

GJA Learning.

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Impact of GST on Rental Properties.



GST on Rental property

Introduction

The Goods and Services Tax (GST) has introduced a unified taxation system across India, impacting various sectors, including the real estate industry. The taxability of rental income depends on several factors, including the nature of the property, the status of the landlord and tenant, and the purpose of the lease. It is crucial for property owners and tenants to understand these distinctions to comply with GST regulations and avoid penalties.

Applicability

As per the GST Act, the following activities related to land and building are considered taxable supplies and are treated as supply of services:

- ▶ Land given out on Lease, Tenancy, Easement or Licensed to occupy
- ▶ Building, whether commercial, industrial, or residential, when leased or let out either wholly or partly for business or commerce.

Renting of property is generally liable to GST and is treated as a supply of services under the GST Act.

Exemption

Certain exemptions exist under the GST Act for rental properties:

- ▶ Renting of agricultural land for farming activities is not subject to GST

- ▶ Rental income from residential properties used solely for housing is exempted from GST.

- ▶ Hostels and PG Accommodations are generally considered residential properties and may not attract GST unless used for commercial purposes.

- ▶ Registered religious or charitable trusts may get GST exemption on rentals if:
 - ▶ Room rent is under ₹1,000/day.
 - ▶ Shop rent is under ₹10,000/month.
 - ▶ Open area/community hall rent is under ₹10,000/day

GST Registration Requirement

A landlord is required to register under GST if:

Their rental income, along with other taxable supplies, exceeds the threshold limit of ₹20 lakh (₹10 lakh for special category states) in a financial year.

The rental income is from commercial properties or residential property rented for business purpose.

Compliances required

Landlords who are registered under GST must:

▶ **GST Invoicing:** Issue tax invoices to tenants, mentioning GST details

▶ **GST Payment and Returns:** File periodic GST returns and deposit the collected GST with the government

GST Payable under RCM on renting of property.

GST under Reverse Charge Mechanism (RCM) applies on renting of property in certain cases. If an unregistered person rents a commercial property to a registered person, GST is payable under RCM. Also, if an unregistered person rents a residential property to a registered person for business use, GST is payable under RCM. In both cases, the tenant pays GST directly to the government instead of the landlord.

VARIOUS SCENARIOS OF TAXABILITY

SUPPLIER (Landlord)	RECIPIENT (Tenant)	BASIS OF TAXABILITY	RESPONSIBILITY FOR PAYING GST	WHETHER ITC CAN BE CLAIMED
Registered person	Registered person	Forward charge mechanism	Landlord	Yes
Registered person	Unregistered person	Forward charge mechanism	Landlord	No
Unregistered person	Registered person	Reverse charge mechanism	Tenant	Yes
Unregistered person	Unregistered person	Not applicable	Not applicable	Not applicable

Input Tax Credit (ITC) on Rent Paid

Businesses renting properties may be liable to pay GST either under the Forward Charge or the Reverse Charge Mechanism (RCM), depending on the registration status of the landlord.

- ▶ Under Forward Charge, if the landlord is registered, they charge GST on rent, and the tenant (business) can claim Input Tax Credit (ITC) on the GST paid.
- ▶ Under RCM, if the landlord is unregistered and the tenant is registered, the tenant must pay GST directly and can avail ITC on that amount, provided the property is used for business purposes.

This ITC can be used to offset GST payable on the business's outward supplies, helping to reduce the overall tax burden.

Impact of GST on the Rental Market

The introduction of GST on rental properties has brought about a range of effects on the market:

- ▶ **Increased Compliance for Landlords:** Landlords earning substantial rental income are required to register under GST and adhere to regular return filing, increasing administrative responsibilities.
- ▶ **Encouragement for Residential Leasing:** Since renting residential properties for residential purposes is exempt from GST, it has encouraged more leasing in this segment
- ▶ **Cash Flow Considerations:** GST on rent must be paid at the time of transaction. Although businesses can claim it as Input Tax Credit (ITC), the time gap between payment and utilization may impact short-term cash flow.

Conclusion

GST on rental properties has significant implications for both landlords and tenants. While it streamlines tax compliance for businesses through mechanisms like Input Tax Credit (ITC), it can also increase the cost burden, particularly in commercial leasing arrangements. Understanding the GST provisions applicable to renting—whether under forward or reverse charge—is essential for maintaining compliance and avoiding potential legal complications. As real estate regulations and tax policies continue to evolve, staying informed and updated is vital for effective financial planning and seamless operational functioning in the rental market.

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