GST IMPACT

On AUTOMOBILE INDUSTRY

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GDP RATIO – AUTOMOBILE INDUSTRY

- THE AUTOMOBILE INDUSTRY ACCOUNTS FOR 7.10 PERCENT OF THE COUNTRY'S GDP.
- WITH AUTOMOBILES BEING THE MODE OF TRANSPORTATION FOR PERSONAL PURPOSE & COMMERCIAL PURPOSE THIS INDUSTRY IN INDIA IS GROWING RAPIDLY.

CURRENT TAX LAWS & EXPECTED GST ON AUTOMOBILES

Segment	Excise	NCCD + Auto cess	VAT	Road Tax*	Total (Appx.)	CGST	SGST	TOTAL	Difference
Small Cars <1200cc	12.5%	1 % + 0.125%	12.5%	State based	28%	9%	9%	18%	**10%**
Mid-Size Cars from 1200cc to 1500cc	24.0%	1 % + 0.125%	12.5%	State based	40%	9%	9%	18%	**22%**
Luxury Cars>1500cc	27.0%	1 % + 0.125%	12.5%	State based	44%	14%	14%	28%	**16%**
SUV's >1500cc, >170mm ground clearance	30.0%	1 % + 0.125%	12.5%	State based	47%	14%	14%	28%	**19%**

*Delhi Individual Registration	Price up to ₹ 6 Lac - Petrol Cars - 4%, Diesel Cars - 5%
	Price between ₹ 6 Lac - 10 Lac - Petrol Cars - 7%, Diesel Cars - 8.75%
	Price > ₹10 Lac as Ex-showroom Cost - Petrol Cars - 10%, Diesel Cars - 12.5%

MERITS

- **Credit available for Non Adjustable Cess/ Tax as per Current Scenario** - The present levies such as NCCD and Automobile Cess which are out of credit mechanism would be abolished with introduction of GST. Thus, reducing the additional cost burden.
- **Uniform Rate of Tax across all the States -** The practice of rate-buying which means buying of a product from the state where less tax is levied as compared to other state would be stopped with introduction of uniform taxes across the country.
- **Credit available for Interstate Tax -** The interstate tax which is currently levied with no credit mechanism adds to the additional cost would now benefit from the introduction of Integrated Goods & Service Tax (I-GST) where credit would be available.
- **SBC on INPUT SERVICES** - Currently Input of SBC is not applicable, so loss of 0.5 %, In GST no such provision, 100% Input can be taken.
- **Reversal of proportionate CENVAT credit of service tax due to trading activity –** Now in GST no such reversal (Reversal only to the extent of Exempt Supply).
- **Vehicle prices -** At present, the excise duty for vehicles is divided into four slabs, in which the smallest tax rate is applicable to small cars. With GST implementation, taxes levied by the centre like excise duty and state levels taxes like sales tax, road and registration tax would all be subsumed into one. Assuming that the proposed tax rate of 18 percent is accepted, the vehicle prices are expected to decrease.
- **Inter State Business -** The overall compliance burden is expected to decrease and bring lot more efficiency in operations. From the Indirect tax prospective the whole country will be treated as 'One Market' and will add to operational efficiencies. One could expect the logjam at check post, etc. will get eliminated.

DEMERITS

- **Higher Cost of Working Capital (Dealers) –** Inter-state Vehicle/Parts Transfer will be liable for GST. Further, if there are separate dealerships of a dealer and separate GST registration number is obtained for each such dealership, then transfer of any goods/ services between such dealerships will also be liable for GST. This shall block the working capital as the taxes needs to be paid from own funds and collection of taxes will be at a later date only when such goods/ services are eventually sold.
- **Time of Supply for GST Payment –** Receipt of advance is sought to be treated as a taxable event. Considering the practice of 'cash & carry' followed by vehicle manufacturers and also the dealer network following advance for supply with its customers, the change in the timing of supply would result in significant changes in the cash flow, and also procedural changes for manufacturers and dealers.
- **Dealer Incentive Scheme -** Currently, dealer incentive schemes are not subject to VAT, but there are issues on applicability of service tax on dealers, depending on the terms of each scheme. The industry is of the view that these schemes are not an independent service by dealers to the manufacturers, but are in the nature of post-sale discounts. The GST Act does not provide as to whether these incentives or discounts are subject to GST.
- **Sale of goods/ service without any form of consideration -** Currently exempted from being taxed under VAT and Service tax.
- **Free services/ warranties** - Free services are not taxed under current tax laws. Under GST, the free services/ warranties would also be liable for taxation. Also as per the time of supply rule, GST on such coupons needs to be paid immediately on the date of issue of such vouchers.
- **Reverse charge –** Now in GST if a registered dealer is taking any type of supply from unregistered dealer than he need to pay GST under reverse charge, so increase in compliances & complexity.

COMPLIANCE ISSUES

VALUATION –

- **SALE OF CAR WITH ACCESSORIES, WARRANTY, ETC:**
- SALE OF VEHICLE ALSO REQUIRE/ INCLUDES VARIOUS ANCILLARY SERVICES SUCH AS INSURANCE, EXTENDED WARRANTY, ACCESSORIES, REGISTRATION ETC. VALUATION WOULD NOW DEPEND UPON THE CLASSIFICATION AS "COMPOSITE SUPPLY" OR AS A "MIXED SUPPLY". SO VALUATION REQUIRE SOLE PURPOSE OF TRANSACTION & ALSO REQUIRE SOME MORE CLARIFICATIONS FROM THE DEPARTMENT. IF EACH ITEM FALL IN SAME RATE SLAB THAN THERE WILL BE NO ISSUE OTHERWISE IN CASE OF "MIXED SUPPLY" HIGHEST RATE SLAB TO BE USED & IN CASE OF "COMPOSITE SUPPLY" RATE BASED ON ACTUAL PURPOSE OF SUPPLY TO BE USED.
- **SERVICING OF CAR -**
- VALUATION WILL DEPEND ON THE CORE PURPOSE. FOR EXAMPLE – SERVICE OF CARS INCLUDE SALES OF SPARES/ PARTS ALSO, BUT THE SOLE PURPOSE OF CUSTOMER IS SERVICING (WHICH IS NOT POSSIBLE WITHOUT SALE OF SPARES) SO THIS IS A COMPOSITE SUPPLY WITH THE PURPOSE OF SERVICING THE CAR.

TRANSITIONAL CREDITS:

- Point to remember that Credits can be taken for Inventory lying at the time of transition subject to some conditions such as –
- Proper records/ Documents,
- Availability of Invoices of that inventory (if proper excise invoice is not available with the dealer still a percentage (40%) can be taken as credit to transit its excise credit in the GST regime),
- Input should reflect in the last Returns (either Service Tax or VAT/SAD).
- Passing of Profit to customer because of Transition.
- Input not in excess of 12 Months from the date of applicability of GST.

OTHER PROCEDURAL REQUIREMENTS AND ITS IMPACT:

- **Registration:**
- Separate registration for each state even if it pertains to the same dealership and covered under the same PAN.
- Dealer can opt for multiple registrations within the state for various dealerships.
- **Returns:**
- For each Registration a minimum of 37 Returns in one financial year apart from ISD returns, if any required to be filed.
- Returns filed will be matched with the returns of the vendors/ customers. 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 regime.
- **Accounting:**
- Coordination/ communication, flow of documents from various branches to accounts department should be before 10th of the subsequent month.
- Therefore, accounting function needs to be more robust, live and automatic. As far as possible, a dealer must map its accounting framework with other processes in an ERP environment and therefore finance & accounts department needs to be better structured to cope up with the needs of the GST regime.

CONCLUSION –

- Overall the GST would be beneficial for the automobile industry with the government promoting domestic manufacture and taxing the high end cars with higher rate.
  As high-end automobiles imported would be charged by import duty which would not be subsumed in the GST.
- But need to closely review the impact of GST transition as there are some complex phases such as in case of Input of Inventory lying at the time of GST Implementation
- Anti-profiteering Measures will need to be reviewed.
- Implementation of GST would reduce the cost of manufacturing of cars due to the subsuming of different taxes levied currently.
  Reduction of Cost will lead to a major boost in demand of the Automobile Industry.

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- THANK YOU