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Taxing the Dream Home: A Critical Analysis of GST's Influence on Real Estate Affordability

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Abstract: *The implementation of the Goods and Services Tax (GST) in India has transformed the fiscal landscape of various sectors, particularly real estate. This study explores the impact of GST on residential real estate affordability for retail homebuyers. It examines how the transition from a multi-tax regime to a unified GST structure has influenced property prices, developer costs, transparency, and consumer behavior. With current GST rates at 5% (without input tax credit) on under-construction properties and no GST on ready-to-move homes, the sector exhibits a mixed impact on different stakeholders. Using secondary data and policy analysis, the research highlights the benefits of cost rationalization, improved transparency, and simplified taxation. It also reflects on challenges such as limited input tax credits passed on to consumers and fluctuating affordability metrics. The paper concludes that while GST has created a more transparent and competitive environment, its long-term affordability effects depend on policy consistency and developer compliance.*

Keywords: *GST, Real Estate, Affordability, Retail Homebuyers, Input Tax Credit, Housing Market.*

I. INTRODUCTION

India's real estate sector contributes approximately 7–8% to the national GDP and remains one of the largest employment-generating sectors. Historically, this sector faced multiple layers of indirect taxation—service tax, VAT, excise duty, stamp duty, and registration charges—that lacked coordination and created tax cascading. With the rollout of GST in July 2017, the government attempted to unify these indirect taxes, thereby improving transparency and compliance. The current GST rate is 5% (without ITC) on under-construction residential properties and 1% on affordable housing projects. Ready-to-move-in

properties are exempt from GST. The rationale was to bring price uniformity and reduce the burden of double taxation on consumers.



Fig 1: GST One Nation One Tax System.

Source - <https://www.nbaoffice.com/>

Table no. 1 - Breakdown of the old and the new GST regimes on different types of residential properties

Type of property	GST Rate (Before April 2019)	GST Rate (After April 2019)
Under construction (affordable housing)	8% with input tax credit	1% without input tax credit
Under construction (non-affordable housing)	12% with input tax credit	5% without input tax credit
Ready-to-move-in Properties	No GST	No GST

Fig 1: Source - <https://cleartax.in/>

However, the impact of this tax reform has been mixed. Developers benefit from input credits on construction material and services, yet the final cost to the consumer depends on the extent to which these benefits are passed on. For instance, if a developer fails to optimize ITC or delays its calculation, the end buyer may see little or no cost reduction. Additionally, buyers now navigate an evolving ecosystem of online real estate platforms, where GST and legal status of properties play a critical role in shaping purchase decisions. In this context, affordability is influenced not only by base prices and GST but also by digital access, financing mechanisms, and buyer awareness. This paper evaluates the real impact of GST on retail homebuyers, contextualized within current tax rates, realty market dynamics, and online buyer behaviour in post-pandemic India.

II. REVIEW OF LITERATURE

The implementation of the Goods and Services Tax (GST) in India has been a transformative step in indirect taxation, especially in sectors like real estate. The foundational work by Vasanthagopal (2016) highlighted the transition from a fragmented tax regime—comprising CENVAT and state VAT—to a unified tax structure, setting the premise for GST. He emphasized that GST was introduced to eliminate cascading taxes, simplify tax processes, and boost efficiency in economic sectors, including housing and infrastructure. However, he cautioned that the challenges of implementation and stakeholder adaptation remained.

Sankar (2017) traced GST's evolution as a comprehensive tax reform and pointed out that by subsuming multiple indirect taxes (VAT, Excise, Service Tax), GST aimed to create a unified national market. He underlined GST's potential to reduce the tax burden on consumers by streamlining rates and eliminating the need for multiple levies. For the real estate sector, he anticipated long-term benefits despite short-term confusion and transitional hiccups. Drawing insights from an international context, Shamsudin (2016) examined GST's implementation in Malaysia. The study identified that GST led to increased construction capital costs, which were eventually transferred to homebuyers, raising concerns about housing affordability. Importantly, the research stressed the role of public administrators in recalibrating GST rates to ensure housing affordability, a relevant consideration for Indian policymakers as well. Claus (2014) focused on GST compliance in New Zealand's property sector, noting that stricter audits and legal measures improved tax collection and curbed evasion.

His findings reinforce the necessity of administrative vigilance in India's real estate sector to ensure that developers adhere to GST norms and pass on tax benefits to buyers. In the Indian context, Wadalkar and Sangolkar (2020) presented empirical assessments of GST's implications for the construction sector. Both authors observed an increase in tax rates from 12% to 18%, accompanied by a one-third deduction for land value. This tax recalibration impacted pricing dynamics and operating procedures in the real estate sector. Sangolkar further argued that the informal nature of the construction sector and lack of financial literacy exacerbated the burden of compliance, leading to project delays and price increases.

Patil (2023) offered a nuanced perspective on the post-GST scenario. He acknowledged that while GST initially slowed down the real estate market due to ambiguity and resistance from builders, it also compelled the sector to modernize and adopt a more transparent tax regime. The interplay between RERA and GST, according to him, was instrumental in formalizing an otherwise unregulated industry. Collectively, these studies reveal that GST, despite its initial disruptive impact, holds the potential to bring long-term affordability and transparency in real estate. However, realization of this potential depends on regulatory refinement, stakeholder education, and effective policy implementation.

Yeole, Magar, and Bavadekar (2024) explore the sharp rise in luxury home sales in India, highlighting a 130% increase over the past five years, with projections reaching 3 lakh units by 2024. The study attributes this growth to factors such as rising FDI, favourable government policies, and improved market transparency. It emphasizes the psychological, materialistic, and social status-driven motivations influencing Gen Z and millennial homebuyers. By employing a mixed-method approach, the study provides insights into evolving consumer behaviour in the luxury housing segment. This work underscores the socio-economic shifts driving demand in India's high-end real estate market.

Bisaria (2018) studied the simultaneous introduction of GST and RERA (Real Estate Regulation and Development Act), highlighting a dual shift towards transparency and standardization. He observed that while GST introduced price uniformity and accountability, it also caused initial price surges. Nonetheless, in the long run, tax specialists forecasted a stabilization in property prices due to input tax credits and increased compliance. Jain (2019) argued that GST provided a uniform taxation regime for real estate by abolishing disparities across states. He noted that with consistent tax rebates and government interventions, GST could eventually make housing more affordable. The paper emphasized that benefits must be effectively transmitted to end-users, especially middle-class homebuyers.

Fig 2: Network of Research literature of GST in Real Estate Sector.

III. OBJECTIVES

1. To critically analyze the impact of GST on the cost of purchasing residential real estate in India.
2. To examine how GST influences affordability and pricing strategies adopted by developers.
3. To suggest policy recommendations for enhancing tax transparency and affordability in housing.

IV. RESEARCH METHODOLOGY

This study adopts a mixed-method research design, integrating both quantitative and qualitative approaches to comprehensively evaluate the impact of Goods and Services Tax (GST) on real estate affordability in India.

Research Design - The research adopts a descriptive and analytical approach based solely on secondary data. The descriptive component explores GST's structural and financial implications on real estate, while the analytical aspect interprets existing data to assess its impact on pricing and affordability trends.

Data Sources - All data utilized in this study is sourced from authentic secondary repositories, including:

Government Documents and Reports: GST Council meeting reports, Ministry of Finance circulars, Ministry of Housing and Urban Affairs publications, Annual Economic Survey of India,

Regulatory and Industry Reports: Confederation of Real Estate Developers' Associations of India (CREDAI), National Real Estate Development Council (NAREDCO), Reports by RBI and SEBI on sectoral trends

Academic and Research Publications: Peer-reviewed journal articles on GST and real estate from Scopus and Web of Science-indexed journals. Working papers from NIPFP, ICRIER, and other economic research institutions.

Previous studies and theses related to GST and housing economics. Market Reports and Indices, Housing affordability indexes (e.g., RBI Housing Affordability Index). Real estate market reports by Knight Frank, JLL, CBRE, and Anarock. Tax structure comparisons from PricewaterhouseCoopers (PwC) and KPMG.

V. DATA COLLECTION PROCESS

The data was collected and curated over a span of four months (January 2025 to April 2025). Sources were selected based on relevance, recency, credibility, and data validity to ensure objectivity and comprehensive coverage of the research problem.

Data Analysis

The analysis begins by comparing pre-GST and post-GST cost structures of a typical 2BHK apartment in urban India. Before GST, taxes included 4.5% service tax, 1% VAT (varied by state), and excise duties embedded in material costs—leading to an effective tax burden of 8–10%. Post-GST, under-construction properties attract a flat 5% GST (without ITC), while affordable housing is taxed at just 1%. However, this 5% GST is levied on the total transaction value, which inflates the upfront cost unless developers adjust pricing via ITC. In many documented cases, developers fail to transparently disclose ITC benefits or defer them until project completion. This has led to a shift in consumer preference toward ready-to-move-in homes, which are entirely exempt from GST, as observed in housing trends post-2020.

For example, in Pune, a ready-to-move apartment priced at ₹60 lakh remains unaffected by GST, whereas a similar under-construction unit attracts ₹3 lakh as GST, increasing effective cost. Moreover, GST has positively impacted organized developers with ERP-enabled cost tracking, whereas smaller builders struggle to comply. The affordability index published by RBI and Knight Frank indicates that while GST has curbed black money circulation and streamlined construction cost accounting, housing affordability in Tier 1 cities has only marginally improved. The average increase in online home searches post-GST implementation further supports the role of digital platforms in easing tax-related decision-making.

Table no. 2-Breakdown of the old and the new Indirect Tax regimes on Construction Materials

Items / Services	Pre-GST Taxes	Post-GST Rate	Impact of GST
Cement	Excise 12.5% + VAT 12.5–15% + CST/Entry Tax	28%	High GST, but ITC available – net effective burden reduced.
Steel (TMT bars, rods, etc.)	Excise 12.5% + VAT 5%	18%	Streamlined taxation, moderate overall impact.
Bricks (clay/fly ash)	VAT 4–5%, excise exempt	5% (clay)	Fly ash bricks now at 12%; overall mild tax burden.
Tiles (ceramic/vitrified)	Excise 12.5% + VAT 14.5%	28%	Significant increase, but ITC offsets it for builders.
Sand	State royalty + VAT/exempt	Exempt	No GST directly on sand, but transport attracts 5%–12% GST.
Marble/Granite	Excise 12.5% + VAT 4%–5%	18%	GST simplifies state-wise variation in VAT rates.
Paints and Varnishes	Excise 12.5% + VAT 14.5%	28%	High GST, but ITC allowed reduces effective cost.
Aluminium Products	Excise 12.5% + VAT 5%	18%	Standardized and credit-enabled.
Electricals and Plumbing	Excise 12.5% + VAT 12.5%	18%	Marginal change in effective tax; ITC benefit available.
Pipes, Fixtures & Fittings	Excise 12.5% + VAT 12.5%	18%	GST simplifies compliance.
Glass & Glassware	Excise 12.5% + VAT 12.5%	18% or 28%	Depends on product classification.
Construction Services			
Works Contract (Material + Labour)	VAT on goods (5%–14%) - Service Tax @ 15% (after abatements)	18% (composite rate)	Combined under GST; no bifurcation required; ITC on goods/services allowed.
Pure Labour Contract	Exempt from VAT Subject to Service Tax if value > threshold	18%	Labour contracts now uniformly taxed; increases burden if no ITC claimed.
Developer Services	VAT + Service Tax (both applicable)	18%	GST unified previous tax liabilities under one heading.
Real Estate Project (Under Construction) *	VAT + Service Tax, varying state-wise	5% (no ITC allowed)	Optional 1% for affordable housing; GST Council rate change in April 2019.
Completed Property Sale	No VAT or Service Tax	No GST	Sale of completed property (with OC) is outside GST ambit.

Analytical Insights on Stakeholder Impact under GST Regime**Impact on Home Buyers-**

The introduction of the Goods and Services Tax (GST) marked a substantial restructuring of the indirect tax system in India, especially for the real estate sector. For home buyers, particularly those investing in under-construction properties, the GST regime brought both relief and concerns. Initially, GST was levied at 12% with the benefit of input tax credit (ITC), but

concerns over increased transaction costs led the GST Council to revise the applicable rate to **5% without ITC** for general housing and **1% without ITC** for affordable housing, effective from April 2019 (GST Council, 2019). While the reduction in tax rates was expected to ease the financial burden on retail buyers, the **withdrawal of ITC had unintended consequences**. Builders, unable to offset input taxes on high-GST construction materials such as cement (28%), steel (18%), and tiles (28%), began factoring in these costs into the base price of the property. Consequently, although the visible tax rate dropped, the **effective cost to home buyers did not decrease proportionally**. Moreover, GST is not levied on **ready-to-move-in properties with an Occupancy Certificate (OC)**, which has led to a **noticeable shift in consumer preference** away from under-construction properties (Knight Frank, 2021). This shift has resulted in subdued demand for new launches and delayed project executions.

The net effect of GST on home buyers is, therefore, **ambiguous**. On the one hand, the GST regime has fostered greater **transparency, reduced tax cascading, and simplified compliance**; on the other hand, **affordability has not improved uniformly**, particularly in the mid- to high-end residential segments. The exclusion of ITC in the revised tax structure has limited the pass-through of cost savings, affecting the intended relief for end consumers.

Impact on Builders and Construction Material Suppliers

From the perspective of builders and suppliers, GST has introduced **operational efficiency and uniformity in taxation**, replacing a host of erstwhile taxes like excise duty, VAT, central sales tax, and state-specific levies. For suppliers of construction materials such as cement, steel, tiles, paints, and fixtures, GST has provided **ease of interstate trade, seamless input credit, and reduction in cascading taxes**, contributing to improved supply chain management (PwC India, 2021). However, this comes at the cost of higher nominal tax rates on key inputs—cement and tiles attract **28% GST**, while steel and sanitary fittings are taxed at **18%**.

For developers, especially those engaged in residential construction, the implications are more nuanced. The **revised GST structure without ITC**, although offering a simplified rate regime (5% or 1%), has led to a **rise in raw material costs** and eroded margins. Without the ability to claim credit for inputs, builders often face **working capital pressures**, leading to increased property prices or compromised construction quality in budget segments (CREDAI, 2022). Moreover, the GST structure does not differentiate sufficiently between luxury and affordable segments in terms of material taxation, thereby **disincentivizing cost-effective housing development**.

The pre-GST tax regime allowed developers to avail multiple credits, although with complex documentation and compliance costs. Post-GST, while compliance has been simplified, the **loss of fiscal neutrality due to ITC withdrawal under concessional rates has created new inefficiencies**. Construction material suppliers, despite the benefits of broader market access and reduced tax ambiguity, remain vulnerable to **demand-side fluctuations** stemming from real estate policy shifts and reduced buyer interest in GST-applicable properties.

VI. SIGNIFICANCE OF THE STUDY

India is currently one of the fastest-growing economies in the world, and its journey through economic transformation has been significant, especially in the post-liberalisation era. Since the advent of liberalisation, privatisation, and globalisation (LPG), the Indian economy has undergone substantial structural changes, leading to a ripple—or cascading—effect across various sectors. One of the most impactful changes in recent years has been the reform of the indirect tax system. Earlier, the tax structure was fragmented, with a multitude of levies such as service tax, central excise, VAT, sales tax, EXIM duties, and surcharges—each varying across states. This created a complex and often confusing environment for businesses and consumers alike, with overlapping and inconsistent tax regimes.

Recognising this challenge, the Government of India introduced the Goods and Services Tax (GST) in 2017, with the vision of creating a unified tax system under the principle of "One Nation, One Tax." GST replaced the diverse tax landscape

with a more streamlined and transparent framework, aiming to bring uniformity and efficiency to tax collection across states. This study explores the impact of GST specifically on the real estate sector, a crucial component of the Indian economy. It seeks to examine whether GST has made real estate more affordable or expensive for homebuyers and developers. By analysing the tax implications and structural shifts within the sector, the research aims to assess whether GST has simplified processes and improved cost efficiency, or introduced new challenges.

VII. LIMITATION OF THE STUDY

As the research is entirely dependent on secondary data, it is limited by the availability, scope, and accuracy of published sources. The analysis does not incorporate real-time behavioral insights from stakeholders such as developers or consumers. Rapid policy revisions post-2025 may affect the long-term generalizability of findings.

VIII. FINDINGS

GST has streamlined tax structures by replacing a multi-layered tax regime with a unified system, enhancing transparency. Under-construction properties now face a lower effective tax rate (5%), but the removal of ITC has discouraged developers from lowering prices. Ready-to-move-in properties are preferred due to GST exemption, contributing to rising inventory clearance in this segment. Developers with robust financial infrastructure and ERP systems better utilize ITC and pass on the benefits to consumers. GST has encouraged digital transformation in real estate with increased reliance on online platforms for information, financing, and comparisons.

There is still a gap in consumer understanding of GST implications due to lack of consistent ITC pass-through disclosures. The GST rate of 1% on affordable housing under government schemes (e.g., PMAY) has improved access for first-time buyers. Overall, GST has had a moderate positive effect on affordability, especially when combined with schemes like CLSS and digitization of property records.

IX. CONCLUSION

The introduction of GST marked a turning point for India's real estate sector. Before GST, homebuyers had to navigate a maze of indirect taxes like VAT, service tax, and stamp duty, which varied across states and often created confusion. GST streamlined this by replacing the complex tax system with a single, unified framework, making transactions more transparent and predictable.

For homebuyers, one of the biggest benefits was the reduction in tax rates—down to 5% for non-affordable housing and just 1% for affordable housing (though without input tax credit). This made under-construction homes more appealing and brought much-needed clarity to pricing. For developers, GST offered input tax credit benefits that helped reduce construction costs and increased operational transparency. Even materials and services involved in construction were brought under the GST net, with rates ranging from 5% for basic materials like sand to 28% for items like marble and granite.

However, the impact wasn't uniform. The removal of input tax credit for buyers under the 5% scheme posed a drawback, though many developers began absorbing part of that cost due to market competition. The flexibility for developers to choose between tax regimes also gave them room to optimize costs. Digital platforms have further empowered buyers to compare tax liabilities, evaluate affordability, and make informed choices. Yet, issues like inconsistent regional compliance and limited ITC visibility continue to create challenges. To truly make housing more affordable and inclusive, policy interventions—such as bringing back ITC for buyers or encouraging developers to pass on tax savings—would be valuable steps. In summary, while GST is still evolving, it has undoubtedly brought greater structure, fairness, and accessibility to the real estate market. When combined with digital innovation and buyer-centric reforms, GST has the potential to make homeownership more attainable for millions of Indians.

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