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GST watch: Small players, big issues

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SMEs in the realty sector feel overwhelmed by GST - Photo: M Govarthan

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SMEs in the realty space are facing teething troubles

August 30, 2017:

Mohan Kumar, a latch-maker and small-time vendor in the real estate sector space in Delhi-NCR region, has a peculiar problem. If Kumar sends a sample to a real estate player, it is per se not taxable under the Goods and Services Tax (GST) regime. However, the freight and packaging component attracts GST.

Ever since GST took effect on July 1, Kumar and others like him have been trying to figure out how to become GST-compliant.

A perplexed Kumar notes that SME vendors are yet to be trained and advised to claim the transition provisions of GST under section 140 and claim input tax credit under Form GST TRAN-1. Compliance costs are high in the GST era, he says.

Nearly two months after the GST framework was unveiled, the real estate sector is still trying to come to grips with the all-encompassing taxation regime.

While most real estate players say they are working with their vendors and SME players to get them to become GST-complaint, they still face teething troubles.

For starter, all stakeholders have to upload their GST payment details; failure to comply may mean they don't get any input tax credit.

Industry players to whom Business Line spoke said SME vendors were getting bogged by the mechanics of uploading tax details.

Deep Kantawala, Head - ICS Real Estate Partners, says, "The business fraternity will have to cope with increased compliance and consequent cost under GST. There is a lack of full awareness and preparedness on the part of the business community, particularly SMEs."

Amit Goenka, MD & CEO, Nisus Finance says, "GST has brought about a single taxation system. However, its benefits will take time to percolate to the consumer. Larger firms have created systems to tackle regulatory changes. But there are adaptation challenges among SMEs. While output is being charged at GST rates as applicable, computing input credit, filing GST returns, getting previous service tax and excise offset/credit, among others, is a challenge. There will be inflationary pressure, inefficiency in cash management and allied costs, which will impose margin and liquidity pressure." Real estate players are now also insisting that vendors and suppliers furnish invoices.

Mahindra Lifespaces, for instance, says it has a framework in place which enables their vendors to comply, with support from designated professional agencies.

Sunil Sharma, VP-Marketing and CRM, Mahindra Lifespaces, points, "The automation of the credit mechanism is expected to enhance efficiencies for all stakeholders. We believe we are among the first few developers to have passed on this incremental benefit of Input Tax Credit to our customers."

The benefit, he says, "has been passed on to all existing customers of under-construction projects, who completed purchase in the pre-GST era, as well as to new customers in the wake of the rollout of GST."