

IMPACT OF GST ON INDIAN AUTOMOBILE INDUSTRY

¹Mr.S D Kharde,

Assistant Professor,IMERT,Pune.

Abstract: *GST also known as Goods and Services Tax. More than 150 nations have implemented GST so far. Goods and Service Tax or GST as it is known is all set to be a game changer in Indian Economy.However, there is a cry against its implementation. It would be interesting to study and understand its impact on Indian Economy. The paper will cover impact of GST on automobile sector in India. The comparison between previous tax policies and GST policy on auto Industry.*

Keywords: *GST, Automobile Industry, Indirect tax.*

The auto industry is greatly looking forward to see the impact of GST. In this article, we will be looking into the impact due to GST on different variants of cars manufactured and sold in India. We will also highlight the present tax structure within the automobile industry.

Tax Rates

The tax rates on inputs and outputs should be fixed considering the pattern of input purchase and output sales which varies significantly. This has implications for the input tax credit. While manufacturing of vehicles takes place in few states with supply to other states (local sales account for less than 10% of total domestic sales), majority of components (around 70%-80%) are procured from vendors which are within the state. If tax rate of inputs is more than the tax rate at the time of supply of complete vehicles (Completely Built Units), then refund would arise. Hence, in order to avoid that, it is suggested that Uniform tax rate should be charged on complete vehicles (whether by way of sale or by way of transfer) and inputs, against which input credit should be allowed. Tax that is paid on complete vehicles on movement from the factory should be made available as input credit to the vehicle dealers.

State wise break-up could be given by manufacturers periodically to respective state governments who may settle it through appropriate clearing house mechanism.

Considering the current level of taxation, a suitable tax rate may be adopted. Tax rates should be uniform across the states and there should be one authority to which payment would be made by way of one challan.

Tax Base and Levy

Goods and Services should be classified on the basis of HSN and GATTS (at both central and state level). For taxation of both Central and State GST, a common base should be adopted. Under the present taxation system, interstate sales tax and local sales tax is levied on excise duty in respect of the manufactured goods resulting in cascading of taxes.

In case of non-sale, where transaction value of goods or services is not determinable and when GST is charged, a simple mechanism of valuation could be adopted on the basis of cost.

It is suggested that, under GST, the basis of tax credit should be on 'Cost to Business', i.e. any tax which is paid and forms cost to business should be allowed as tax credit both at the central and state level. The document based credit should also be dispensed with and could be substituted by appropriate certification by independent Chartered Accountant (or the Appointed Company Auditors). The same could be subject to appropriate audits by the trained offices of government and could be IT enabled. Diesel and motor spirit should be bought under GST with input tax credit and mechanism to avail the same. VAT on diesel and motor spirit constitutes a significant element of cost for the transport industry. It is suggested that the total chain of input credit should remain unbroken and hence, all inputs should be treated equally for the purpose of allowing input credit.

Others

It is unknown whether the stock transfer would remain exempted from tax in the proposed GST system (at present, sales tax is not levied on Stock Transfer) or it would be made taxable in the importing state; the industry needs to understand the treatment of stock transfers for the purpose of input tax credit.

No distinction should be made between input and capital goods. Presently, definition of Capital Goods under Central excise law and state VAT is not uniform. Under state VAT, definition of capital goods and also the rate of taxation vary from state to state. As regards periodicity of taxing credit, excise and VAT laws differ. In respect of existing exemptions having sunset clause, appropriate transitional provisions should be introduced to ensure continuity of existing benefits. A clarification is needed on how the existing sales tax benefit schemes for eg. Loan, deferral would be affected.

The State Goods and Services Tax Act, State GST Act should be a common ACT implemented by all the states and Union Territories (similar to present Central Sales Tax Act) covering transactions related to goods, services and exports.

Concept of 'Tax Invoice' should be continued for availing state GST credit.

To ensure viability of EOU under severe competition, timely refund of tax is needed. For smooth operations of EOUs, effective refund system should be in place. Currently, EOUs are eligible to get refund of CST on interstate purchase of inputs used in the production of export goods and local VAT content of the export product is allowed to be deducted against the DTA sales and the balance, if any, is allowed as refund. Under a

dual GST structure (a Central GST and a State GST), there could be a situation where the Input Tax credits which remain unutilized would be refunded to assesses. Since the cross utilization of credits between dual GST are not permitted, there could be a situation of payment on the one hand and a refund situation on the other. To avoid this situation, cross utilization of input tax credits should be allowed. Procedural changes should be notified in advance. The industry should be given 6 months lean time before introduction of GST.

State specific incentives should be protected under GST.

Vehicle makers, at the moment, are exposed to Central Excise Duty, Service Tax, Value added tax and Central Sales tax. In addition to this, recent cess such as Swachh Bharat and Krishi Kalyan cess is added on final customer. This end customer taxation burden can range anywhere between 20-40%, depending on the type of vehicle.

Taxes to be covered/subsumed

- Domestic indirect taxes of all types should be subsumed in the proposed GST, as suggested by Kelkar Committee. This should include Road Tax/Motor Vehicle Tax also.
- After the introduction of GST, no additional tax should be introduced/levied. A provision to be made in the law that no new levy or tax be introduced.
- Any change, if required, in future (for specific needs like calamity, education, infrastructure, etc.) should be done through modifying the rate of taxation under the GST regime and not through any additional levy/ tax/cess, etc.
- Bring in used vehicle trade under GST framework with a token levy to make the used vehicle trade more organized.
- Substantial annual revenue to the exchequer will be provided by 1% GST rate.

Vehicle Category	Excise Duty
Small cars	12.5%
Length >4m but engine capacity less than 1500cc	24%
Length >4m and engine capacity more than 1500cc	27%
SUVs/MUVs (length >4m, engine capacity >1500cc and Ground clearance >170mm)	30%
Hybrid cars	12.5%
Specified components of Hybrid vehicles	6%
Electric cars, Buses, 2W & 3W	6%
Specified components of Electric vehicles	6%
Buses	12.5%
Trucks	12.5%
Three wheelers	12.5%
Two wheelers	12.5%

Presently, in the regime of indirect taxes, vehicle makers are getting exposed to Central Excise Duty, Service Tax, Value Added Tax and Central Sales Ta. Once the GST is implemented, all these Taxes could get absorbed in the GST itself, making taxation a much simpler process to understand and implement. Add to this various cesses such as Swachh Bharat and Kishi Kalyan and the end-consumer's taxation burden can range anywhere between 20% to more than 40%, depending on the vehicles classification and size. Excise Duty for sub-four meter cars is pegged at 12.5% but when ads up all the other taxes and cesses, the figure is in the 25% mark.

Let's take an example from the carmakers end as well, wherein a plant makes cars in one state and a majority of the total production is sold outside the state of origin. Hence, the carmaker ends up paying Central Sales Tax, which after the implementation of GST wouldn't be there as indirect taxes such as Central Sales Tax will be absorbed by GST.

Yadvinder Singh Guleria, Senior Vice President, Sales & Marketing, Honda Motorcycle & Scooter India Pvt.Ltd.also voiced a positive statement, saying "The GST rate and other terms of the tax are yet to be finalized. However once implemented, we expect the effective tax rate to come down (from the current 28 -35 % taxation rate as the two wheeler sector faces as many as 13 different types of taxations).The new simplified and uniform tax structure will reduce the cascading effect of tax over tax, provide a 360 degree ease of doing business for the complete automobile ecosystem.

Tax Impact Before and after GST on different Vehicles:-

Sr. No.	Segments	Current Taxes				GST			Vehicles
		Excise	VAT	CST	TOTAL	State	Center	TOTAL	
1	Small Hatch back	13%	14%	3.2%	29.7%	9%	9%	18%	Alto,i10,Beat etc.
2	Mid Size/Sedan	24%	14%	2.1%	40.1%	9%	9%	18%	City,Vento etc.
3	Big /Luxury cars	27%	14%	2.1%	43.1%	20%	20%	40%	Altis,Cruze etc
4	SUVs/MUVs	30%	14%	2.1%	46.1%	20%	20%	40%	Creta,safari etc.

The recent development in the politics and popularity of GST will ultimately see the light of the day. With the consensus being built between center and state government there is a high probability that GST reform will be active by 2017. Till date 16 states has already rectified and had given approval to implement GST. GST will be a game changer for India economy by forming a common market structure and by reducing the cascading effect of tax on the cost of goods and services. One of the biggest beneficiaries of GST, which it will absorb all the taxes.

Apart from the center imposed taxes, the other major chunk of taxation comes from state imposed value added tax (VAT) that ranges between 12 -14.5 per cent.

Impact of GST on Automobile Industry

Which car segment would gain from GST?

It's difficult to draw conclusion about the gainer. But from the data received and expert opinion there are some car sectors which can be benefited from GST. In this the biggest gainer would be the customer planning to buy vehicle in small and mid size segment. The taxes on mid size cars such as Honda City, Ciaz, VW Vento, Vitara Brezza etc will come down extensively to the extent of 22%. That's a good reason to cheer. But on the other hand the negative point can be, the state government can increase the road taxes to compensate for the loss in revenue because of reduction in VAT from 14% to state GST 9%. But still the small and medium segments buyers will be able to gain, but marginally less i.e. 5%.

Government's Intention on GST

As the Constitution Amendment Bill for GST was passed in the Rajya Sabha on 3 August 2016, the Government of India seems committed to replace all the indirect taxes levied on goods and services by the center and states and implement GST by April 2017.

Once GST comes into force, small cars that the government wants to promote are likely to see 18 to 19 percent tax rate. That means a reduction of at least 7-8 percent tax on cars like Alto, Kwid, Eon etc. All sedans and other entry level SUV's will fall under this category. This category will actually see a steep tax reduction. The least advantaged category will probably be a relatively steep 40 percent slab that will apply only to luxury and imported cars.

References:

- [1] GST India (2015) Economy and Policy.
- [2] Mehra P. (2015) Modi govt.'s model for GST may not result in significant growth push. The Hindu
- [3] Garg, Girish (2014). Basic Concepts and Features of Goods and Services Tax in India. International Journal of Scientific research and Management, 2(2), 542-549
- [4] Kumar, Nitin (2014). Goods and Services tax in India. A way forward. Global Journal of Multidisciplinary Studies, 3(6), 216-225
- [5] The Institute of Companies Secretaries of India (ICSI) (2015). https://www.icsi.edu/Docs/website/GST_referencer.pdf
- [6] <http://www.usstaad.com/Blog/news-reviews/impact-gst-car-prices/http://www.financialexpress.com/auto/car-news/how-gst-will-affect-your-next-car-purchase-maybe-you-shouldnt-buy-one/338906/>
- [7] <http://www.siamindia.com/economic-affairs.aspx?mpgid=16&pgid1=18&pgidtrail=21>