Impact of GST on Automobile Industry

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About Automobile Industry:

The Indian auto industry is one of the largest in the world. The industry accounts for 7.1 per cent 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.

In GST, Automobile Dealers will be collecting and paying CGST and SGST (i.e. Central GST and State GST on intra-state sale of vehicles. Further, in case of inter-state sale of the vehicles, they will be collecting and paying IGST (i.e. Integrated GST, which is nothing but the summation of CGST + SGST). Impact of GST on various aspects is as examined below:

Impact on Credits:

Post GST, Automobile dealers are not able to avail CENVAT credit on the following indirect taxes paid by them:

- CST Paid on purchase of vehicle, spares, consumables, accessories and assets;
- Excise Duty paid on purchase of vehicles, spares, consumables and accessories;
- NCCD, Auto Cess and Infrastructure Cess paid on purchase of vehicles;
- CVD paid on any imported Spares, accessories and consumables;
- SBC paid on input services;
- Reversal of proportionate CENVAT credit of service tax due to trading activity – Showroom Rent, Advertisement expenses etc.

In GST, all the above duties/ taxes will get subsumed, therefore dealers should be able to avail the input tax credit of all its procurements of goods/ services except for few restrictions laid in the GST Law.

Impact on the procurement costs of vehicle:

All of the above taxes gets subsumed in the GST, therefore the procurement cost to that extent will come down as explained below in a tabulation format:

Procurement cost in the Post GST Regime:

Type of Vehicle	Vehicle Cost	Excise	CST	NCCD+Auto Cess	Infra Cess	Total Tax	Purchase Cost
Motor Cycles	50,000	12.50%	1.10%	2.00%	1%	8,300	58,300
Small Cars	4,00,000	12.50%	1.10%	2.00%	1%	66,400	4,66,400
Mid-size Cars	7,50,000	24%	1.10%	2.00%	2.50%	2,22,000	9,72,000
Luxury Cars	20,00,000	27%	1.10%	2.00%	4%	6,82,000	26,82,000
SUVs	16,00,000	30%	1.10%	2.00%	4%	5,93,600	21,93,600

Procurement cost in the GST Regime:

Type of Vehicle	Vehicle Cost	IGST	Cess	Total Tax	Purchase Cost in GST	Reduction in Purchase Cost
Motor Cycles	50,000	18%	–	9,000	50,000	**8,300**
Small Cars	4,00,000	18%	–	72,000	4,00,000	**66,400**
Mid-size Cars	7,50,000	18%	–	1,35,000	7,50,000	**2,22,000**
Luxury Cars	20,00,000	28%	2%	6,00,000	20,00,000	**6,82,000**
SUVs	16,00,000	28%	2%	4,80,000	16,00,000	**5,93,000**

Note:

Since IGST and cesses shall be fully available as credit in the GST regime, therefore they will not form part of purchase cost and can be set-off from output GST payable on sale of the vehicle.

Impact on the Rate of car:

Category	Engine	Post-GST	GST + Cess	Final	+ve/-ve
Under 4-metres	Under 1.2-litre Petrol	31.5%	28% + 1%	29%	Positive Impact
Under 4-metres	Under 1.5-litre Diesel	33.25 %	28% + 3%	31%	Positive Impact
Under 4-metres	Above 1.2-litre Petrol or 1.5-litre Diesel	44.7%	28% + 19%	47%	Negative Impact
Under 4-metres	Above 1.2-litre Petrol or 1.5-litre Diesel	51.6%	28% + 25%	53%	Negative Impact
SUVs	-	55%	28% + 29%	57%	Negative Impact
Hybrids	-	30.3%	28% + 25%	43%	Negative Impact
Electric Vehicles	-	20.5%	12% + 0%	12	Positive Impact

Impact on Working Capital

Following aspects will impact the working capital of the automobile dealers in the GST :

Vehicle Transfers:

Transfer of vehicle/ spares to other premises will be liable for GST if the transfer is in the course of inter-state trade. 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.

Impact on Working Capital

Free Service Coupon vouchers:

These coupons will be issued at the time of sale of the vehicle. 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. Therefore, dealers would have to pay tax on such coupons immediately on its issue but the said taxes can be collected from the automobile manufacturers only when the vehicle comes for the repair leading to unnecessary blocking of funds in taxes.

Vehicle Booking Advance:

It is quite common in this sector that the vehicles will be booked in advance on payment of certain amount as token. Earlier, VAT is not being paid on such advances as the same is payable at the time of sale of such vehicle. However, this luxury of holding advances without payment of taxes is clipped in the GST and taxes need to be paid on receipt of the booking advances also. Therefore, dealers either have to pay taxes on the advances out of its pocket or collect taxes extra even on the token advances.

Finance, Accounting, Costing, Legal Compliance, Tax Administration, IT, Training etc.

The areas of implication which could be favourable or adverse as well as the areas which would need lot of effort are:

(a) Overall reduction in cost but working capital requirement likely to go up. Continuation of quantum of Government incentives can be a concern for some OEMs.

(b) Current VAT accumulation problem at manufacturing locations (due to transfers to depots/ CST sales at 2%) will not be there but the problem may shift to depots and need close monitoring.

(c) Easier compliance in some matters e.g. no Section4A / Rule 10A valuation, no GAQ computation on stock transfers, lesser classification issues, no Forms collection, no issue of predetermined sale etc

(d) Extensive training – internal as well as external to Vendors and Dealers as they become partners in credit chain and any tax optimization efforts.

Impact on Valuation

Insurance, Registration etc. as reimbursements:

Automobile dealer collects various amounts from customers which are mere reimbursements and are paid back as it is to someone else. In other words, these amounts are collected merely as a pure agent such as:

- Insurance of the vehicle;
- Temporary/ Permanent Registration charges,
- High Security Number Plate Charges;
- Credit Card Swiping Charges etc.

In service tax is not paid on such values, if collected as a pure agent. However, at times dealer's charge adhoc amount to customers keeping certain margin on them above the actual amount incurred towards the same. In such a scenario, the provisions relating to Pure agent cannot come to their rescue and GST would need to be paid on the entire value received.

Impact on Valuation

Valuation of commissions

Post GST, in case of various commissions received from the manufacturers such as 'Extended warranty' or 'Road side assistance', Service Tax is being paid only on commission element. However, in GST regime, such tax treatment may not be acceptable and dealers will have to pay GST initially on the entire value of the warranty receipts and the amounts charged by the manufacturer can later be taken as a credit. Adoption of this would require tremendous costs and efforts especially in a scenario where dealers face lot of difficulty in tracking them from various reports/ automated databases of the manufacturers.

Impact on Valuation

Dealer of second hand vehicles

It has been explicitly provided in the valuation rules that where a taxable supply is provided by a person dealing in buying and selling of second hand goods then the value of supply shall be the difference between the selling price and purchase price and where the value of such supply is negative it shall be ignored. This shall very positively impact this industry as GST needs to be paid only on the difference value.

Bundling of Car with accessories, warranty, handling charges:

Automobile dealers charge amounts for Sale of vehicle and also for various ancillary services such as insurance, extended warranty, accessories, logistics and handling, registration etc. It shall be imperative for the industry to understand whether the entire transaction shall be classified as separate supplies or whether it has to be classified as a 'composite supply' or as a 'mixed supply' and GST would be levied accordingly

Price Effect

Hybrid Vehicles

In a distinct change in policy stance towards vehicle electrification, the government has levied the highest tax rate on hybrid vehicles, at par with more polluting sports utility vehicles, throwing a spanner in the plans of automakers.

Hybrid vehicles will attract total levies of 43% under GST (28% tax, 15% cess), more than smaller petrol and even diesel vehicles which would attract levies in the range of 29-31%. In comparison, pure electric vehicles have been bracketed in the 12% tax slab under GST.

Price Effect

Luxury Vehicles

Earlier credit of excise was not available to dealers..GST will resolve this issue.

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. And even from a procurement point of view, if there are interstate procurement we suffer today at 2 percent CST which is a cost to the manufacturer, that also will not happen because those interstate procurements will have an IGST in it which is again available as a full credit to the manufacturer if the credit rules are simple and easy.

The second efficiency could be also on the input side. A bigger, more easy credit mechanism so that all the taxes on the input side, whether it is input services, whether it is capital goods, whether it is manufactured products, are set off against the output liability of GST.

THANK YOU

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