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# Explained: Why developers want GST relief on Joint Development Agreements and input credits

In the real estate sector, taxes can significantly impact the cost structure of projects, especially in large developments. One area where developers are particularly feeling the pinch is in Joint Development Agreements (JDAs) with landowners, where the absence of certain tax benefits—like the Input Tax Credit (ITC)— has become a pressing issue. Real estate developers are urging the government to reduce the Goods and Services Tax (GST) on such agreements, particularly as the cost of construction materials continues to rise. The current tax framework not only increases project costs but also limits the developers' ability to manage their profit margins, particularly in the affordable housing segment.

The issue came to the forefront once again after a recent meeting of the Group of Ministers (GoM) under the GST Council, failed to reach a consensus on providing any relief for developers working on JDAs. Developers argue that a more favorable tax regime could help ease the financial burden on them and, in turn, reduce the cost of housing for buyers.

What is a Joint Development Agreement (JDA)?

A Joint Development Agreement is a legal arrangement between a landowner and a real estate developer to collaboratively develop a property. In such deals, the landowner contributes the land while the developer handles the construction, marketing, and sale of the project. These agreements typically outline the profit-sharing structure, ownership stakes, and contribution from each party.

Under this structure, the developer usually pays a service fee or a share of revenue to the landowner. The JDA has been a common approach in India's real estate sector, allowing landowners to benefit from real estate development without having to invest heavily in construction, while developers get access to prime land for their projects.

What is the GST issue with JDAs?

Before April 1, 2019, JDAs were subject to an 18 percent GST on construction services, but developers could claim Input Tax Credit (ITC), allowing them to offset GST liabilities by using the taxes paid on inputs like construction materials. This system helped developers manage their costs more efficiently.

However, from April 1, 2019, the GST regime for JDAs changed. The new rates are 1.5 percent for affordable housing projects and 7.5 percent for non-affordable housing projects, but developers can no longer claim ITC under this regime. Without ITC, developers are left to bear the brunt of taxes paid on inputs, leading to increased costs and squeezed profit margins.

This is particularly challenging in a market where construction costs are steadily rising due to inflation, and buyers are price-sensitive. Developers are left with limited options: either absorb the additional costs, which cuts into their profit margins, or pass those costs onto homebuyers, making properties more expensive.

Why are developers seeking relief?

Developers argue that the current GST regime, particularly the lack of ITC, makes it difficult to control project costs, especially for large developments and affordable housing projects. Without the ability to claim tax credits on materials and services, developers face higher financial burdens, which they cannot easily recoup in competitive markets where price sensitivity is high.

KR Ramesh, Executive Director of Strategy & Corporate Development at Shriram Properties, said that higher taxes without ITC compress profit margins, especially in large-scale projects. "The lack of credit significantly adds to the cost burden, especially in larger developments, which may ultimately affect project pricing and margins," he said.

Niranjan Hiranandani, Managing Director of the Hiranandani Group, highlighted the contradiction between the government's goal of "housing for all" and the current tax regime. "On one hand, we have the Prime Minister's objective of housing for all, and the government is spending Rs 60,000 crore on interest subsidy, including on one crore urban houses. And on the other hand, we have the GST regime that is hampering that objective," he said. Hiranandani further called for a more holistic approach, urging that some relief or set-off for GST should be allowed.

The real estate sector has also raised concerns about the impact of GST on commercial projects developed under JDAs. Jayant B Manmadkar, CFO of Brigade Enterprises, pointed out that commercial real estate, which has been growing rapidly due to demand from global companies, needs clearer and more simplified GST regulations similar to those applied to residential projects.

What would GST relief mean for the real estate sector?

Experts believe that providing some form of GST relief—either through lower tax rates or the reinstatement of ITC—could have a positive impact on both developers and homebuyers. A reduction in taxes would incentivise developers to lower project costs, which could lead to more affordable property prices. In the current scenario, higher GST without ITC forces developers to factor in the extra cost when pricing their properties, making housing more expensive for buyers.

Abhilash Pillai, a partner at Cyril Amarchand Mangaldas, said that the high GST on JDAs, coupled with rising construction costs, could discourage buyers. "The high GST could discourage buyers, especially if they perceive the overall cost (including taxes) as excessive. Buyers are more likely to be price-sensitive in the current market conditions," he added.

Moreover, any form of GST relief could make projects more financially viable for developers, particularly in the affordable housing segment. This would align with the government's vision of providing housing for all, helping developers meet demand while maintaining profitability.

What's next for the sector?

While the recent GoM meeting did not yield any immediate relief, the real estate sector continues to push for a more favorable GST regime. Industry leaders are calling for a policy that balances the needs of developers with the government's broader objectives of boosting affordable housing and commercial real estate growth.

For now, developers will have to navigate the current tax framework while absorbing higher costs or passing them on to buyers. However, with continued pressure from the real estate sector, there may be further discussions at the GST Council level to reconsider the tax implications of JDAs and provide some relief to the industry.