Cement	27%	28%	1% increased
2.	Building material	Iron / Steel/ Bar	19.5%	18%	1.5% decreased
3.	Building material	Ready-mix concrete	18%	18.5%	0.5% increased

³⁸ *Supra* note 35.³⁹ Ankitkumar, "Impact of GST on Construction Industry" 7 *IRJET* 6294 (2020).

4.	Building material	Bricks	18%	5%	13% decreased
5.	Building material	Timber	17.5%	18%	0.5% increased
6.	Equipment and machinery	Excavator	18%	28%	10% increased
7.	Equipment and machinery	Concrete mixer	12%	18%	6% increased
8.	Equipment and machinery	Concrete vibrator	12%	18%	6% increased
9.	Equipment and machinery	Mobile crane	18%	28%	10% increased
10.	Construction soft cost	Loan / interim fees	12%	18%	6% increased
11.	Developer related	The total cost of construction gets increased	Developer were purchasing materials without tax	To purchase any construction material GST is mandatory	Because of the GST, the initial cost of the project is increased.
12.	Developer related	Difficulty in payment of employees	The salary was paid in cash	Salary is paid by bank transaction	Employees have to fill income tax compulsory
13.	Developer related	Increase in the price of building property	Developers were never paid tax for any purchasing of construction materials	Because of GST construction cost is increased	Therefore the overall project cost is increased

Analysis of the overall effect of the tax impact on the construction material

Construction materials	Previous tax	Taxes under GST	Impact
Cement	27	28	Costlier
TMT Bars	18	18	Neutral
Flyash Bricks	5	12	Costlier
Tiles	26	28	Costlier
Paint	28	28	Neutral
Sanitaryware	28	28	Neutral
Plywood	28	28	Neutral
Electrical Goods	12	28	Costlier

Recommendations of 47th GST Council Meeting

In Chandigarh, the 47th GST Council convened under the chairmanship of Union Minister for Finance & Corporate Affairs and top officials from the Ministry of Finance and the States/UTs, Union Minister of State for Finance are also attended the meeting. The GST Council has, among other things, recommended the following amendments to GST legislation and process as well as adjustments to the GST rates on the sale of goods and services⁴⁰: New Rates in Effect as of July 18, 2022.

S.NO	SERVICES	OLD RATES	NEW RATES
1	Job work in relation to manufacture of clay bricks	5%	12%
2	Works contract for roads, bridges, railways, metro, effluent treatment plant, crematorium etc.	12%	18%
3	Works contract supplied to central and state governments, local authorities for historical monuments, canals, dams, pipelines, plants for water supply, educational institutions, hospitals etc. & subcontractor thereof	12%	18%
4	Works contract supplied to central and state governments, union territories & local authorities involving predominantly earthwork and sub-contracts thereof	5%	12%

⁴⁰ Government of India, "Recommendations of 47th GST Council Meeting" (Ministry of Finance, 2022).

The 47th GST Council meeting laid down the GST percentage for goods and services. It is also one of the negative impact on the construction sector. Because the tax percentage are increased and effective from July 18, 2022.

CHAPTER - 5

CONCLUSION & SUGGESTIONS

CONCLUSION

The study has thus concluded that the GST has a significant impact on the building industry. We could thus draw the conclusion that GST has a negative effect on the construction industry. However, there can have a negative impact on labor agreements. The contractor must consider these elements while submitting a proposal for the labor contract. Tax rates have increased, climbed, and stayed unchanged in the construction sector. While the tax rates on plaster and wallpaper have climbed and those on cement have increased, sand-lime bricks and ceramic tiles have decreased, the tax rates on paint and decals have stayed the same.

Therefore the implementation of GST harms the construction and service sectors because of the increased tax rates. The tax rates on the number of items have increased in the construction business. In the service industry, there is also a neutral impact. Customers suffer because they bear the entire weight of the tax rate. Due to changes in Indian tax rates, both businesses initially faced challenges. However, the industries were able to successfully duplicate the new tax structure with the assistance of the government's advice.

However, the Input Tax Credit (ITC), which was not available under the previous tax system, is not taken into account, but ITC is available under the new GST regime. GST has had a substantial influence on the building sector, increasing the rate of under-construction properties, the price of houses, and the EMI for mortgages. It is evident that the GST had little impact on construction companies, but it did raise the cost of building supplies. According to the study's findings, the implementation of GST has raised property values and home loan EMIs simultaneously.

Thus the tax rates for high-end hotels and telecom services have increased. Lower tax rates have led to a fall in the price of building supplies. Recently, the tax rates were raised and modified. As a result, the construction sector is affected both positively and negatively. Therefore, the implementation of the Goods and Services Tax (GST) has resulted in significant changes in the working patterns of all sectors of the Indian economy. The construction industry, which is frequently referred to as an "unorganized sector", has been impacted the worst since there are a huge number of activities engaged, a substantial budget is set up at the outset, and an understanding of document management as well as financial management is lacking. Shortcuts are frequently adopted to deal with tax-enhancing activities, exposing the construction industry to the negative consequences of GST on its operations and the lack of bringing the unorganized sector under control.

There are myths that the construction industry is slowing down as a result of GST, and that the cost of materials, machinery, and manpower has increased as a result of GST, but the actual scenario is being studied by comparing the cost of an existing building built under the old taxation system to the cost of the same building built under the GST regime. The cost difference is estimated on a unit basis to determine the impact of GST

on the construction industry. There has always been a desire to improve the way we operate in the construction sector in order to obtain better outcomes while saving time, energy, and money, but much more clarity is needed for the current taxation system and reforms of the current tax rate. Because residential home and commercial apartments are very indispensable for people to improve their life and everyone have a goal to reach, so the end consumer doesn't bear any burden, if the tax rate on the construction sector will be reduced.

FINDINGS

In the light of the above discussion, certain inferences were made by the researcher on issues pertaining to measures to combat tax rates in the construction sectors.

1. ANTI-PROFITEERING RULES

Due to the anti-profiteering rule's basic ineffectiveness, end-users have not, however, fully benefited. Only if the basic property prices are decreased and the developers pass the tax benefits forward to their clients would they gain. Even though the tax-on-tax was abolished with the introduction of GST, it appears that house purchaser's ultimate outlay has grown since even after passing on ITC, they may still have to pay three to four percent more than under the previous service tax + VAT regime.

2. GST HARMS THE BUILDING MATERIAL AND LABOUR COST

Therefore the implementation of GST harms the construction and service sectors because of the increased tax rates. The tax rates on the number of items have increased in the construction business. In the service industry, there is also an impact. Customers suffer because they bear the entire weight of the tax rate. Therefore, it creates burden to developers and end consumers.

3. REVERSE CHARGE MECHANISM

Due to reverse charge mechanism, which is extended under the GST and adopted from the service tax system, would have a negative impact on the profitability of banks. Lenders may have gotten a single centralized registration under the service tax regime, but under the GST, they must now register in every state. The lender's compliance expenses would rise dramatically as a result, which will have an impact on their profitability.

4. WORKS CONTRACT INCLUDES ONLY IMMOVABLE PROPERTY

Unlike the previous regime, where works contracts for moveable properties were also examined, the scope of works contracts under the GST regime has been limited to any activity conducted with respect to immovable property exclusively. Under GST, any composite supply of goods and services will not be considered a works contract per se. Such contracts will continue to be composite supply for GST purposes and will not be considered a Works Contract.

5. PROJECT DELAYS

Due to the increase in the tax rates, virtually all contractors faced project delays. Following the adoption of the new GST regime, construction executives struggled to fulfil deadlines. Because building projects are projected to be delayed, several construction projects have been halted, both during the new

regime's attacks and throughout the covid period. Due to a shortage of personnel and an increase in the cost of raw materials, developers will encounter significant hurdles following the adoption of the GST system.

SUGGESTIONS

The following recommendations have been made in light of the findings of the study conducted for this research. Following are some ideas for a better construction industry to manage the application of the Goods and Services Tax Act to the Indian construction sector:

1. Multi-centralized registration under GST affects the profitability of banks and developers related to the construction sector, hence it is suggested to reform the single centralized registration
2. HSN code given to various materials and services related to construction sector under GST placing them with high tax bracket would cause material cost high and hence it is suggested to bring a low tax bracket related to construction sector under GST.
3. As per section 171 of CGST ACT, 2017, The anti-profiteering rule's basic effectiveness is that end-users have to fully benefit. Only if the basic property prices are decreased and hence it is suggested the developers pass the tax benefits forward to their clients would they gain.
4. Reform the definition under section 2(119) of CGST ACT, 2017, the scope of works contracts under the GST regime has been limited to any activity conducted with respect to immovable property exclusively. By adding the term movable property will include the definition of a works contract, then any composite supply of goods and services will be considered a works contract.
5. Cement and Ready-mixed concrete were taxed currently subject to 28 percent under GST. Costs are anticipated to increase as a result of new residential projects not being eligible for input tax credits and hence it is suggested to bring ITC for new residential projects.
6. Under the GST system, the tax must be paid right away upon the earliest of a service's completion, the creation of an invoice, or the receipt of payment from clients. This would cause developers to find loopholes to avoid the taxes. Hence it is suggested to bring the tax to pay on a receipt basis meaning that tax is paid only after the money has been received from the consumers.
7. Since the previously stated services are covered under Lift and Escalator installation services, falling under SAC 995466, Notification No. 11/2017 (central tax rate), dated June 28th, 2017, as amended, the rate of GST applicable to the erection and commissioning of BF lifts or escalators installed for domestic use is 18 percent. Hence the keyword "erection" is included in the definition of a "works contract," thus it is suggested the notice has to be revised and charged at a rate of 12 percent.
8. The works contract would be recognized as a service, and tax will be levied only 12% for services so it would cause increase tax rate for goods. The constitution considers a 'works contract' to be a sale of goods, although GST legislation considers it to be a 'supply of service', hence it is suggested to bring sale of goods and service is a works contract.