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GST and automotive sector in India: Issues and challenges addressed so far

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Abstract---Being one of the major financial reforms, GST has impacted almost all the major and minor sectors of our economy. It has come out with both the sides of a coin, that is, along with the advantages it has put forward a number of challenges and issues before different industries, which are still tackling the problems with respect to GST mechanism. Goods and Services Tax is a sole outstanding tax mechanism built on the nucleus of 'one nation one tax'. Guarded by innumerable legislative, political and technical hurdles, the giant tax structure came into effect on 1st July 2017. With the advent of GST, the Automobile Industry has benefitted to a considerable extent but is also faced with a number of technical and other challenges which will be discussed in this paper. This paper will focus on the brief introduction of the Goods and Services Tax, Indian Automobile Industry and will analyse the positive as well as negative aspects and impact of GST implementation with respect to Automobile Industry in India.

Keywords---GST, input tax credit, automobile industry, job works.

Introduction

Before 2017, India was regarded a hub of indirect taxation where multiple tax rates were imposed on different goods and services. The implementation of GST has given a simplified version of the complex indirect taxation system which has not only reduced the compliance cost of tax administration but has also provided long run benefits for the development and prosperity of those industries which are the major growth drivers of our Indian economy. Keeping note of this point, this paper will present the issues and challenges which have been faced by the automobile industry in India and also the significant changes that has taken place in pre and post GST implementation with respect to Auto sector.

The Financial Year 2016-17 witnessed a major change in the history of Indian taxation system when the Finance Minister, Mr. Arun Jaitley announced the implementation of a unified tax rate in the form of GST in the country. The first proposition of GST was made by the Prime Minister Late Shree Atal Bihari Vajpayee in the year 2000. Overcoming all the criticism and hurdles, the Constitutional Bill of 122nd Amendment was passed in the year 2014 to introduce GST in the country, which was ultimately passed by the Parliament on 8 August 2016. GST is a value added, consumption based taxation system which has evacuated the entire tax payers including all the businessmen and traders to a different level of taxation environment. While subsuming the entire family of indirect taxes, GST can undoubtedly be called as the mother of Indirect tax. Before the implementation of GST, India was having more than a dozen of indirect taxes which were very complicated for all the parties, to pay, administer and manage.

One of the main objectives behind GST implementation was to remove the cascading effect of tax and to bring uniformity and transparency in the taxation system across the nation. To fulfil the objective, this new taxation mechanism provides the facility of Input Tax Credit or ITC, where the tax paid by the manufacturers and traders on the materials and inputs are claimed back which equalize the amount of tax to be remunerated on the goods and services supplied. With this facility, the ultimate amount of tax is paid by the consumer of the goods and services which not only reduces the tax burden of the business class but also diminishes the cost of the product and hence, the consumer also pays less for the goods or services purchased.

GST can be mainly classified as-

- Central Goods and Services Tax (CGST)
- State Goods and Services Tax (SGST)

Both of the types are self explanatory as the name suggests. The former comes under the charge of Central Government and the later is administered and managed by the respective State Government. Apart from the above two, Integrated GST (IGST) and Union Territory GST (UTGST) are also in force. Being one of the major financial reforms, GST has impacted almost all the major and minor sectors of our economy. It has came out with both the sides of a coin, that is, along with the advantages it has put forwarded a number of challenges and

issues before the working section of different Industries which are still tackling the problems with respect to GST mechanism. Among such Industries, the Automobile Industry is also facing the pros and cons of GST implementation. In the past few years the Auto sector has emerged as one of the fastest growing sector of the Indian Economy and it has shown marked contribution towards the overall exports and production in the country. The Government has set many plans and is looking positively for the progress, development and assistance of this Industry. With the advent of GST, the Automobile Industry has benefitted to a considerable extent but is also faced with a number of technical and other challenges which will be discussed in this paper.

Review of Literature

- Prof. Dr. Vijayalakshmi Srinivas and Prof. Prasad Ghodke (2020) studied, “GST- Awareness, Perception and Practical Difficulties of Entrepreneurs in the Unorganized Sector of Beed district” and found that most of the entrepreneurs in the unorganized sector are not aware about the GST Structure and they are not satisfied with the implementation of GST and because of this they have negative perception about this taxation system. Most of the difficulties they are facing are due to the lack of knowledge and awareness regarding the working of GST mechanism.
- Sudipta Chakraborty (2018) studied, “Effects of GST on MSMEs and its impact on GDP Growth of India- A Study” and found that these sectors have faced two fold consequences right from the time when the Indian Government has announced the New Tax Regime till the post implementation period. In the initial stage, it was very difficult for the small and medium entrepreneurs to cope up with the challenges put forth by the GSTN but after the continuous initiatives and financial support by the Government and financial institutions the MSMEs have shown signs of improvement and progress.
- Dr. S. Gautami (2018) studied, “Effect of Goods Services Tax on Micro Small Medium Enterprises in India” and explored the level of awareness among small business entrepreneurs on GST. As per the study conducted, majority of the respondents were aware about the GST mechanism and that there exists a positive relationship between the business size and awareness level. The entrepreneurs have agreed that they would face serious issues and problems which have arisen because of the implementation of GST.
- Akshara Mahesh and Karthika k. (2018) have studied “Impact of GST on Automobile Industry in India” and concluded that major reduction has been noticed in the prices of luxury cars which will boost up their sale, however, the result is not so in case of small cars. The authors have concluded that GST will be beneficial for the automobile sector in the long run.
- Dr. V.R. Nedunchezian, Mr. Sridhar Babu (2018) analysed the impact of GST with perspective of small business stakeholders and focussed on the teething issues of GST such as complex filing procedure, lack of knowledge regarding technological procedures among the small and medium business stakeholders need to be eased and resolved by the Government so that, it could trigger more regular filings as well as acceptance from the small business stakeholders.

- S.D Kharde (2017) studied “Impact of GST on Indian Automobile Industry” and found that customers who would buy small and mid size segment vehicles will gain the most among all the different segment buyers.
- Pooja Jha and F.B Singh (2017) studied “A Study on Implementation of GST and its Repercussion on Indian Automobile Sector” and found that GST regime has a positive outlook for the Automobile Industry in terms of improved efficiency in road logistics and reduction in the prices of small cars and two wheelers but focus should be maintained on proper administration of GST and issues resolution.

Objectives of the Study

- To study the positive impact of GST on the Automobile Industry.
- To understand the problems and challenges faced by the Automobile Industry after the implementation of GST.

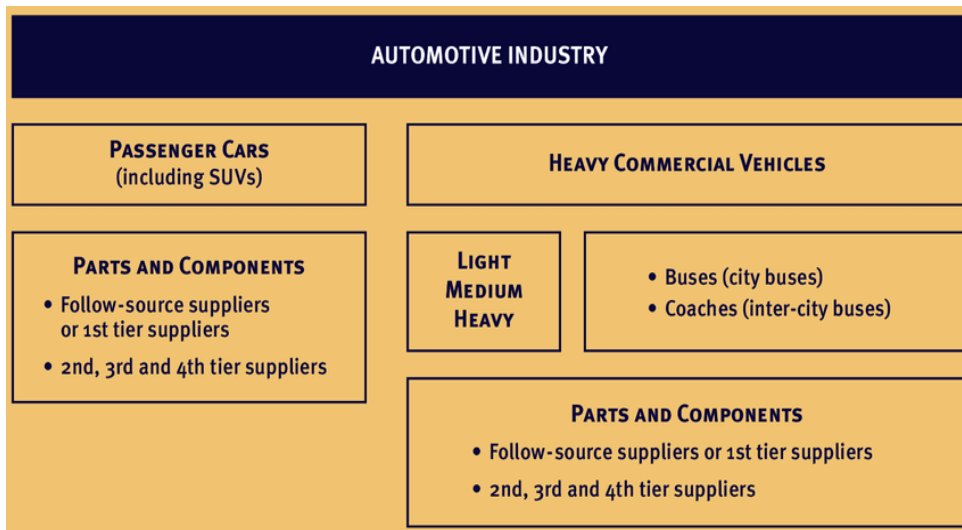
Research Methodology

The current Paper is based on Descriptive study and to meet the set objectives emphasis has been given on the secondary data. The data has been primarily collected from the online database, auto sector websites, newspapers, research journals, etc.

Positive Impact of GST on the Automotive Sector

Automotive Sector in India

The Goods and Services Tax (GST) is an evenhanded taxation structure which has spread its effect across various sectors. As there has been ample information published on the basics of GST at large, we believe that elaborating and developing an understanding on its impact on specific sectors will help people better understand the implications of GST on the respective sectors. India has a vigorous range of automotive industry which ranges from a two wheelers to four wheelers as well as a presence in varieties of commercial vehicles. It is now targeting and leading its way towards electrification, although slowly. With increasing spending capacity, high levels of product awareness, rapidly evolving expectations and demand for personalized products & services, customers are taking the center stage of the entire automotive ecosystem. Understanding changing customer needs and having the ability to serve them differentially will be a key competitive advantage. An overview of the automotive ecosystem is provided below for ease of reference:



Impact of GST on Commercial Vehicles

The commercial vehicle segment includes all such vehicles which are used for transportation of both goods and people, those vehicles which facilitate proper execution and rendering of business services and three-wheelers, which has been significantly affected by GST. Prior to GST implementation, the segment was taxed with 12.5% Excise Duty + 12.5% VAT and there were other taxes also applicable from time to time along with CST @ 2%. The total amount of overall tax to be paid was 30-33%. After the GST implementation, there has been a considerable reduction in the tax rates as the new tax levied is reduced to 28%. So, the impact in valuation is comparatively lower. However, the prices of tractors are same as earlier as the tax rate on tractors which are widely used in farming has neither been increased nor decreased with the GST implementation. As agriculture is the major source of livelihood for a vast majority of Indian population and is, therefore, regarded as the backbone of the Indian economy, the GSTN Council (Goods and Services Tax Network) has aimed to provide major relief to the farming sector. GST tax rate on tractors and its parts continues to remain at the rate of 18%.

Impact on Non-Commercial Vehicles

As far as non-commercial vehicles are concerned, GST has relatively lower impact on such vehicles. We'll be throwing light over its effect on small-budget cars (usually below Rs 10 lakhs), luxury cars, SUVs and further analyzing and exploring how engine capacity relates to the tax rate applicable on the vehicles.

- **Small-Budget Cars** (Both petrol and diesel variants, costing under Rs. 10 lakhs): This segment of cars would attract the base rate of 28% GST along with a cess of 1% and 3%. This new tax rate is smaller than the taxes that were applicable in the pre-GST scenario which was around 30-33%. The reduction in the tax rates directly affects the price and ultimately the sales

of these passenger cars which are the must buy vehicles of all the middle class Indian families.

- **Effect of Engine Capacity on the Tax Levied:** Further, the automobile industry has tax implications based on the engine capacity of the vehicles. For example, cars having an engine capacity of less than 1200cc, the GST rate are 28% along with 1% cess whereas for motorcycles/small cars/single aircraft engines or chartered planes less than 1500cc, the rate of GST will be 28% along with 3% cess. For larger vehicles such as Sport Utility Vehicles (SUVs), etc. having an engine capacity of more than 1500cc, GST levied will be 28% along with 15% cess which is a major concern for the sector as it will burden the manufacturers and sellers of auto sector.
- **Effect of GST on Hybrid Cars:** A negative aspect is seen in the case of hybrid cars with respect to GST implementation. Taking note of the global concern such as the alarming rise in the pollution level, harm to the environment, and unfavorable climatic changes, the GSTN council has not given importance to the absolute requirement for hybrid cars by levying GST tax rate of 43% (28% base rate, with 15% cess), which is higher than the tax rate applicable on small cars. In comparison, pure electric vehicles attract a relatively low GST rate of only 12%.

Effect on Luxury Vehicles/SUVs: In the recent GST council, a major decision regarding increasing the cess rates on luxury cars have been taken which further adds up to the already existing challenges of GST for the automobile industry. The council has increased the cess rate from 15% to 25%, increasing the total GST rate to 53%, which has lead to a decline in the sales in luxury segment of the automobile sector. However, it is to be noted here that the ultimate tax rates in this segment is similar to the pre-GST scenario.

Car Type	Engine Type	Engine Tank Capacity	Tax Rate Pre-GST	Tax Rate Post-GST	Difference between Pre-GST and Post-GST Tax Rate
Sub 4-meter cars	Petrol	Less than 1.2 L	31.50%	29%	2.50%
	Diesel	More than 1.5 L	33.25%	31%	2.25%
	Petrol, Diesel	Petrol: More than 1.2 L; Diesel: Less than 1.5 L	44.70%	43%	1.70%
Larger than 4-meter SUVs	Petrol, Diesel	Any capacity	55%	43%	12%
Larger than 4-meter non-SUVs	Petrol, Diesel	Petrol: More than 1.2 L; Diesel: Less than 1.5 L	51.60%	43%	8.60%
Electric Cars	Electric	NA	20.50%	5%	15.50%

Transactions Involving Transfer of Vehicle's Ownership

Transfer of the ownership of vehicles to other person will attract GST, irrespective of the fact whether the transaction is intra-state or inter-state. The businesses that are involved in trading second-hand goods, GST regime provides for a valuation rule as per which the difference between selling price and purchase price will be treated as the value of supply for such trading. Besides, there will be no taxable component for cases involving negative value of supply. These aspects of GST regime will surely have a positive impact on this industry in the long run, because GST needs to be paid only on the difference value of the transaction. GST tax on automobiles has significantly reduced the cost of transporting goods, as transportation anywhere in India doesn't pass through check posts or various taxes. It has, in fact, reduced the price of automobiles across the country when compared to the prices before GST.

Declining Operational Cost

The abolition of Central Sales tax on interstate sales has given freedom to the auto companies to join various warehouses and lowering down their operational expenses as they need not maintain separate warehouses at different locations. Apart from this, the advertising and promotional expenses are eligible for tax credit which again, is a relieving measure for the automobile sector to curb their cost and ensure better profitability to ensure a long run growth of the industry.

Exclusion of Subsidy

As per the GST law, any subsidy that is provided by the State Government or Central Government is excluded from the levy of GST. The majority of automobile manufacturers enjoy special benefits from the State Government in the form of State IPS. These subsidies are generally given in the form of refund of taxes paid or as a soft loan. Exclusion of subsidy from the taxable value could be considered as a welcome change.

Issues and challenges which need to be resolved

- RELATED PARTY SUPPLY- Under GST Law, any supply of goods or/and services between related persons or distinct persons, as per Section 25, if made in the course/furtherance of business, will be treated as supply even if it is made without any consideration and such supply would attract GST. The valuation in case of related party supply is a complicated phenomenon especially if the transaction has been made cross border. This is due to the complexity involved in the rules regarding open ended valuation and lack of clear guidelines regarding the same.
- REBATE IN EXPORTS-At the time of GST implementation, the process of seeking export related refunds was not clear and also many refund claims of IGST was pending which was serving as a bottleneck in the business of auto manufacturers and spare parts dealer. However, the Government has taken note of the issue and established a mechanism for speedy disbursement of pending rebates and streamlining of the refund process. Still there are

various restrictions to claim export rebates under Rule 96(10) which needs to be considered and tackled as early as possible.

- **TECHNOLOGICAL CONSTRAINTS-** One of the biggest challenges in the GST implementation was the inadequate and obsolete technological infrastructure and experiences provide that since the very beginning of the new tax regime; there were bugs, the portal had a slow response rate and performance related issues. The Government constituted a committee to address the issues as these were posing obstacles in the smooth working of the GST structure and it is working on improving the tax payers' experience and various steps to ensure simplification of the process.
- **MATCHING CONCEPT-** In order to claim tax credit, a buyer has to bring together and reconcile its tax payments with the tax collected, deposited and reported by the supplier on the Government portal. Any incorrect or mismatched transaction will result in to rejection of credit to the buyer.
- **AFTER SALE DISCOUNTS-** The automobile industry has been addressing practical challenges in claiming the after sale discounts as these are not applicable to specific invoices and are seasonal or occasional. A deduction can be claimed on the post sales discounts only when the conditions prescribed in the act are fulfilled, which has multiple rules such as reversal of input tax credit by the buyer, linking of the amount of discount with the sale invoice, time of supply, etc.
- **PARTS AND COMPONENTS-** While the auto spare parts, loose tools and components are made to serve a specific purpose yet their usage is not confined to that purpose only. They can be used in a number of ways as per the requirements and demand of the manufacturer as well as customer. There is a separate heading for automobile parts with a comparatively higher tax rates in the Chapter 87 of GST rate schedule. Based upon their usage or application method, similar parts and components have been classified under other separate headings in the chapter with somewhat different treatment. Now this creates an ambiguous situation regarding the applicability of tax rates.
- **Job Work-** "Any treatment or process undertaken by a person on goods belonging to another registered person."

Section 2(68) of the CGST Act.

The transactions which takes place between the Principal and the job worker was earlier surrounded by various questions regarding the valuation of supply, registration, etc. because the rules and norms were not clear at the time of GST implementation. However, certain guidelines made the hurdles to disappear from the Auto industry participants by providing them a clear path to work upon. Some of the noteworthy steps taken by the Government in this regard are as follows:

- While providing his services to the principal, the job worker can use his own goods, if required. However, the final treatment of this is still a question mark which should be looked upon by the GST council.
- If the principal is supplying inputs or capital goods to job worker, it shall be treated as a supply if the goods are not returned back, otherwise usually, such transactions are not included within the ambit of supply.
- Another important condition for sending the goods to the job worker is the issue of Delivery Challan by the principal. A principal cannot supply goods

without the delivery challan and subsequent fresh delivery challans will be issued for sending the goods to another job worker.

Findings & conclusion

India is emerging as a precedence market for global automotive companies. Indian companies are globalizing as well. Flourishing in such an environment will need apparent and futuristic strategy and the ability to manage risks and build organization capability. Following points can be summarized as the findings of the study-

- The overall tax rates which were levied earlier on the different vehicles have been considerably reduced to a great extent. Major reduction in the tax rates on small cars and two wheelers have been noticed. Small cars have a tax cut of flat 10% and in case of mid size cars it has been a sharp deduction of 21%.
- GST on vehicles has drastically reduced the transportation cost of goods, by eliminating all irrelevant taxes which were reliable for raising the transportation cost. Eventually, the subsumed tax leads to the price reduction of the automobile in India when contrasted with former prices before GST.
- The most multifaceted central state tax has been removed after the GST implementation. This has facilitated the automobile makers to stock up their products in limited warehouses which have benefitted them to rejoice lower operating costs.
- One important aspect which despite being improved by the Government, still is a hindrance in the proper mechanism of GST working is the upgraded technological know-how. The online portal presents some complexities which can be handled well by the auto industry only through awareness and training.
- The luxury SUVs demand a tax cut as the tax rates on this segment of the industry has made it a bit more costly. The high price is obviously affecting its demand.
- There is a need to make the rules more clear on the valuation and treatment of supply between the related parties.
- The current tax slab under GST for the automobile industry might look sharp on the surface, but in reality, it will lessen the tax liabilities on the supplier to a significant extent. However, Spare part manufacturers could face difficulties in confronting the existing tax obligation because of the higher tax rates.
- GST has started altering India's perception not just for policy makers in other countries but also for global investors especially in the context of big auto players. With the introduction and implementation of GST, India has moved ahead in the value chain and the tax system is almost on a par with countries that have good indirect tax structures.

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