

Automobiles Sector Effected By GST

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ABSTRACT

The projected GST is likely to change the whole scenario of current indirect tax system. It is considered as biggest tax reform since 1947. Currently, in India complicated indirect tax system is followed from 1st July,2017 with imbrications of taxes imposed by union and states separately. The proposed idea is to have a single tax rate for all goods and services, charged by states and central governments, in tune with the developed nations. This paper aims to analyze the impact of GST on the real estate and automobile sector in India. The findings suggest that the sectors can benefit from GST if they are well prepared for the changes in the business environment.

1. Introduction

GST was first introduced by France in 1954 and now it is followed by 140 countries. Most of the countries followed unified GST while some countries like Brazil, Canada follow a dual GST system where tax is imposed by central and state both. In India, also dual system of GST is proposed including CGST and SGST. Goods and Services Tax (GST) or the One Hundred and Twenty Second Amendment Bill, 2014 is soon to become a reality, with implementation in effect from July 1, 2017. It was the most awaited tax reform in India. The idea was initially proposed by the NDA government in the year 2000, when an empowered committee to design GST model was formed. Beginning that time, a number of debates have arisen relating to various aspects of GST implementation. In the budget of 2006 – 07, the then Finance Minister, P. Chidambaram, made an announcement of 1st April 2010 to be the target date for GST implementation, that was not met. Consequently, in the year 2014 The Constitution (122nd Amendment) Bill was finally passed in the Lok Sabha on 8th August 2016 and in the Rajya Sabha on 3rd August 2016. President Pranab Mukherjee gave his concurrence on 8th September 2016, post the ratification by the States and finally will be put into practice on July 1, 2017.

India had a complex structure of indirect taxes, including VAT, Excise duty, Service tax, Sales tax, custom duty, and local taxes, which GST intends to dismantle. Currently, there is no uniform rate of taxation of goods and services across states, which give rise to corruption and tax evasion. In the current model of GST, there will still be a number of taxes which will be outside the purview of GST, like taxes on petroleum & alcoholic products, levy on lottery and betting, stamp duties on immovable properties, Taxes on vehicles, Entertainment and Luxury taxes levied by the local bodies etc. Though GST initially proposed a single tax rate but the final version has two components - the central GST (CGST), subsuming central indirect taxes which are levied and collected by the centre, and states GST (SGST) or Interstate GST (IGST), incorporating sales tax (or VAT), Entertainment Tax, Octroi and Luxury Tax, Entry Tax, Tax on lottery and gambling, which is levied and collected by respective states

2. Review of literature

Dr. R. Vasanthagopal (2011) Described, "GST in India: A Big Leap in the Indirect Taxation System" and concluded that switching to smooth GST from current complicated indirect tax system in India will be a positive step in growing Indian economy. Success of GST will lead to infrastructure sector as well as Financial sectors.

Jatin Kumar (2014) studied, "Goods and Service Tax- A Way Forward" and suggested that implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations of India.

Poddar & Ahmad (2009) discussed of different aspects of GST implementation, relating to the principles, issues, and procedures. The paper cited the introduction of GST to be the most significant tax reform in India, increasing tax compliance and transparency in Transport Sectors.

FICCI (April 2013) underlined GST to be a necessary condition for achieving double digit growth in India, provided all the stakeholders are prepared for the change TAX structure.

3. Research Gaps

The prior literature discusses GST as a concept and illuminates its benefits theoretically all economic factors. Empirically, the focus on the impact of GST on economic growth and Transport sectors exists. The present study attempts to fill this research gap by empirically examining the impact of GST on Automobiles sector, with significant contribution to the economic growth. The study also provides a comprehensive view on the GST implementation in this context.

4. Impact of GST on automobiles sector

India's automobile exports contracted 9.7% during the first quarter of this fiscal year with a growth of approximately 1.91% over the previous fiscal year, with commercial vehicle segment leading the export growth. The automobile industry seems to

be thrilled with the notion of a simplified tax regime, which can be achieved through the introduction of GST.

The current tax structure on automobiles is perforated with complexities. Currently, automobile sales are subject to six different types of tax at various rates, which includes Excise Duty, Infrastructure Cess, Octroy, VAT, Motor Vehicle Tax/Road Tax and Tax Collected at Source (TCS). At present, the excise duties on vehicles are divided into four slabs, in which the smallest tax rate is applicable to small cars. The current indirect tax provision comprises of:

- Small cars (less than 1200 C.C.) attract 27.6% tax (Excise Duty 12.50% + sees 1.1 % + VAT 14%)
- Medium cars (1200 cc - 1500 C.C.) attract 39.1% tax (Excise Duty 24% + sees 1.1 % + VAT 14%).
- Luxury cars (beyond 1500 C.C.) attract 42.1% tax (Excise 27% + sees 1.1 % + VAT 14%).
- SUVs (beyond 1500 C.C.) attract 45.1% tax (Excise Duty 30% + sees 1.1 % + VAT 14%).

Owing to different types of indirect taxes collected by the Centre and State separately, taxes paid on some of the inputs were not set-off against the final tax.

With the GST implementation, the automobile industry will be benefited in the following ways:

- Taxes levied by the Central government, such as Excise Duty and by state governments as Sales Tax would be subsumed into one tax uniform tax with GST compensation cess Small Car (Petrol:1%), Small Car (Diesel:3%), Large Car and SUV:15%.
- If the proposed tax rate of 12-18% are approved, the prices of vehicle are expected to decrease by almost 8-17%, which will then lead to increase in demand for automobiles in the domestic market but will also make India-made vehicles more cost-competitive in export markets.
- All input taxes paid will be offset against the output liability of GST under IGST.
- Since CST will be subsumed in GST, manufacturers will no longer be required to have warehouses at multiple locations across states.
- The overall compliance burden is expected to decrease and bring lots more efficiency in operations.
- Due to complexities in the current tax structure Foreign investors were reluctant to invest in India, primarily because of the country's regulatory and bureaucratic complexities. A successful enactment of the new indirect tax regime would have a transformative effect on FDI in India.
- Since GST will also lessen overall production cost and hassles, thereby encouraging domestic as well as international car manufacturers to expand their businesses and make Indian products more qualitative and competitive across the world.

While the automobile industry is betting big on the new indirect tax regime, it still has some apprehensions of the same:

- How will the new rates be decided? Will there be a uniform rate for all sizes of cars? Will they all fall under the same 12-18% tax rate bracket?
- The Automobile industry has seen significant disputes under central excise valuation. The GST law continues with the concept of 'transaction value' which is a welcome measure, however the powers for rejection of the transaction value are very wide, and could lead to significant valuation disputes.
- The job work process is the backbone for automobile industry operations. The GST law treats 'job work' as a service and seeks to maintain existing excise procedures. However, some more clarity is needed in the conceptual framework for job work as it will pose as a challenge.
- Lack of clarity on subsuming of various cases applicable in the automobile industry.
- In the proposed GST system, it is not known whether the stock transfer would remain exempt from tax (at present, sales tax is not levied on Stock Transfer) or would be made taxable in the importing state; the industry needs to understand the treatment of stock transfers for input tax credit.
- Dealer incentive Schemes and MOU with the states.
- Overall economic activity is expected to increase and we could expect a better GDP growth that should push demand for vehicle across categories. Impact of Tax cascading will also go away that will reduce overall cost of vehicle manufacturing as all taxes on input paid will be offset with the output liability of GST. The industry should be given sufficient lead time for adaptation before the introduction of GST.

5. Conclusions

Automobiles sector, it will benefit from the increase in the economic growth translating into higher consumer spending for vehicle across categories. Impact of Tax cascading will also go away that will reduce overall cost of vehicle manufacturing as all taxes on input paid will be offset with the output liability of GST. However, the industry would be able to translate all these benefits, given sufficient lead time for adaptation before the introduction of GST.

The findings of the study are pertinent to industry practitioners, academicians and policy makers. The study provides a comprehensive view on the impact of GST on automobile sector, making it easier for adaptation. For the academicians, it is of interest a change as significant as GST which has economy wide ramifications are understood properly. Also, a clear understanding of GST would help policy makers gain greater public acceptance and thus easier to migrate from the old taxation system.

In the future, studies can help understand the impact of GST on other sectors as well along with ex post impact analysis of GST on the Indian economy.

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