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GST Rates Should Be Relaxed In Affordable Housing Segment

Customers are charged 12% as GST on the cost of under-construction flat. Accordingly, the cost of an Affordable Housing Flat of say ₹ 20 lacs will increase to ₹ 22.4 lacs

Arvind Hali | Last Updated: January 17, 2018 18:37 (IST)

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While we expect a significant focus to be given on the affordable housing sector, the following points ought to be considered in the Union Budget 2018-19 announcement.

GST and its implication on Affordable Housing segment: Customers are charged 12% as GST on the cost of under-construction flat. Accordingly, the cost of an Affordable Housing Flat of say ₹ 20 lacs will increase to ₹ 22.4 lacs, increasing the additional burden on home buyer.

Also, as GST cannot be considered as part of the value of property while availing the loan, the entire GST amount is required to be paid by the customer himself, thus increasing his own contribution to ₹ 4.4. lacs on a total cost of ₹ 22.4 lacs (this works out to 20% of the flat cost. In addition to this, customer also needs to pay processing fee, stamp duty insurance etc. taking the own contribution to about 30%)

ECB (External Commercial Borrowings) norms should be relaxed for Housing Finance Companies (HFCs): Current norms state that it is mandatory to have a capital of more than 300 crore and a track record of a minimum of five years. Since a majority of the HFCs catering to the affordable housing segment are relatively new, the norm would benefit only the big HFCs/ banks leaving out smaller sized/new HFCs. Thus relaxation on vintage is required especially for highly capitalized HFCs.

Pradhan Mantra Awas Yojna: Currently PMAY/CLSS scheme has implied that HFCs/ banks cannot charge processing fee from borrowers who are eligible for the CLSS scheme. Financial institutions incur huge operating cost in processing such loans, thus it is suggested that restriction on charging processing fee from borrower should be relaxed.

(Arvind Hali is MD and CEO of ART Affordable Housing Finance)

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