

Maharashtra to drop plan to impose 15% interest as penalty for VAT delay

Maharashtra finance minister Ajit Pawar has indicated that the state government will provide a waiver on 15% interest as penalty on value-added tax (VAT) levied on property transactions between 2006 and 2010, offering relief to thousands of harried home buyers.

The finance department has also said that VAT will be charged only on the cost of building material and not on the cost incurred on labour, engineering, architecture and construction services. An official announcement will be made only after September 8 since the election code of conduct is currently in force for the gram panchayat elections which will be held on the same day. "We have asked builders to collect VAT in the range of 1-5% from consumers and pay it to the government.

Since many builders have not paid the tax yet, the government, in its circular, has demanded that 15% interest should be charged as penalty. It is clear that for flats and properties bought after April 2010, the VAT is 1%," said a top official in the sales tax department.

A delegation of developers will meet Pawar on Tuesday to discuss the trade circular issued by the state government after the **Bombay High Court** struck down the petition filed by the builders' association challenging imposition of VAT on properties bought between June 20, 2006, and March 31, 2010.

While the court ruling will help the state collect close to Rs 1,000 crore from this tax, the government is likely to give some relief to consumers by waiving off the 15% interest, said officials in the finance ministry who didn't wish to be named.

With the builders demanding more clarity on what's the exact percentage of tax; buyers, who suddenly face the prospect of shelling out more money, are outraged by the decision. A finance ministry official also clarified that VAT is not on expenses incurred or services required during the construction of a property; it will be charged only on building material.

So, the cost of services can be deducted from the cost of property shown in the agreement, which is likely to reduce the taxable amount by about 30% for most flats and bungalows.

Meanwhile, builders have already started collecting VAT from flat buyers. Some developers have already created escrow accounts, received bank guarantees, and even taken written undertakings or commitments from customers. Therefore, they will be able to pay these taxes immediately. "Although VAT is 5%, the final amount effectively works out to 7-8 % because of the 15% annual interest and 25% penalty charges.

Few builders, who have already collected 5% from customers, will still have to pay a higher amount, which the customer may not agree to shell out. There are chances of a rise in litigation between customers, developers and the sales tax department," said Paras Gundecha, president of MCHI-CREDAI, a body representing developers in Maharashtra.

Customers are expected to pay a penalty charge of 25% if the tax is not paid on or before the deadline of August 31. Gundecha also requested the annual interest and penalty charge be waived off as there was a stay on the VAT order since 2007. According to tax experts, the immediate liability falls on developers, since they will have to pay the tax now and recover it from customers later.

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