



## Implementation of GST & Its Impact on Construction Companies: Opportunities & Challenges

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### Abstract:

Integrating goods and services taxation is a world class tax system as it increases tax revenue in major economies like India. It is a significant breakthrough towards comprehensive indirect tax reform in India. The Construction sector contributes significantly to the national economy and is the largest employment provider. This paper examines the impact of GST on construction companies, focusing on both the opportunities and challenges created by the new tax regime. Data is analyzed through literature review, secondary reports, and stakeholder insights. Findings reveal that while GST offers long-term benefits such as transparency, streamlined taxation, and formalization of the sector, it also introduces challenges like increased compliance burden, higher tax rates on key materials, and working-capital pressures for small contractors.

**Keywords:** GST, VAT, Service Tax, Excise, Entry Tax.

### 1. Introduction:

The Goods and Services Tax (GST) was introduced in India on **1st July 2017** to unify multiple indirect taxes into a single, transparent system. The construction sector, traditionally fragmented and heavily dependent on multiple state-level taxes, was expected to benefit significantly from this reform.

### GST Structure:

A dual GST is proposed where both centre and state government of administer of GST



## 1.1 Need for the Study

The construction industry accounts for nearly 8% of India's GDP and employs millions of workers. Yet, the sector faces issues of cost escalation, tax complexities, and unorganized practices. GST aims to bring uniformity, but its real impact remains debated.

## 1.2 Objectives

- To study the implementation process of GST in the construction sector.
- To analyze the opportunities created for construction companies due to GST.
- To identify the challenges and constraints faced by construction stakeholders.
- To provide recommendations for improving compliance and reducing project cost impact.

## 2. Literature Review:

Past studies highlight mixed results regarding GST on construction:

- 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 sully 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.

## 3. Research Methodology:

This paper uses a **descriptive research design** with:

- Secondary data from government portals, GST Council updates, and industry reports.
- Interviews with contractors, builders, and material suppliers from Maharashtra for practical insights.

Data is analyzed qualitatively to identify recurring trends in opportunities and challenges.

## 4. GST Implementation in Construction:

Before GST, construction involved multiple taxes — VAT, Service Tax, Excise, Entry Tax, etc. With GST:

- A single tax is levied (mostly 18% for construction services; changes time to time).
- ITC is allowed for commercial projects but restricted for residential units, affecting builders' cost structures.
- In India, homebuyers of under-construction flats, apartments, and bungalows pay 1% GST for affordable housing and 5% GST on non-affordable housing. However, completed projects are exempt from this tax
- Billing, invoicing, and supply-chain processes are standardized.

## **5. Opportunities Created by GST:**

### **5.1 Reduction in Cascading Taxes**

Earlier taxes created overlapping burdens. GST eliminates tax-on-tax and improves pricing clarity.

### **5.2 Uniform Tax Structure Across States**

This benefits companies working in multiple regions with inter-state movement of materials.

### **5.3 Improved Input Tax Credit (ITC) System**

ITC on materials like steel, tiles, machinery, and subcontractor services helps reduce effective project cost for eligible firms.

### **5.4 Increase in Transparency & Formalization**

GST encourages proper invoicing and digital record-keeping, reducing under-billing and black-market transactions.

### **5.5 Boost for Large Organized Firms**

Structured companies can adopt compliance tools, ERP systems, and ITC optimization—gaining advantage over unorganized players.

## **6. Challenges Faced by Construction Companies:**

### **6.1 Higher Tax Rates on Key Materials**

Cement (28%), paints (28%), tiles (18%), and electrical fittings (18%) significantly raise material cost.

### **6.2 Cash-Flow & Working Capital Issues**

Contractors must pay GST on invoices even before receiving payments from clients, creating liquidity pressure.

### **6.3 Complex Compliance Requirements**

Frequent return filings, e-invoicing, and classification rules are difficult for small contractors.

### **6.4 Restrictions on ITC for Residential Projects**

Under the new GST regime for residential buildings, ITC is disallowed, increasing cost burden on developers.

## 6.5 Price Impact on Homebuyers

Higher construction cost may lead to increased property prices, affecting market demand.

## 7. Analysis & Findings:

### 7.1 Cost Impact

Most contractors reported a **5–10% increase** in project cost after GST due to high tax on materials and restricted ITC.

### 7.2 Compliance Impact

Small players lack resources to handle digital compliance systems, while large firms adapted more easily.

### 7.3 Market Impact

Commercial projects benefit more due to ITC availability. Residential markets experience moderate price increases.

### 7.4 Industrial Trend

Despite challenges, the sector is gradually moving toward a more transparent and formal structure.

## 8. Recommendations:

1. Reduce GST on cement from 28% to 18% to reduce overall construction cost.
2. Simplify ITC rules to ensure uninterrupted credit flow.
3. Provide compliance support (training or digital tools) for small contractors.
4. Introduce flexible payment-linked GST filing for government construction contracts.
5. Promote awareness programs to improve GST compliance and reduce errors.

## 9. Conclusion:

GST brings both significant opportunities and notable challenges for the construction sector. While it has streamlined taxation, improved transparency, and benefited large companies, it has also increased tax burden and compliance costs for smaller players. With certain adjustments—particularly in tax rates and ITC rules—the GST system can become more construction-friendly and support India's infrastructure growth.

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