Automobile Industry And Impact Of The Goods And Service Tax On Automobile Industry

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***Abstract*: The scope of automobile industries undoubtedly has been an increased economic development. It's number of significant activities in investment & entry of varied foreign players. This is often known that the automobile helps in transporting people & goods over long distance. The demand for Automobile is worldwide and definitely has extended scope future rise in economic process. It contributes in the per capita income & value and it helps to realize the development of the country. Due to elimination of cascading effect the tax will not be charge on tax, and hence the cost will automatically get down and it will give a relief to the industry and Trade, as well as to the final consumer who was bearing the whole amount of tax with cascading effect. With the proper formulation of GST by making proper rates of Taxes and making proper compensation wherever required, there are number of gains to both central and State, especially in compliance of Tax Structure properly and honestly. If Goods and Service tax is implemented with proper caution and in proper manner, it will definitely a role changing scenario to the Indian Taxation system as well as to the all parties whether Manufacturer or whole seller or retailer or Final Consumer. After implementation of GST, there are almost all the sectors got affected either positively or negatively in Indian economy. The Automobile industry In India is growing fast and having direct correlation with the reforms related policies that influenced domestic demand pattern as well as trade. The India is currently moving towards major reforms in its taxation system and economic policies. Introduction of GST is proving effective support to such major economic development programs.**

***Keywords*: Automobile, Compensation, Industry, Taxes, Development, Contribution, Influence, Input.**

INTRODUCTION

Under the Goods and Service tax mechanism, two benefits have been provided. One is the cascading effect as was existing in the CENVAT and VAT has been removed, second the credit of any taxes paid on purchase of Goods and Services by a person who is not the final consumer can be taken in the form of input credit and a chain of input credit from the producer's point till the retailers point is maintained till the goods are not sold to the final consumer. These are the objectives for which Goods and Service tax was implemented and this is the reason why Goods and Service tax is a simplified and integrated of disintegrated taxation system of CENVAT or VAT or other indirect taxes such as Service tax. But since the GST is at the central Level and its overriding the all indirect taxes whether imposed or levied by Central Government or even by State Government, it was necessary to give power to state governments to levy the tax on all services, to obtain their consent in implementation of GST. Hence the services which was taxable by the Central Government only is now taxed under the common mechanism of Goods and Service tax with, Goods and total amount of GST collected is in two parts, one of the central government and other one is of state government. Hence the services on which only central government was collecting tax prior to GST, is now also shared by State government and by this way the State government got the power to levy tax on services. However in case of interstate sales the whole amount of GST is collected by Central Government and not shared with State Governments (as it is actually a replacement of Central Sales Tax). Therefore the Goods and Service tax is technically justified for additional powers of the States for levy of tax on Services, with additional powers of Central Government to put the tax beyond the stage of manufacturing (as previously central government was able to charge only Excise duty, but not the sales Tax), comprehensive system of set off the taxes paid prior to further sales and last but not the least merger of all taxes into one.

IMPACT OF GST ON AUTOMOBILE SECTOR

As everyone was expecting the impact of Goods and Service tax on Automobile Sector is comparatively positive because of the reason that automobile manufacturers are expected to consider the tax liabilities which in the final sense proves on the shoulder of Consumer. Prior to GST, various kinds of Indirect taxes were implemented in automobile like Road Tax, Sales Tax or VAT, Registration Charges, and Motor Vehicle tax. With the introduction of Goods and Service Tax, these all have been merged into one tax under GST Regime. The benefit of incorporating all these taxes into one GST is that it has reduced the cost of transporting the Goods. Let it make specific to individual component like impact on Operational cost and Working capital.

If we talk about Operational Cost, so the impact has to be judged from the point that Central Sales Tax which was implemented on the interstate sales is completely removed, so the automobile companies as such do not need to maintain the number of warehouses in different states. This will impact their operational cost and will reduce it to the great extent. Simultaneously to it the tax cost paid on various other expenses like advertisement, and promotion, and other overhead, will be refunded in the form of Input Tax Credit, which will support in reduction of Operational Cost.

Since the Cost of Goods and Service tax has increased on various automobile products, hence the lock in working capital has taken place. This is because whenever any vehicle is sold out, or transferred, GST is cleared immediately but supply is taxable with GST, the capital turns to be blocked in the system. The dealer has to pay the amount of GST, on the day of receipt of advance. This makes dealers very cautious because they so as to avoid the hurting of their outflow. One of the other way in which Working capital of Automobile Dealer is impacted through GST is After Sale Service. Dealers use to provide the free service warranty cards to customers at the time of sale of vehicle, which is kind of customer benefit. On this they have to pay GST immediately, but customer may get redeem their services at any time later.

THE GST – THE REVOLUTIONARY CHANGE IN AUTOMOBILE INDUSTRY

For the businesses in the automobile sector, GST has been good from a compliance standpoint. The previous state-wise compliance system has now been replaced with a single window for all compliance-related matters. Multiple taxes have been subsumed under GST such as CST, VAT, Service Tax, Entry Tax, Excise Duty, etc. Now, corporates need to deal only with GST officers rather than going to different officers for the various tax departments. From the Government's point of view, it has also been beneficial because of GST revenue sharing between the Centre and States. As the premise of GST states that it is a consumption-based tax rather than an origin-based one, it will increase the revenue of many states because the numbers of consumers (from States across the country) are more than the manufacturers (who are typically located in clusters in few states). Finally, from the end-consumers' point of view point, GST has resulted in a mixture of positive and negative impact. Because, on one hand we have an increased cost associated with commercial vehicles which consequently inflates the selling price of daily consumed goods. And on the other hand, the GSTN Council simplified the process of input credit mechanism on manufactured goods and traded goods through the Anti-Profiteering Act, thus providing relief to the end-consumers. This will encourage corporates/businesses to pass on the benefit of the input tax credit to the common man on large scale by reducing the maximum retail prices of goods. In the non-commercial vehicle space, the varying rates based on the different categories and engine-capacities of cars have been structured bearing in mind the household incomes of different sections of society. There are multiple future implications which an also be traced when we talk about GST's impact on the automobile sector.

Impact of GST on automobile sector particularly is considered as a positive thing as manufacturers of automobiles will have to pay reduced taxes and ultimately customers will also be benefited. Before GST, various taxes such as sales tax, road tax, sector tax, VAT, motor vehicle tax, registration duty, etc. were imposed. All of these have been subsumed to GST on automobile services. 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. The overall effect of GST on the automobile industry is positive, as, on a whole, it has reduced the rate. Further, GST has enhanced the manufacturing of automobiles by reducing taxes to one and made the taxation system less complicated than before. Indian Government proposing to implement GST as a tool to increase its revenue and reduce its deficit. The implementation of GST is a changing face of India which is a welcome move and the government should be well equipped for that which is a symptom of fast paced economy. Findings of this study show that the level of awareness on the benefits of GST among Indians is still relatively low. It could be due to the lack of knowledge or information regarding GST. For this reason, the government should reflect on how to increase theknowledge of GST among citizen. Furthermore, they should put more effort in delivering information and educating the citizen regarding GST, so that the citizen will have positive view about this GST implementation.

CHALLENGES AND CLARITY NEEDED

1. **Valuation Disputes:** The Automobile industry has seen significant disputes under central excise valuation like: sale below the cost for market penetration, inclusion of State Industrial Promotion Subsidies retained by the manufacturer, deductibility of post-sale discounts from value under excise, valuation of demo cars, treatment of PDI charges and other dealer reimbursements, advertisement charges recovered from dealers etc., and sales through marketing companies and mutuality of interest.
2. **Job work**: The job work process is the backbone for automobile industry operations. The ModelGST law treats 'job work' as a service and seeks to maintain existing excise procedures for the job work transactions, i.e. non-taxability of job work transaction and providing credits to the principal for supplies to job worker, 180 days condition for bringing back goods after job work, etc. However, some more clarity is needed in the conceptual framework for job work else will pose a challenge.
3. **Credits on vendor tooling:** It is a common practice in the automobile industry for vendors to develop tools/ moulds for manufacture of parts of automobiles. Typically, the ownership of such tools is transferred to the OEMs, and the cost is also recovered from OEMs. However, the tools arephysically located in the vendor's factory for manufacture of parts. Under the Model GST law, the definition of 'capital goods' covers only those goods which are used at the place of business of supply of goods.
4. **Time of supply for payment:** Currently, under the excise law, duty is paid at the time of removalof the vehicles manufactured. VAT is paid at the time of sale of vehicles. The Model GST law specifies that the time of supply of goods shall be at the earliest of: Date of removal of goods, Date of which goods are made available to recipient, Date of invoice, Date of receipt of payment with respect to the supply, Date of receipt of goods as shown in the books of accounts by recipient. Under the existing law, receipt of advance towards supply of goods is not a taxable event, both under Central Excise and VAT law. However, under the Model GST Law, receipt of advance is sought to be treated as a taxable event.
5. **Dealer Incentive Schemes:** Currently, 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.

6. **Lack of clarity on subsuming of cess**: The automotive industry has witnessed several cesses, including automobile cess, NCCD, tractor cess and infrastructure cess. In the discussions on GST, the Government has indicated its intention to subsume all Central and State cesses into GST. However, on a reading of the Model GST law and the constitutional amendment bill, it is not clear as to whether the cesses levied under different legislations (for specified purposes) will be subsumed into GST or would continue under the GST scenario.
7. **Input Tax Credit:** The definition of capital goods has been drafted on the same lines as the existing CENVAT Credit Rules. Accordingly, input tax credit will be allowed only of those goods falling in specified Chapters to the Model GST Law. Further, the definition of inputs and inputservices also provides for exclusions. Therefore, it appears that even under GST, restrictions on input tax credit will continue. Further, a nexus of goods and services received is also required to beestablished with outward supplies. Accordingly, nexus-related litigation could continue under GST.

SUGGESTIONS

1.The public suggested that there should be a smooth, transparent a simple transition provisions which is easily understandable.
2.Special focus on awareness and training of all officers, professionals and assesses should be given on GST.
3.Any disputes on GST introduction should be pro-actively addressed by way of speedyredressal of cases.
4.An expert panel should be formed to recommend modifications to the Constitutions and it should be published for the mass public.
5.The public also are not well informed on the benefits of the GST. Therefore, in order to ensure efficient implementation of the GST, the government should come out witha proper guideline to the society on the procedures for the implementation of GST.

6.Lastly, the government must ensure a good management of the income collected fromthe GST.
7.The automobile wants the government to lend a hand by giving it an atmosphere that promotes development of this industry.
8.Now the customer wins and remains the king after the implementation of the GST
9.Anti-profiteering provisions need reconsideration as these may unnecessarily cause hardships to businesses. System should be made to ensure that this is not misused so as to cause difficulties.
10. Advance Authority for Rulings should be active at the earliest as GST law is already in force since July 1st, 2017.
11. Single cash ledger concept should be used instead multiple cash ledgers i.e. separate cash ledger for CGST, SGST, IGST, interest, penalty etc. Further it is suggested to allow partial / period payment of offset of tax so that an assessee can bear interest only on the short payment.
12. The issues being faced by the exporters should be dealt with and the refund procedureshould be activated immediately.
13. Rates should be rationalized and reduced to make India competitive and in interest of compliance and economic growth. The highest rate should be kept at 18% and there should be only few items that fall in 28% slab. Daily use items such as soaps, cremes, movie tickets, electrical goods should not be taxed at 28%.

CONCLUSION

The Goods and Services Tax or better called GST could be a Value added Tax and could be a comprehensive taxation which is levied on the manufacture, consumption, and sale of Goods and services. The Goods and Services Tax in India would replace all the indirect taxes which are levied today on goods and services by the Central and the State governments. GST is meant to be comprehensive for many of the Goods and services. Goods and Services Tax may be a single revenue enhancement for the complete nation, which might make India a unified market. It's proposed to be one tax on supply of Goods and services, from a manufacturer to the top consumer. The credit of all the input taxes which are paid at each and each stage would be allowed in the following stages valuable addition that produces GST basically a tax on value addition only at every stage. The consumer would bear only the Goods and Service Tax which is charged by the ultimate dealer in the availability chain, along with all the set-off benefits availed at previous stages. In simple words, Goods and Service Tax (GST) is a taxation levied on the provision of Goods and services. This law has replaced many taxation laws that previously existed in India. GST is one taxation for the complete country. Most countries with a GST have one unified GST system, which suggests that one rate is applied throughout the country. A nation with a unified GST platform merges central taxes (e.g. sales tax, excise duty tax, and Service tax) with state-level taxes (e.g. entertainment tax, entry tax, taxation, sin tax, and luxury tax) and collects them as single Tax. Various countries tax virtually everything at one rate.

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