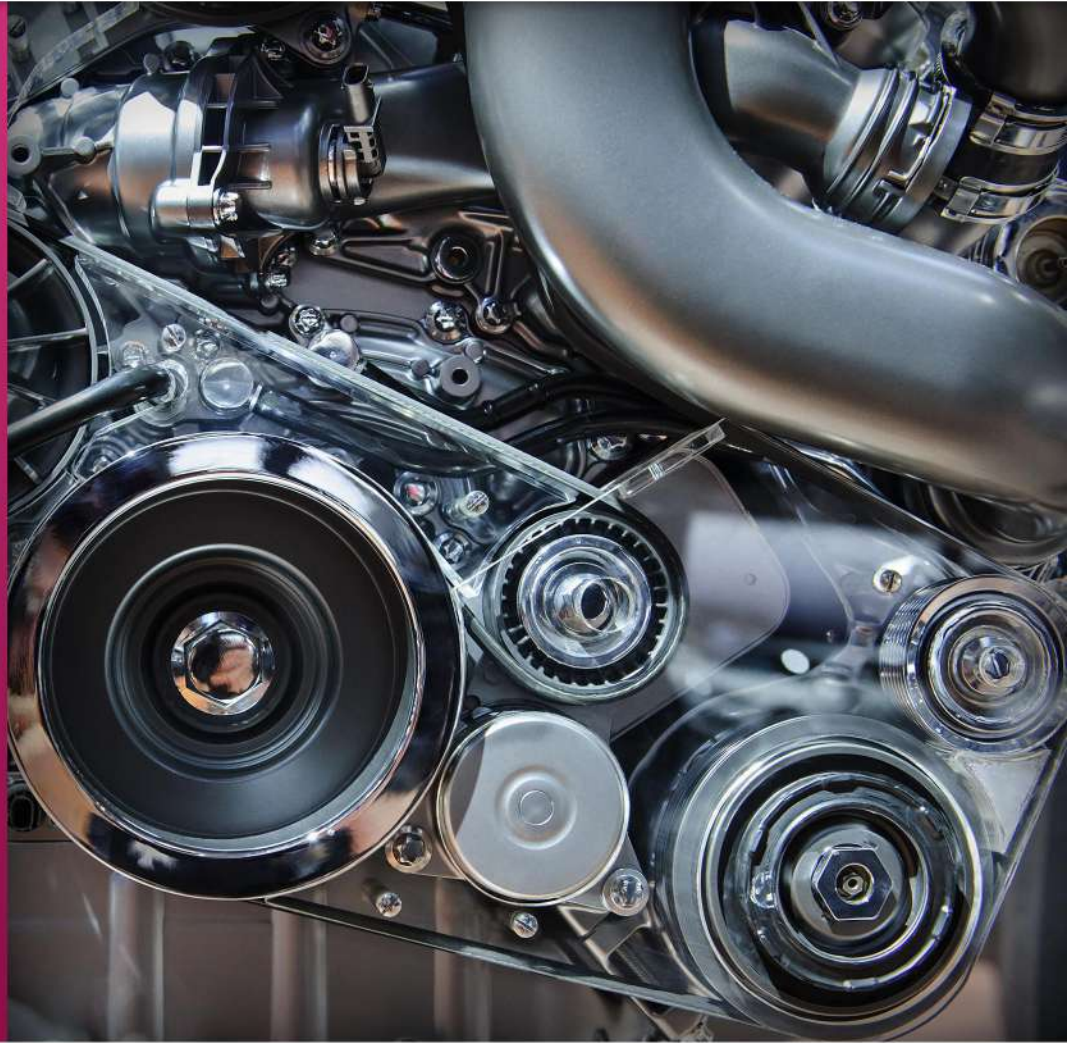


Helping Automobile Companies Gear Up for GST



The proposed GST regime is welcome news for the automotive sector primarily because of the increased efficiency and the removal of cascading. For instance, in this sector 80 percent of the cars manufactured in a certain state are sold to dealers outside it. Say, from Pune to Mumbai. How will GST benefit your business then?

- The two percent Central Sales Tax (CST) that you pay will not be there because GST is a destination-based tax, not an origin tax. 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.
- From a procurement point of view, interstate procurements won't invite a 2 percent CST as a cost to the manufacturer anymore. They will be charged an IGST that's available as a full credit to the manufacturer.
- The other big efficiency will reflect on the input side. An easier credit mechanism so that all the taxes on the input side, whether it's input services, capital goods or manufactured products, can set off against the output liability of GST.

Impact Of GST

Particulars	Pre-GST	Post-GST
Rate of Tax	Currently, passenger cars attract different Excise Duty rates depending upon the length of vehicle, cubic capacity etc – this varies from 12.5 % for hatchbacks below 1200cc to 30% for SUV; Average rate of VAT on sale of motor vehicle is around 14%	Recommended standard rate of 18% and 28% for luxury cars.
Pre-owned car sales	Currently, used cars sold in the market only attract VAT, and in some States at a composite rate.	No clarity on rate of GST on used cars. Further, the treatment of GST in case of exchanged cars remains unseen.
GST on advances	Excise or VAT is not applicable on advances received towards supply of goods.	It is proposed to levy GST on advances as well. It is likely to impact booking amount collected by dealers against sale of cars.
Treatment of State Incentives	Many auto OEMs/Component makers have been granted investment linked incentives by respective state governments. Significant part of incentives are in the form of subsidies /interest free loans linked to gross or net VAT/CST payable on sale of manufactured goods.	Potential adverse impact where benefits linked to CST. No clarity on mode of continuation of such benefits post implementation of GST in a manner wherein expected ROI is maintained.
Free services/ warranty replacements	Services without the consideration were not taxable.	As per the GST law, GST shall be applicable even on free supplies made by one taxable person to another. This implies that in case of free services provided by dealers to transporters, corporate customers etc. Similar impact likely for free warranty replacements supplied by OEMs to dealers, or in case of free accessories provided along with the vehicle such as seat covers, car covers etc.
Increase in credit pool for traders	Currently importers are ineligible to claim credit of CVD. Similarly, dealers are not eligible to claim credit of excise duty paid by OEMs (original equipment manufacturer)	GST paid on imports as well as GST charged from the dealers by OEM will be fully creditable. Also, credit of service tax component on service procurement would be available.
Valuation of Stock Transfer	Currently, on stock transfer of goods from factory, excise duty is payable. However, no VAT/CST is paid.	Under GST, for inter-state stock transfer, IGST will be required to be paid. The valuation of stock transfer could be a challenge.

Particulars	Pre-GST	Post-GST
Ambiguity in cesses	There are various cesses which are applicable on automobiles such as Auto cess, NCCD, Infrastructure Cess etc.	While the object and reasons clause of the Constitution Amendment Bill specifically mention that cesses leviable on supply of goods or services are to be subsumed, in the Model GST Law, statutes imposing cesses are not proposed to be repealed.
Impact on Logistic Cost	Many Indirect taxes like entry taxes are levied while carrying goods from manufacturer to dealer which results in adding cost at every stage.	With only one tax to be paid, movement of goods is expected to become easier.