

Pay more service tax on house costing over Rs 1 crore

The finance ministry has tightened norms for application of lower rate of service tax on construction, dealing a blow to buyers purchasing houses above a certain size or value.

The Central Board of Excise and Customs, the apex indirect taxes body, has issued new norms that restrict lower service tax to only those houses that cost below Rs 1 crore and have carpet area less than 2000 square feet.

Service tax at the rate of 12% will be applicable on 25% of the total value of the residential unit (effectively 3%) on properties that meet these conditions.

If a housing unit is either more than 2000 square feet carpet area or costs over Rs 1 crore then the tax will be levied on 30% of the total value, says the CBEC notification, raising the effective tax to 3.6%.

Commercial properties will continue to attract higher incidence of tax, irrespective of size and value. The move comes at a time when the construction and the realty sector is already confronting lower off take and piled up inventory. The CBEC had earlier allowed application of the lower rate if any of the conditions was met.

Experts say absence of a definition of what constituted carpet area complicated the matters further.

"The notification has been a subject of debate since it was issued. There is an ambiguity on the interpretation of the term 'carpet area' which is not defined in the law," said Pratik Jain, partner KPMG.

Jain said the move will hurt customers particularly in tier II cities.

All under construction residential houses will face the new norm. As many as 4.5-5 lakh homes are expected to be delivered in 2013, according to Property research firms Liases Foras and PropEquity as well as property consultancy CB Richard Ellis.

(Economic Times)