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# Impact Goods And Services Tax (Gst) In Construction Sectors

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## ABSTRACT

Tax system is back bone of economy of every country either direct tax or indirect tax. India is moving toward emerging economy in the world. Indirect tax plays vital role in Indian economy. India has recently adopted new GST model i.e., called dual GST model. It is unique model in the world. GST effected many sectors positive as well as negative side also. Construction sector is also big contributor in economy. Rate of GST changed in new GST era. Construction is not limited to work contract. It is wider term which includes construction industry, service provider who is involved in construction and related industries which indirectly support construction sector. GST changed whole scenario of taxation in whole economy system. GST is not only challenging for regulators but also for businessmen as well as consumer. This paper will emphasize impact of GST in construction sectors.

**Key Word.** Economy, Construction, direct tax, indirect tax, dual GST model, industries.

## INTRODUCTION

India has adopted new GST model on 01 July 2017. There was plethora of taxes in pre-GST era. Different state had different tax rate without input tax credit. Value added tax(VAT), luxury tax, etc were prevailed under old GST regime which have been subsumed under GST. Under old GST regime, state had their own legislation on GST which conflicted with other State as well as create problem in export and import of products. Value added tax imposed by state with different rate in different states. However numbers of products are still outside

GST preview due to higher rate than GST tax slab. GST bring out positive as well as negative result in many sectors. Construction sector is also a wider term under new GST era. Rate of GST also vary under new GST era. But overall positive impact of GST in Indian economy system. Still there is required more transparency in system. There is required refining in term of compliance, rate as well as understanding of law by consumers.

## **LITERATURE REVIEW**

As per Pheng, L. S., & Loi, C. P. (1994), in his study “Implementation of the goods and services tax (GST) in the Singapore construction industry” suggested that GST brought out clarity in construction section in term of tax on goods as well as services. There are many are taxes under construction sectors where goods are provided with services.

According to Dwikojuliardi, R. (2015), in his study “Malaysia and Construction Industry Present” suggested that GST in Malaysia reflected on construction sector. Compliance burden have been increased and standard rate of tax introduced either goods or services. Construction sector played important role in Malaysian economy system.

Rawal, M. H., Patel, T. J., Vishwakarma, V. V., & Vyas, M. A. (2018), in his study “Building Construction: Before & After GST” compared GST impact on construction sector after implementation of GST. Work contract has been clearly define under new GST law. Work contract treated as composite supply where both goods and service supply. Rate of tax increased under new GST regime but compliance burdened has been reduced.

According to Sangolkar, S. P., & Wadalkar, S. S. in his study “ Impact of GST on Construction Industry” suggested that GST rate varied with compared to earlier GST law. Study reveled that some product become cheaper and some product become costly after implementation of GST. Pre-GST law was not whiteness to compensate of input in all supply chain. Under new GST regime it has been removed.

Ramya, N., & Sivasakthi, D. (2017) in his study “GST and its impact on various sectors” revealed about impact of GST in various sector including construction sector. Study broadly stressed on every sector. Study is not limited to construction sector. Study suggested that GST brought out transparency in Indian economy system.

Pandey, M. K. (2020) suggested that work contract was not clearly define in pre- GST era. Rate of tax on goods as well as service were different in different state without input tax credit. How ever in new GST law work contract treated as a composite supply. However, rate of GST higher that pre-GST law on construction sectors which burden on consumers. Input tax credit was not prevailed under pre-GST era on some work contract. Further under inter-state trade there was not compensate of input tax between two states.

As per HISSAM, I. N. B. M. (2016) in his study “The Effect Of Malaysia Goods & Services Tax (GST) To The Construction Industry” suggested that number of sector effected after implementation of GST including construction sector. After implementation if GST rate of construction fall under standard rate i.e. is 6%.

Hu, X., & Liu, C. (2016) suggested in his study “Profitability performance assessment in the Australian construction industry: a global relational two-stage DEA method” Australian industries effected after implementation of new GST concept. However compliance burden have been reduce and brought out transparency between regulator and businessmen.

## **RESEARCH METHODOLOGY**

### **Research Design**

This is descriptive and exploratory study. Study collected data from secondary sources . study focus on construction industry with reference to pre GST and post GST regime Secondary data collected from paper publication, books, website, news paper and thesis. Study brought out broad concept of contract work under new GST regime.

### **Objectives**

1. To define construction sector under GST law.
2. To asses impact of GST on Construction industry.
3. To critical analysis between previous GST and new GST on construction sector
4. Futuristic recommendation .

### **Hypothesis**

Hypothesis for the said study made on the basis of objective which are:-

#### **Hypothesis 1**

H0: There is define construction sector under new GST law

H1: There is no define construction sector under new GST law

#### **Hypothesis 2**

H0: There is impact of GST on construction work.

H1: There is impact of GST on construction work.

#### **Hypothesis 3**

H0: There is change in indirect tax rate under new GST era.

H1: There is no change in indirect tax rate under new GST era.

## CONSTRUCTION SECTOR

### Work Contract under Pre-GST

Tax on work contract was existed in pre –GST regime. Value added tax (VAT) was applicable on Goods and Service tax was applicable on services which was different in different state. Further tax credit facility was not available at all supply point. States were not compensating tax credit in case if interstate trade. Work contract treated as service under pre-GST law and service tax levied on work contract at different rate in different states. On the other side material included bricks, iron, cement, wooden block, etc were under categories of Goods.

### Work Contract under New GST- Regime

There was confusion of work contract under pre- GST law. Now under new GST regime, it have been Clearfield that work contract have been restricted in immovable property. Supply of service and supply of Goods have been defined. Now this supply will be treated as composite supply under work contract. Rate of GST will be attract highest rate either Goods or services.

Tax on construction contract was also in pre-GST era as number of taxes imposed on goods and services. Construction sector is an important sector in which more than thirty million people involved directly or indirectly. In addition more than two hundred billion worth contributed in economy. In GST era, construction has been defined properly. Construction is a wider term which included building construction, fabrication, erection, fitting out, improvement, installation renovation etc. in new GST regime tax credit available as all point of supply.

### IMPACT OF GST ON CONSTRUCTION INDUSTRY

Pre- GST regime was witness of plethora of tax. There was not clearly provision of input tax credit in some state which lead to more cost on product. Construction sector was also venerable in pre- GST era due to multiple tax on same thing. However under new GST regime, all ambiguity have been removed. GST rate in construction sector are as under:-

Material	GST Rate
Sand	<ul style="list-style-type: none"><li>Asphaltic rock , oil shale/bitumioious,tar sand, natural asphaltites , asphalt-18%</li><li>Natural Sand -5%</li></ul>

Mica	12%
Bricks	5-28%
Cement	28%
Crushed stone	5%
Granite and Marble	<ul style="list-style-type: none"> <li>• Block- 12%</li> <li>• Not in Block -28%</li> </ul>
Steel and iron	18%
Building Stones	5%
Tiles	5-28%
Coal	5%
Wallpaper	28%
Paint	28%
Bathrrom and interior appliances	<ul style="list-style-type: none"> <li>• Pipeand tubes-18%</li> <li>• Other -28%</li> </ul>
Electric Appliances	28%

## **CRITICAL ANALYSIS BETWEEN PREVIOUS GST AND NEW GST ON CONSTRUCTION SECTOR**

Numbers of taxes were prevailed under pre GST law. Service tax was more hurdle in construction sector . It is worth mentioning here that after 1993 first time tax levied on few services and till 2013 all services were under tax. Construction sector was also not spare. But, there was not input tax credit as well not any benefit to supplier in supply chain. Under new GST regime construction sector has been define. Further there has been some works which are not available for input tax credit. When contract work with supply, it will be treated as composite supply.

## **FUTURISTIC RECOMMENDATION**

Construction sector is biggest contributor in Indian economy. as per financial year 2021-22 total contribution from construction sector was fifteen percent of overall contribution. In this way it is important for government that provided incentive in term of taxation. tax rate under new GST regime has increased which further burden on consumers. On the other side , rate of taxes was lower under pre- GST regime but there was not credit facility in some interstate trade which was more burden on consumers. There has been more compliance burden in new GST regime. Heavy penalties levied on supplier in case of non- compliances. However government remove some hurdle but still require to more refining in this sector.

## **CONCLUSION**

Study brought out concept of construction sector under new GST regime and compared it with old GST regime. Input tax credit was not available under pre-GST regime. Different state had different rule which increased compliance burden on supplier. Further cost of construction increased and become burden of consumers. Rate of GST under construction sector have increased as compare to old GST regime. But there has been benefit of input tax credit in all supply chain including inert-state trade. However GST council reviewed rate time to time. Construction sector is largest contributor in Indian economy. It is not only related to construction but also concerned with related services also. Government shall give more incentive for positive growth in construction sector.

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