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A Study on Implementation of GST and Its Corollary on Indian Automobile Sector

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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 subsumemost 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.*

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I. 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 historicalbook like *Arthsastra*.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 intheIndian taxation system when ArunJaitley, Finance Minister, announced the implementation of Goods and Services Tax (GST). It is the India's16 year wait for motherof all tax reform.Goods and Services Tax (GST) is a proposed system of indirect taxation in India merging most of the existing taxes into single system of taxation. It was introduced as The Constitution (One Hundred and First Amendment) Act 2016. 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.

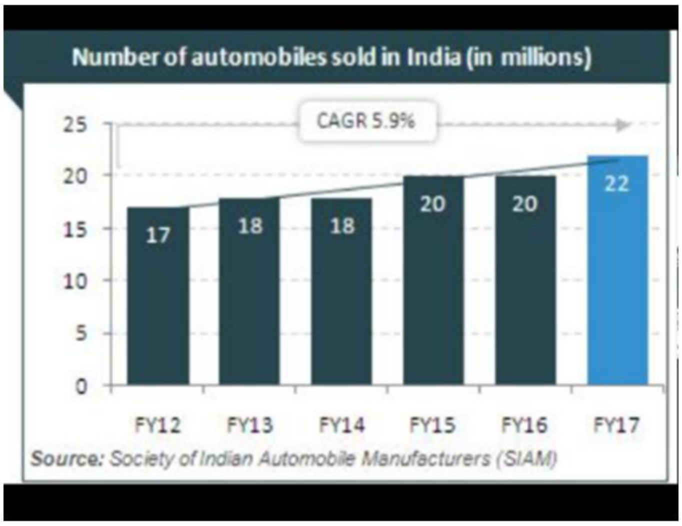

Fig. 1 Growth of various automobiles.

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 businesses 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. Administrative responsibility would generally rest with a single authority to levy tax on goods and services.
4. Exports would be considered as zero-rated supply and imports would be levied the same taxes as domestic goods and services adhering to the destination principle in addition to the Customs duty which will not be subsumed in the GST.
5. Amalgamating several Central and State taxes into a single tax would mitigate cascading or double taxation, facilitating a common national market.
6. The simplicity of the tax would lead to easier administration and enforcement.
7. From the consumer point of view, the biggest advantage would be:

- reduction in the overall tax burden on goods, which is currently estimated at 25%-30%
- free movement of goods from one state to another without stopping at state borders for hours for payment of state tax or entry tax.
- reduction in paperwork to a large extent.

Research methodology

Exploratory research has been implementedand paper is based on secondary data which is collected from various journals. Books, published news websites etc.

II. Literature Review

The prominent author AkhilaPS highlighted the concept of GSTand reveals that GST would be the mother of indirect tax in India.Review done by TawshifAhmed reveals that GST would play positive role inthe development of Indian export.VandanaPanwar highlighted the impact of GST on Indian economy. The research done by various institute like ICRA, PWC reveals that although GSTwould be very positive for the Indian business and economy as a whole but still much clarity is needed in the various facet of Model GST Law.

Objective of the study

1. To understand the conceptual framework of GST.
2. To know the significance of GST
3. To analysethe impact of model law GST onIndian automobile sector.
4. 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 RajyaSabha.
The GST is likely to have four major implications

1. Alterationin 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 itsrepercussion 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.

III. 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 SUVswould have to pay high tax.According to ICRAviewpoint 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 challengeto the OEMs in availing credit to the tools in the vendor premiseonwhich 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.

Table no 1

Duty structure for automobiles OEM under current and GST Regime	**Excise duty**	**NCCD**	**VAT**	**CST**	**Effective tax**	**Likely GST**	**Comments**
Two wheelers	12.50%	1.00%	12.50%	2.00%	30.40%	17-19%	Likely to get cheaper
Small Cars(length<4m)	12.50%	1.00%	12.50%	2.00%	30.40%	17-19%	Likely to get cheaper
Sedans (length > 4m with engine < 1,500cc)	24.00%	1.00%	12.50%	2.00%	43.70%	higher	Likely to get cheaper
Sedans (length > 4m with engine > 1,500 cc)	27.00%	1.00%	12.50%	2.00%	47.20%	higher	Likely to get costly
SUV's	30.00%	1.00%	12.50%	2.00%	50.20%	higher	Likely to get costly
Three Wheelers	12.50%	1.00%	12.50%	2.00%	30.40%	17-19%	Likely to get cheaper
Commercial Vehicles	12.50%	1.00%	12.50%	2.00%	30.40%	17-19%	Likely to get cheaper

3. Unified market

With the introduction of GSTwhole 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 processGST 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 goodsat 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 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 thatexisting 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 exciseduty

Table no 2

Segments	FY2015	FY2016	FY2017(e)	Growth Drivers
Commercial Vehicles	(2.8%)	11.5%	12-13%	Pick-up in infra & 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
Passenger Vehicles	3.9%	7.2%	8.5-9.5%	? 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
Two Wheelers	7.9%	3%	4-6%	? Favorable impact of Seventh Pay Commission ? Expectation of better demand from rural areas in H2 FY 2017
Tractors	(13%)	(10.5%)	7-8%	? 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.

IV. Conclusion

Implementation of GST seemed to be positive for automobile industry interms 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 taxationwould 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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