A STUDY ON IMPLEMENTATION OF GST AND ITS REPERCUSSION ON INDIAN AUTOMOBILE SECTOR

Pooja Jha*, F.B. Singh**

Email: pooja.jha17@gmail.com

ABSTRACT
The paper highlights a brief analysis of GST which would bring a substantial change in the purview of indirect tax in India. Basically, it is called the mother of indirect tax as it will subsume most of the indirect tax leading to a lucid ambiance for tax payer to deal with it. The paper depicts the background and mission of proposed GST and its repercussion on Indian industry with special reference to automobile sector. The paper further reconnoitres the significance of GST and finally draws out the conclusion.

Key Words: GST, Automobile Industry, Direct Tax, Indirect Tax

INTRODUCTION
Theoretically speaking, the word tax is derived from the Latin word ‘taxare’—which means to Estimate. A tax is not dependent upon the will of payer to pay rather it is an enforced payment levied by legislative authority on the public residing under them. The first taxation system can be traced back to the period of 3000BC-2800BC. In India, the glimpses of taxation can be seen in the historical book like Arthasastra. This concept witnessed remarkable change in the period of British rule in India when the concept of direct and indirect tax came into picture. With respect to recent scenario tax is formally segregated into different types such as toll, import duty, custom duty, excise subsidy etc. Financial year 2016-17 witnessed substantial change in the Indian taxation system when Arun Jaitley, Finance Minister, announced the implementation of Goods and Services Tax (GST). It is the India’s 16 year wait for mother of all tax reform. The GST is governed by GST Council and its Chairman is Union Finance Minister of India, Arun Jaitley. GST would be implemented concurrently by the central government. A 21-member select committee was formed to consider the proposed GST law. GST is expected to be applicable from 1 July 2017.

Salient features of GST
1. GST would be a comprehensive indirect tax on manufacture, sale and consumption of goods and services throughout India, to replace taxes levied by the central and state Governments.
2. This method allows GST-registered business to claim tax credit to the value of GST they paid on purchase of goods or services as part of their normal commercial activity.
3. Taxable goods and services are not distinguished from one another and are taxed at a single rate in a supply chain till the goods or services reach the consumer.
4. Administrative responsibility would generally rest with a single authority to levy

* Research Scholar; ** Professor, Faculty of Commerce, Banaras Hindu University, Varanasi (Uttar Pradesh)
4. To analyse the impact of model law GST on Indian automobile sector.
5. To find out the growth drivers across segment

Impact of GST on Indian automobile sector

The constitution (one hundred and twenty second amendment bill, 2014) related to proposed GST was cleared by Rajya Sabha.

The GST is likely to have four major implications
1. Alteration in incidence of effective indirect tax across industries
2. Expand availability on input tax credit
3. Change business dynamics between organised and unorganised sector.
4. Reduce bottleneck and improve efficiency in supply chain and especially road logistics.

Considering above insights, the industry would need to do critical analysis of the law and its repercussion on their business.

With regards to automobile sector which is an important contributor to Indian economy and manufacturing sector. Decoding the provisions of model GST law for this sector would be worthwhile for the economy.

THE PROS AND CONS OF MODEL GST LAW ON AUTOMOBILE SECTOR:

1. Taxation and variation in price of automobile

According to ICRA research, there is no clarity on the rate of taxation but it is predicted that tax benefit can be availed by small car and two-wheeler segment and reduced price would ultimately boost the demand whereas bigger cars and SUVs would have to pay high tax. According to ICRA viewpoint there could be 8-10% decrease in vehicle rate if GST turn out to be 18%.

2. Input tax credit

It means at time of paying tax on output you can reduce the tax already paid on input. Under model GST law capital goods covers only those goods which are used at the place of business of supply of goods’ thus only goods which are used
in place of business of OEMs seems to be eligible for availing input credit. So, this poses a challenge to the OEMs in availing credit to the tools in the vendor premise on which cost is recovered by vendor. Thus, either cost of tooling would increase for OEMs or they will have to find out some alternative in the form of in-house development.

3. Unified market
With the introduction of GST, the whole country would be treated as one market as price of the product would be same everywhere due to removal of cascading effect of taxation under model GST law.

4. Job work and GST
Job work is processing the goods supplied by principal to complete a part or whole of the process. GST law allow principal to send taxable goods without paying taxes to job worker and must be bought back to principal in 180 days.

5. Time of supply for payment of GST
Under GST, the liability for payment of CGST and SGST will arise at the time of supply of goods at earliest of:

- Date of removal of goods
- Date on which goods are available to recipient
- Date of invoice
- Date of receipt of payment with respect to supply
- Date of receipt of goods as shown in the book of account of recipient

6. Dealer incentive scheme and GST
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 Model GST law does not provide as to whether these incentives or discounts are subject to GST. Further, since the original supply would have already suffered GST and the buyer would have taken the input tax credit, the issue of whether these incentives/discounts would impact the price and credits, or will these be kept out of GST (in the VAT chain), needs to be addressed. This requires a deeper

<table>
<thead>
<tr>
<th>Duty structure for automobiles</th>
<th>Excise duty</th>
<th>NCCD</th>
<th>VAT</th>
<th>CST</th>
<th>Effective tax</th>
<th>Likely GST</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>OEM under current and GST Regime</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Two wheelers</td>
<td>12.50%</td>
<td>1.00%</td>
<td>12.50%</td>
<td>2.00%</td>
<td>30.40%</td>
<td>17-19%</td>
<td>Likely to get cheaper</td>
</tr>
<tr>
<td>Small Cars (length &lt; 4m)</td>
<td>12.50%</td>
<td>1.00%</td>
<td>12.50%</td>
<td>2.00%</td>
<td>30.40%</td>
<td>17-19%</td>
<td>Likely to get cheaper</td>
</tr>
<tr>
<td>Sedans (length &gt; 4m with engine &lt; 1,500cc)</td>
<td>24.00%</td>
<td>1.00%</td>
<td>12.50%</td>
<td>2.00%</td>
<td>43.70%</td>
<td>higher</td>
<td>Likely to get cheaper</td>
</tr>
<tr>
<td>Sedans (length &gt; 4m with engine &gt; 1,500 cc)</td>
<td>27.00%</td>
<td>1.00%</td>
<td>12.50%</td>
<td>2.00%</td>
<td>47.20%</td>
<td>higher</td>
<td>Likely to get costly</td>
</tr>
<tr>
<td>SUV's</td>
<td>30.00%</td>
<td>1.00%</td>
<td>12.50%</td>
<td>2.00%</td>
<td>50.20%</td>
<td>higher</td>
<td>Likely to get costly</td>
</tr>
<tr>
<td>Three Wheelers</td>
<td>12.50%</td>
<td>1.00%</td>
<td>12.50%</td>
<td>2.00%</td>
<td>30.40%</td>
<td>17-19%</td>
<td>Likely to get cheaper</td>
</tr>
<tr>
<td>Commercial Vehicles</td>
<td>12.50%</td>
<td>1.00%</td>
<td>12.50%</td>
<td>2.00%</td>
<td>30.40%</td>
<td>17-19%</td>
<td>Likely to get cheaper</td>
</tr>
</tbody>
</table>
analysis. Further, in case such schemes are subject to GST, whether the same would be treated as a service or goods is also another aspect that needs to be clarified.

7. Impact of GST on logistics
Model GST law is expected to ease out the various bottlenecks and complexities involved in transportation of goods using road logistics.

8. GST is yet to provide clarity on taxation for excise duty or vat exempted manufacturing unit
Under the proposed GST regime treatment of exemption is not clear at present. However, industry expect that existing unit would most likely to reap benefit till the scheme expire. Ashok Leyland and Hero MotoCorp is burning example.

9. Stock in the hands of dealer on the transition date – possible double taxation
The transition provisions provide that credit balances admissible under the present regime can be carried forward under GST. In case of stocks lying with dealer which is procured on payment of excise duty and CST, such excise duty and CST is not admissible as credit under the present regime. Accordingly, the transition of such taxes/ duties included in the stocks lying with the dealer has to be allowed. Otherwise, under the GST regime, such stocks would suffer tax again, i.e. excise duty and CST paid, and CGST and SGST on supply after the appointed date.

10. Lack of clarity on MOU incentives
The investments by automobile companies are significant, and have a multiplier effect on the State’s economy. Generally, States provide for various incentives including Investment Promotion Subsidies (IPS). A majority of the automobile manufacturers enjoy special benefits from the State Government in the form of State Investment Promotion Subsidies (IPS). This is given in the form of refund of VAT/ CST paid, or as a loan.

With the introduction of GST, taxes move from the Origin State to the Consumption State. This would result in significant reduction of flow-back of IPS, since GST on inter-state sales is not credited to the Origin State. Growth drivers have turned supportive across segment.

Table 2:

<table>
<thead>
<tr>
<th>Segments</th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017(e)</th>
<th>Growth Drivers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Vehicles</td>
<td>(2.8%)</td>
<td>11.5%</td>
<td>12-13%</td>
<td>Pick-up in infra &amp; mining sectors to support recovery in tippers ??Pre-buying owing to implementation of BS-IV (by April 2017) ??Replacement-led demand due to ban on old vehicles</td>
</tr>
<tr>
<td>Passenger Vehicles</td>
<td>3.9%</td>
<td>7.2%</td>
<td>8.5-9.5%</td>
<td>? Improving sentiment levels in urban market; Return of FTBs ? Replacement demand due to ban on old diesel vehicles ? Expectation of recovery in rural demand from H2 FY 2017 ? Favorable impact of Seventh Pay Commission</td>
</tr>
<tr>
<td>Two Wheelers</td>
<td>7.9%</td>
<td>3%</td>
<td>4-6%</td>
<td>? Favorable impact of Seventh Pay Commission ? Expectation of better demand from rural areas in H2 FY 2017</td>
</tr>
<tr>
<td>Tractors</td>
<td>(13%)</td>
<td>(10.5%)</td>
<td>7-8%</td>
<td>? Primarily contingent on outlook on monsoon ? Rabi harvest (March-16) was healthier than expected ? Agri-Commodity prices have started inching upwards ? Subsidy program in states like A.P., Telengana and M.P.</td>
</tr>
</tbody>
</table>
CONCLUSION

Implementation of GST seemed to be positive for automobile industry in terms of improved efficiency in road logistics, lower price of small car and two-wheeler so that now these would not be a thing of luxuries rather would become part and partial of everyday life and lower taxation would likely to be key benefit of GST for automobile industry but still greater clarity is awaited on the multiple facet of draft model of GST law such as treatment of tooling cost, tax for job worker, dealer, exemption issue of VAT etc. needs to be addressed. Thus the epitome of research paper is expectation of lower taxation is likely to be positive for automobile demand although in the near term, customer may hold back on their purchase till more clarity on new taxation emerges, as a result, new vehicles sale may decline in near future. Proper GST administration and dispute resolution (more importantly on inter-state transactions) is very critical. The industry is also expecting the procedural changes to be notified in advance, and may require a lead time of at least six months before introduction of GST.

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