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Effects of GST on Automobile Dealers Industry

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Abstract: ***India has applied for GST for their taxation system which has already been applied by more than 160 Nations worldwide. GST has changed India's perception in front of policy makers of other countries, global investors including big automobile companies. The growth of automobile sector has clear correlation with the policy reforms as it affects domestic demand pattern as well as trade balance. The automobile industry in India is the most booming industry from last many years. India has become the fourth substantial automobile market in 2019 with increasing sales by 8.3% to 3.99 million units. It was the seventh substantial automobile manufacturer in 2018. The government of India has also known the importance of automobile industry. India has imposed a flare of hope by determined growth targets, supported by many of vital undertaking such as Digital India and the make in India campaigns. There are many changes made ensuring simplicity in the GST tax system. The purpose of the study is to understand the impact of these changes by Automobile Manufacturers (OEMs).***
Keywords: GST, Taxation, Commercial vehicle, automobile manufacturer.

I. INTRODUCTION

Auto mobile sector manufacturing activity is spread over in many states in India which makes it crucial for contributor to exchequer in all states. The Domestic sales of commercial vehicle 2016-17 is 7,14,082, in 2017-18 is 8,56,916 and for 2018-19 it is 10,07,319 (source www.siamindia.com). This trend shows that we had concrete growth in this sector. India is also dominant auto exporter and has strong export growth expectations for the future. Automobile exports grew 14.50 % during FY2019.

II. SOURCE OF DATA

This research paper uses secondary data such as journals, books, news, websites, and for primary data we interviewed many dealers and associates of the industry to know the details of this industry.

III. REVIEW OF LITERATURE

A. Pooja Jha, F.B. Singh, 2018 A study on Implementation of GST and its repercussion on Indian Automobile sector: this study concludes that GST has removed all the criticality of Indian Taxation system and in terms of automobiles, it has a positive effect in it.

B. Dr. Ashok Sharma, Dr. Davendrakumar Sharma, 2018 - Impact of GST on automobile Industry in India: they studied that introduction of GST was most awaited for FDIs for economic growth of India. GST is going to save time, effort and cost in this sector.

C. Akshara, Mahesh and Karthika K., Amrita Vishwa Vidyapeetham, Impact of GST on Automobile Industry in India: the study conclude that GST has positive effect on automobile sector for commercial vehicle in long run as government has already revise the tax rate but it might have not favorable effect on luxury cars.

D. Charumathi S, Dr. Rampilla Mahesh and Dr. Ranjith Kumar S, GST implication on sales of Automobile industry with reference to TATA motors: the study shows that after GST there is no fall in sale albeit, it increased by 25.8%.

E. CA ashish Chaudhary, CA Dilip Satbhai, Automobile sector- latest Implication of GST: the study touches many aspects of GST including treatment of spare parts tax system, fringe benefit to employees and interstate transportation and how these sectors of automobile industry are going to treat for GST changes

IV. OBJECTIVE

A. GST had not made any considerable effect on sales of commercial vehicles.

B. To know whether GST has affected the profit margin of automobile dealers.

C. To study the blockages for growth of OEMs in India

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V. POST EFFECTS AFTER GST

OEMs do not have setup in all the states and do interstate billing of the vehicle to dealers.
Before GST it was based on Form C and dealer were paying 2% CST against the interstate billing on vehicles cost and 12.50% VAT was applicable in state where vehicle is getting sold. Apart from that, 2% CST was also applicable at originating state.
Below is the catch, which has mostly impacted the Automobile Dealers.

We need to understand the transection before GST with illustration.

1) The cost of a commercial vehicles at OEM level is Rs.10, 00,000/- before excise duty.
2) 8% excise was applicable, so after excise cost is Rs.10, 80,000/-
3) 2% CST on Form C to bill to interstate dealer Rs.21600/- (Impact of Entry Tax not Taken i.e. 2%)
4) Cost of vehicle at Dealer level was Rs.11, 01,600/-
5) Vehicle is in dealer's inventory at this cost, and invoice amount of vehicle for dealer was Rs.11, 01,600/-
6) The dealer margin on this vehicle is near to Rs.20, 000/-

So, dealer retailed the vehicle to customer at Rs.11, 21,600/-
Whenever dealer was selling the vehicle, 12.50% VAT was applicable on sale price including margin. And dealer was collecting this 12.50% VAT from customer at the time of retail or sale.
We apply VAT on above illustration, so dealer was collecting Rs.1,40,200 as VAT Tax from customer at 12.50% VAT on Rs.11, 21,600/- OEM's invoice VAT TAX amount collected from customer by dealer, was being submitted to the authorities monthly or quarterly as per the slab, it means dealers were using 12.50% of its turnover. If dealer's monthly average sale was 200 vehicles gross VAT TAX collected from customer is approximate Rs. 2,80,40,000/-, and this was absolutely interest free in dealers account for average 45 days. (It is not right, as they are liable to pay tax on monthly basic if tax liability is more the Rs.1,00,000/-, in this case the dealer has Rs. 2,80,40,000 (1121600*12.5%*200) available for 15-20 days in the month as whole of the year and dealer was using this as working capital. And were paying to authority on quarterly or monthly VAT challan.
This scenario got changed after GST came into force. Let's understand the difference of the TAX pool collected by dealer under VAT and collecting under GST. And how it is impacting the dealers.
As we know all the Taxes were scraped with GST in force, so after GST, impact is as below on automobile dealers.
As Sales Tax, Excise Duty and VAT has been scraped and GST being implemented, we assume vehicle cost for OEM is still same as in above illustration.
The cost of vehicle at OEM level is Rs.10, 00,000/- before GST.
No Excise, no CST and no VAT will be applicable.
Now 28% GST will be applicable on billing to dealer at OEM level,
If cost is same as Rs.10, 00,000/-
GST of Rs.2, 80,000/- will be applicable on cost
Cost of vehicle at Dealer level including GST is now Rs.12, 80,000/-
Now vehicle is in dealer's inventory at this cost, and invoice amount of vehicle for dealer is Rs.12, 80,000/-
Again, here dealer margin on this vehicle is Rs.20, 000/-
And 28% GST will be applicable on Rs.20, 000/- margin of dealer, amounting Rs.5, 600/-
So, dealer retails the vehicle to customer at Rs.13, 05,600/-
And collect the GST from customer on margin of Rs.20, 000/-, collected Rs.5600/- GST need to submit in department on 20th of every month so dealer uses the amount for 15-20 days max.
Again, if dealer's monthly average sale is 200 vehicles gross GST collected from customer approximate Rs.11, 20,000/-, and this is interest free in dealers account for average 15 days. And dealer is using this as working capital. And paying to authority on monthly GST challan. Here the catch is now dealer is collecting only 5% of indirect TAX against, earlier collecting the amount and using it for business as there were quarterly challan for VAT and no separate accounting need to maintain for collected VAT Tax.
This impacted lot to Automobile dealers, as in above illustration, which is very similar to midsize commercial vehicle dealer. We can see earlier in VAT, automobile dealers were collecting nearly Rs 300 Lakhs as VAT and using in business approximately for 30-45 days, but after GST indirect Tax collection is only 11 Lakh and keeping with for 15 days.
It is impacting lot to automobile dealer and they are facing financial crunch. Similar is applicable for spare parts too. Apart from above, incentives from OEMs are also taxable under GST.

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A. Customer tendency on Automobile after GST

Earlier Excise Duty was hidden and only 12.50% VAT was shown on Invoice, so on invoice only 12.50% tax was visible on tax invoice, but after GST 28% Tax on vehicle cost is mentioned on invoice, it is impacting customer's psychology.

Dealer has received incentives on sale from 1-2 % in VAT they don't pay any VAT tax on that, but in GST dealer has to pay Tax @ 18%. Similar issues are in the following commission and incentives as well

1) Target Incentives,
2) Commission from Insurance & finance
3) Free service coupons

VI. ANALYSIS

As per above illustration this financial crunch is unseen by the government, the overall benefit of GST is gained by the end-users in the automobile commercial sector. Moreover, it is analyzed by many scholars that GST effect on luxury is more negative as compare to middle class buyer in terms of automobile sector in India due to higher tax slabs.

The impact of GST in its first-year automobile sector has not been negative and the sector despite having initial issues has migrated to the new tax system with the extensive efforts. There has been negative implications and areas of concerns on which automobile sector has been showing to the Government time to time. It will help in growth of this sector and strengthen its position and contribution for the economy.

Through GST has successfully able to comply uniform legal provisions across all states, no forms collection, less classification issues, no GAQ (Greatest Aggregate Quantity) computation on stock transfers, no issue of pre-determined sale etc. reduction in compliance effort.

Under the SGST model, state governments are denying benefits on interstate supplies. This has a significant negative impact on vehicle businesses that have made significant investments in specific areas in the hopes of receiving a certain level of incentive, subsidy, or rebate. This is an issue that has to be directed by state governments.

In case of international tools transaction, it fails to satisfy the conditions of export of goods. The cost is recovered from the foreign customer but in the absence of movement of tool from India to outside, the supplier charges GST resulting in increased cost and affecting international competitiveness of Indian automobile sector.

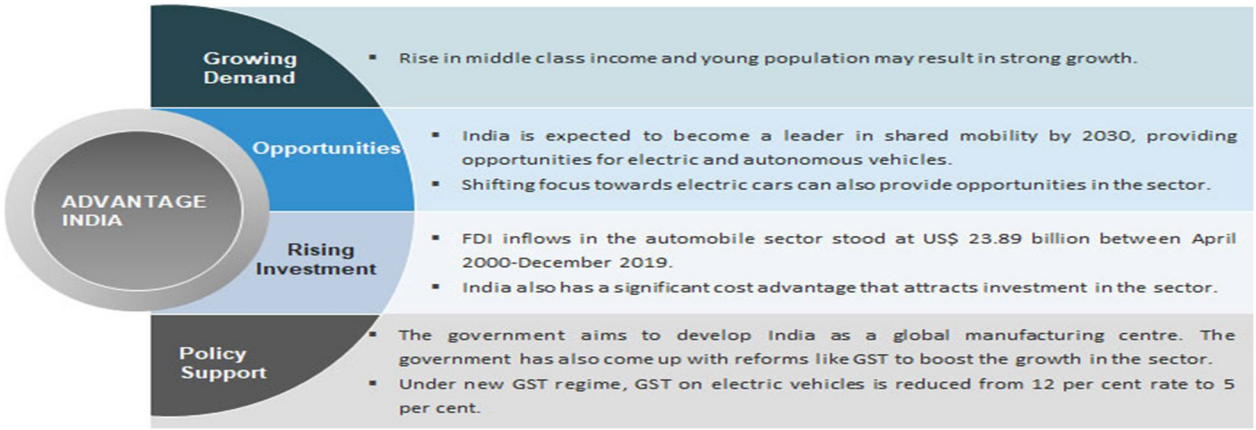
VII. CONCLUSION

The commercial automobile industry has competence and experience to deal with this concern. The effect of GST on OEM is positive and negative both, GST has reduced the tax cost consequent upon free availability of credit for tax. *Earlier payment transaction in the supply chain and because of enhanced efficiency and possibility to have look at all processes as a result of tax impartiality.*

A. Impact on Channel Partners (Automobile Dealers)

One of the very important players in the industry are Automobile dealers, who invest to display and sale vehicles and do after sale services. Automobile dealers must invest large for showroom setups and inventory of vehicles and spare parts. GST effect is very high impacted here. GST has hampered the cash flow of OEMs thereby affecting their buying power.

Indian Automobile Industry Analysis



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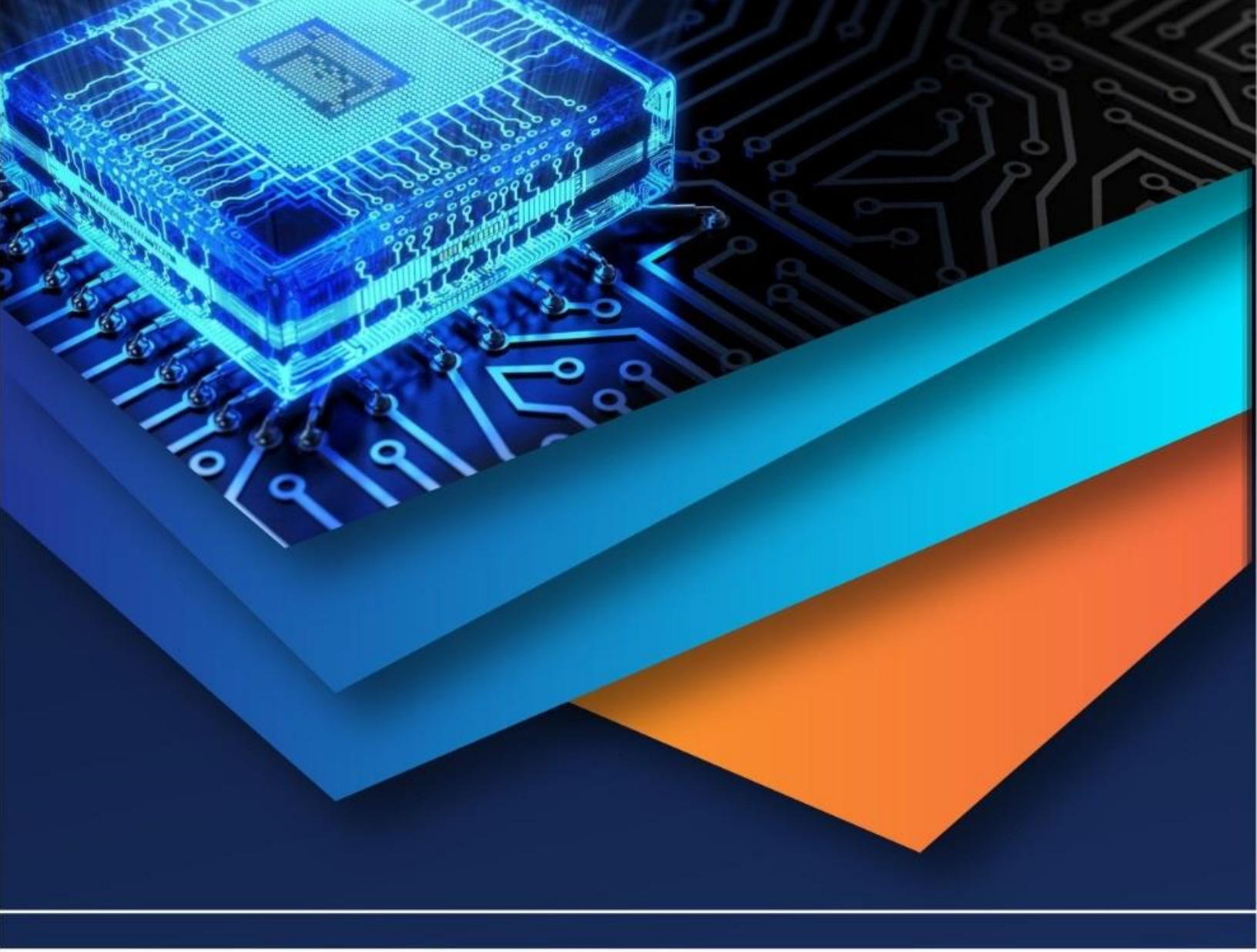
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