

- ❖ ***If Proposed GST Tax rate of 18% is accepted, the vehicle prices are expected to decrease, Prices are expected to be more affordable and result will create demand,***
- ❖ ***GST will have positive impact on automobile sector, because of the efficiency and the removal of cascading and Input tax claim for excise."***

The current Indirect tax regime in India provides for a complex tax environment due to multiple taxes, lengthy compliance obligations and tax cascading effect. The automobile industry has its own complexity-longer investment cycle, development of vendors etc. The Indian auto industry is one of the largest in the world. The industry accounts for 7.1 percent of the country's Gross Domestic Product (GDP). Almost 13% of the revenue from central excise is from this sector and claims a size of 4.3% of total exports from India. Despite its contribution to the economy and growth potential, this sector has been combating the hardship of high tax rates for substantially a long period of time now with central excise duty ranging between 12.5% to 30% coupled with introduction of multiple cesses at revenues whims and fancies, most recent being infrastructure cess.

Even after high tax rates slab, industry has seen extensive litigations on VAT & Service Tax matter, valuation issues and many more.

Thus, introduction of GST shall be a Key Stake for this industry wherein taxes on vehicle are largely expected to be @ 18% in GST system except for luxury cars where the rate may go up to 28% plus luxury cesses. But still this rate of tax will be beneficial for this industry as full set-off of input credits will be made available in the GST system. Even the two percent CST will be an integrated GST (IGST) which will be fully creditable by the dealer when he sells the car in the other state. Automobile Dealer is the key stakeholder who will have large & positive impact. Dealers play a very important role in the growth of auto industry and any negative impact on dealerships shall have direct effect on the entire industry. Therefore, we should examine the impact of GST on Automobile Dealers.

One Market - The overall compliance burden is expected to decrease and bring lot more efficiency in system. From the Indirect tax prospective the whole country will be treated as 'One Market'.

Currently, Automobile dealers are paying following indirect taxes:

- ❖ **Service tax** Both as provider and also as receiver
- ❖ **Value added tax/Central sales tax** on Sale of Vehicle, Spares & Parts

In GST Tax System, Automobile Dealers will be collecting and paying:-

- ❖ Intra State Supply :- CGST and SGST
- ❖ Inter State Sale :- IGST

1) Impact on Input Tax Credit on various Taxes paid

Particulars	Present Tax System	GST System	Remark
Excise Duty	---Not Available---	---Credit available---	Have Positive impact & will reduce price
CST	---Not Available---	---CST will be removed--	Have Positive impact
NCCD			
Infrastructure Cess			
Auto Cess			
Swachh Bharat Cess on Input Service	---Not Available---	---Credit available as CGST/SGST/IGST---	Have Positive impact
CVD paid on import			
CCR of ST on Rent & other Exp used as trading activity	---Not Available---	---Credit available---	Have Positive impact & will increase profit

Since a dealer will be able to take the credit of goods lying in stock, the output tax cost would decrease. This additional benefit accruing to a dealer is expected to be passed on to the end consumer by way of reduction in prices which may be monitored by separate authority will be formed in GST System. Therefore, it is recommendation for the dealer to pass the additional input tax benefit to its consumers.

2) Impact on the Purchase costs of vehicle

Since around 17 taxes will get subsumed in the GST, therefore the procurement cost to that extent will come down as explained below:-

Purchase cost in the Current System

Type of Vehicle	Vehicle Cost	Excise (%)	CST (%)	NCCD + Auto Cess (%)	Infrastructure Cess (%)	Total Tax	Final Price
Luxury Car	50,00,000	27	1.1	2	4	17,05,000	67,05,000
SUV	20,00,000	30	1.1	2	4	7,42,000	27,42,000
Sedan	10,00,000	24	1.1	2	2.5	2,96,000	12,96,000
Hatchback	5,00,000	12.5	1.1	2	1	83,000	5,83,000
Bike	50,000	12.5	1.1	2	1	8,300	58,300

Purchase cost in the GST System

Type of Vehicle	Vehicle Cost	IGST	Cess	Total Tax	Purchase Cost in GST	Reduction in Purchase Cost
Luxury Car	50,00,000	28	2	1500000	50,00,000	-17,05,000
SUV	20,00,000	28	2	600000	20,00,000	-7,42,000
Sedan	10,00,000	18	-	180000	10,00,000	-2,96,000
Hatchback	5,00,000	18	-	90000	5,00,000	-83,000
Bike	50,000	18	-	9000	50,000	-8,300

- Since IGST and cesses shall be fully available as input credit in the GST System, therefore they will not included in purchase cost and can be adjusted from output.GST payable on sale of the vehicle.GST Rate & various other current tax rate are taken from various source like newspaper, article etc.

3) Impact on the Sale Price of Vehicle

Since, Purchase cost will reduced in GST and if the benefit of the same is fully passed on to the consumer by Company & Dealer, then it leads to increase in Sale

Type of Vehicle	Sale Price Current Regime			Sale Price in GST Regime		
	Price	VAT @ 14.5%	Total SP	Price	IGST @ 18% / 30%	Total SP
Luxury Car	69,73,200	1011114	79,84,314	5200000	15,60,000	67,60,000
SUV	28,51,680	413493.6	32,65,174	2080000	3,74,400	24,54,400
Sedan	13,47,840	195436.8	15,43,277	1040000	1,87,200	12,27,200
Hatchback	6,06,320	87916.4	6,94,236	520000	93,600	6,13,600
Bike	60,632	8791.64	69,424	52000	9,360	61,360

- Assuming Dealer has taken as 4 % as profit above purchase price.

It is seen from the above calculation that overall reduction in the purchase cost of the per vehicle ranges from 10% to 25% and if full benefit of such reduced prices is passed on to the end consumers then it will boost this sectors growth and must have largely positive impact due to introduction of GST.

4) Impact on Registration, Return and Accounting

- ❖ **Registration:** Dealers need to obtain separate registration for each state even if it pertains to the same dealership and covered under the same PAN. But dealer can opt for multiple registrations within the state for various dealerships.
- ❖ **Returns:** Compliance burden will be very high in the GST System as one has to file 37 Returns in one financial year for each registration apart from ISD returns. In case taxes are not paid by the vendors or if the returns are not filed by the vendors, then the credit of such taxes is denied to the customers. Therefore, timely payment of taxes, filing of returns needs to be ensured in the GST System.
- ❖ **Accounting:** Communication, flow of documents from all branches to H.O. should be before 10th of the subsequent month. Therefore, accounting department needs to be faster.

5) Some GST Negative Impact on Automobile Industry

- ❖ **Vehicle Transfers as Stock:** Transfer of vehicle to other place will be liable for GST if the transfer is in the course of inter-state trade. If there are separate dealerships of a dealer and separate GST registration number is obtained for each such dealership, then transfer of any supply between such dealerships will also be liable for GST. Whereas there is no CST/Tax on stock transfer
- ❖ **Free Service Coupon vouchers:** As per the time of supply rule, GST on such coupons needs to be paid immediately on the date of issue of such vouchers. As per the policy of some manufacturers, the amounts in respect of such coupons will be redeemed to the dealers only once the customer brings the vehicle for repair to the workshop. Whereas in present tax liability arises when actual service/material is supplied
- ❖ **Vehicle Advance Booking:** It is necessity in this sector to book vehicles in advance on payment of certain amount as token money. In GST System Tax has to pay on advance received for booking whereas Currently, VAT is not being paid on such advances as the same is payable at the time of sale of such vehicle.
- ❖ **Commission, warranties, and incentives:** Various commissions, incentives, reimbursements, warranty receipts etc. are received from manufacturer but Dealer don't pay taxes on these incomes on accrual basis as the same may or may not get approved by the manufacturer at a later stage. But in GST System there is no provision for receipt basis till now. Therefore, dealers will have to either get its system corrected with the bankers and company immediately to ensure GST implementation otherwise it would have to take the burden of taxes, whereas currently, many dealers are paying service tax on receipt basis for commission, warranties & incentives.
 - ❖ In GST System, dealers will have to pay GST initially on the entire value of the extended warranty receipts or road side assistance and can claim input tax credit at later stage. Whereas currently Service Tax is being paid only on commission element But,
- ❖ **Road Tax/ Environment Tax:** In the GST System, GST must also include Road Tax. GST model act states that no taxes shall be allowed as reduction from the value except CGST, SGST and IGST. Whereas Currently, Service tax or VAT is not paid on the Road Tax element.
- ❖ **Reimbursement of Insurance, Registration etc. as Pure Agent:** In the revised model GST Law, it is not stated whether GST is also required to be paid on the reimbursements. Automobile dealer collects various amounts from customers which are mere reimbursements and are paid back as pure agent to someone else such as:
 - ❖ Insurance
 - ❖ High Security Number Plate Charges

Currently, Service Tax is not paid on such values, if collected as a pure agent.

- ❖ **Post Supply Discounts:** Generally, dealers receive various discounts from its manufacturers based on targets, vehicles lifted, Special Customers [like CA, Doctor], Year-End Discounts etc. It is to note that post supply discounts will not be allowed as deduction from the value if the same is not linked to any invoice in the GST return.
- ❖ **Related Party/Sister Concern Transactions:** Transaction value can be rejected if the transaction is with any related party or if the same is with any of its other entity with separate GST No. Therefore, value in such cases will be calculated on the basis of valuation rules.

- ❖ **Transfer of Right to use of Car with accessories, handling charges:** Dealers charge various ancillary services such as insurance, extended warranty, accessories, logistics and handling, registration etc in addition to amount for sale of vehicle. It is important whether the entire transaction shall be classified as separate supplies or as a 'composite supply' or as a 'mixed supply' (new concept), which will create litigation at large scale.

[Views & Opinions Expressed are strictly personal]