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THE IMPACT OF GST ON THE SALES AND PROFITABILITY OF THE AUTOMOBILE DEALERS

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ABSTRACT

Goods and Service Tax has subsumed majority of the indirect Taxes that were prevailing in the Country. The Goods and Service tax is designed in such a way that it eliminates the cascading effects on taxes. The growth and development of various sectors of the country is dependent on the tax structure of GST. One of such is the Automobile Industry. The Indian automobile industry being a significant contributor to the Country's GDP will be impacted due to the implementation of GST. This study is undertaken in order to bring a clear cut idea on how GST works on the automobile dealers (especially cars). To bring out the manner in which the tax edifice is designed, the pros and cons of adapting the tax structure, the impact on the industry's operations, cost of acquisitions of material, sales and profits are the main motivation of this research.

The problems faced by the dealers due to a shift from the existing indirect tax system to an entirely new tax structure are several, which include the problem of assessing the value of goods and service provided, the puzzle relating to the rates of taxes and cess charged, working capital requirements, Positive and negative impact on the dealers etc. This research is determined to provide solutions to the unsolved questions on demand by making a comparison of the impact on pre and post GST regime.

The entire project is focused on assessing whether, the implementation of GST will help the automobile dealers grow in their sector, will it help the Indian Economy in reaching heights, will it enable the end consumers with a high standard of living at an affordable price and bringing

out clarity on the entire process of GST from the point of procurement to the point of consumption.

Index words: Automobile industry, GST Impact, Sales, Profitability, Pre post GST Comparison

INTRODUCTION

GOODS & SERVICE TAX:

The Goods and Service tax is an Indirect tax levied on the supply of goods and services. The Goods and service tax, which was introduced in India on 1st July 2017, projected to be an inclusive tax levy on manufacture, sale and consumption of goods and services by subsuming many indirect taxes that previously existed in India like VAT, Service tax, Excise duty, Entertainment tax etc. GST is same as the VAT already adopted by the states but with a wider base. While the VAT which replaced sales tax was enforced only on goods, the GST will be a VAT on goods and services. The Goods and service tax has been classified as State Goods and Service Tax (SGST), Central Goods and Service Tax (CGST) and Integrated Goods and Service Tax (IGST). The CGST and SGST is levied for the sales made within the state whereas, IGST is levied on the interstate sales. GST is levied on the sale value of the Goods. In other words, it is an inclusive, multi-stage, target-based tax that supports and enhances the economic growth of the country. For example, when a good is manufactured in one state and the same is sold in other state, the state in which the good is sold will receive the tax as the Goods and Service tax is levied at the point of consumption. Thus, GST facilitates the collection of tax and enhances the improvement of the economy by diminishing the tax barriers and integrating the country all the way through a uniform tax rate. In the pre- GST regime, tax was collected from every purchaser including the final consumer thus paving way to the cascading effect. The implementation of GST has diminished the cascading effects of taxes and facilitates the free tax structure and leads to augmented GDP growth. The GST will facilitate full input tax credit which has an advantageous impact on the prices of the product by dropping its production cost. By removing the tax falsifications, it ensures justifiable growth of India. However, the indispensible products and services that were exempted shall have an increase in their prices.
The automobile industry is very large which involves the manufacture of avery large chunk of cars and bikes. The automobile industry must be malleable in order to match the taste and preferences to acclimate to technological developments. Though GST is one of the biggest tax reforms it is also considered as providing challenges to the automobile industry.

Statement of Problem: Change is inevitable. Adapting to the change is demanding. Understanding the Tax system and the compliance to the same is important for every industry.

GST has brought about various obligations which require clarity.Valuation Disputes exist among the dealers as a result of shift from the existed tax structure to the GST Regime.Dispute relating to the valuation of second hand goods or used cars. Restrictions and conditions on eligibility to tax credits on assets used for business is also a major area of concern.Considering the above mentioned problems faced by the dealers, this research project is focused on bringing a clear idea and understanding of the issues

Impact on Procurement Cost:

In the previous tax regime, the duties were levied on the Maximum Retail Price (MRP) after discount on fittings, spare parts and machinery. Therefore the taxes were charged on anamount higher than the transaction value. This resulted in the increased duty payable by the dealers. However, under GST, the taxes are not charged on the MRP thus putting down the amount of additional tax payable on such components and accessories.

The tax amount and the CESS paid on the procurement shall be claimed as input tax credit against the amount of output taxes paid on its sale and hence the same paid is not included in the procurement cost. This in turn reduces the cost of procurement of equipments. Diminution in the procurement cost is ample as cascading of taxes was just accumulating cost to the dealers.

Below is a table showing the calculation of procurement cost for five categories of vehicles namely motor cycles, Small Cars, Mid-sized cars, Luxury Cars and SUV's. Assuming their cost of manufacturing to be Rs.60,000 , Rs.4,00,000, Rs.6,00,000, Rs. 25,00,000 and Rs.15,00,000 respectively the calculation is as follows:

Procurement cost before GST Regime:

Type of Vehicle	Vehicle Cost	Excise	CST	NCCD+ Auto CESS	Infra CESS	Total Tax	Purchase Cost
Motor Cycles	60,000	12.50%	2.00%	1.10%	1.00%	10,110	70,110
Small Cars	400,000	12.50%	2.00%	1.10%	1.00%	67,400	467,400
Mid-size Cars	600,000	24.00%	2.00%	1.10%	2.50%	180,480	780,480
Luxury Cars	25,00,000	27.00%	2.00%	1.10%	4.00%	866,000	3,366,000
SUVs	15,00,000	30.00%	2.00%	1.10%	4.00%	565,500	2,065,500

Note: The procurement is considered to be Interstate and therefore the same is calculated using the Central Sales Tax (CST) rate. If the procurement was intrastate, the cost shall be calculated using Value Added Tax (VAT) rate, which in turn shall be claimed as credit on its sale.

Procurement cost in the GST Regime:

Type of Vehicle	Vehicle Cost	IGST	CESS	Total Tax	Purchase Cost in GST	Reduction in Purchase Cost
Motor Cycles	60,000	28%	0%	16,800	60,000	10,110
Small Cars	400,000	28%	1%	116,000	400,000	67,400
Mid-size Cars	600,000	28%	17%	270,000	600,000	180,480
Luxury Cars	2,500,000	28%	20%	1,200,000	2,500,000	866,000
SUVs	1,500,000	28%	22%	750,000	1,500,000	565,500

Here, the IGST and the CESS paid shall be claimed as credit and hence not included as a part of procurement cost. Thus, the purchase cost shall be diminished due to anticipation of cascading effect.

It should be noted that the LokSabha has approved a bill to hike the rate of CESS to 25% on cars that are more the four metre length. This will include all the luxury, SUV's and Mid- Sized cars. However, this does not affect the procurement cost as the same is asserted as credit.

Impact on Sale Price:

GST is a consumption based tax. The reduction in the production cost passes on to the end consumer resulting in the diminution in the value at which the good is sold.

Assuming that the sale is made at a markup of 5% on the purchase price, the variation in the sale price pre and post GST regime is shown in the below table.

Sale Price before GST regime and during GST regime:

Type of Vehicle	Sale Price before GST regime			Sale Price in GST Regime		
	Sale Price	VAT @ 14.5%	Total SP	Sale Price	IGST @ 28% (1%, 17%, 20%,22% CESS)	Total SP+
Motor Vehicle	73,616	10,674	84,290	63,000	17,640	80,640
Small Cars	490,770	71,162	561,932	420,000	121,800	541,800
Mid-size	819,504	118,828	938,332	630,000	283,500	913,500

Cars						
Luxury Cars	3,534,300	512,474	4,046,774	2,625,000	1,260,000	3,885,000
SUVs	2,168,775	314,472	2,483,247	1,575,000	787,500	2,362,500

It is clear that the price at which the good is sold to the end consumer has decreased and the cost at which the dealer acquires the components is also low. This has largely impacted theproduction and sales in the industry. The implementation of GST is expected to boost the Industry's growth in the upcoming days.

Impact on Working Capital:

In the previous tax regime, VAT was not charged on the advance paid by the consumer for the purchase of a car. However, under the GST tax regime, the tax is charged on the advance amount paid by the consumer for the purchase made. This in turn affects the working capital requirement of the industry as there is an outflow of fund for the sale not made.
Sale of spares or vehicles is taxable when the same is distributed on interstate trade. Moreover, when a registered GST dealer makes sale to the other registered dealer who has a GST Identification Number, the same shall be taxable under the Scheme. Though the tax paid shall be claimed as credit in the future, it affects the working capital to a great extent, thus blocking the funds.Tax on Free Service Coupons has also impacted the Working Capital requirements. Tax is charged on the coupons distributed and not when the service is provided. Thus, it reduces the liquid cash of the dealer.
Warranty, Receipts, Commission and Incentives received from the manufacturer shall be taxed under the GST regime once the same is approved by the manufacturer. The tax on these receipts is not charged on the receipt basis and hence involves the risk of the manufacturer not approving the receipts or commission in the future. Thus, the dealer may end up in paying the tax for which income has not aroused.Goods and Service Tax (GST), an initiative to evade double taxation has created different levels of impact on various industries in the Indian Economy. One of such is the Automobile Industry which contributes a significant portion to India's growth and development. In the Early stages of GST roll out, Automobile industry made a warm welcome as they expected it to create a positive impact on its growth and sustainability. But the fear of high tax rates on the goods and services provided by the industry stood as a deterrent. However, the industry aimed at increased production and sale to the end

consumer. This was made possible, because of the availability of the goods at a cost lower than the one under the previous tax structure.

Impact on Valuation:

The amount collected by the dealers in the form of Insurance, Registration Fees, Charges on number plates and Charges on swiping the credit cards, were not liable to service tax in the previous tax regime if the services were provided as a pure agent. In certain situations, the dealer may charge amount more than the required actual cost with a markup. In such cases, the GST is charged on the entire amount received and provisions of the pure agent do not apply.

The valuation of commission has an immense impact on the dealers as the commission received from the manufacturers onroad side assistance and extended warranty is liable to tax on the whole warranty receipts and not on the commission portion. However, the same shall be claimed as credit in the future period. It shall be noted that, in the previous tax regime, the service tax was paid on the commission element of the dealer.

Deduction cannot be claimed in case of discount provided post supply unless and until the same is linked to the Invoice. Year-end discounts, special discounts etc. received from the manufacturer shall be brought in compliance with the present tax structure to evade taxes on high values.

Impact of GST on Used Cars:

Earlier, the dealers of the used cars had the liability to pay VAT at the rate of 5% for the sales made by them. After the roll out of GST, they will have to pay tax at the rate of 28% to 43% depending on the model, size and age of the car on the margin earned by them. Here, margin specifically means the difference between the price at which the dealer purchases the car from the seller and the price at which he would sell it to the end consumer. Since the GST is charged at 28% to 43%, the ultimate bearer of this high tax rate would be the end consumer, which increases the price at which he pays for the second-hand cars than in the previous tax regime.

For Example, let's assume that the buyer purchases it from an unregistered Individual for a price of Rs. 300000. And the dealer wishes to sell the same car to the end consumer at a price of Rs.400000. Here, the tax payable by the dealer will at the margin. Ie.Rs.100000.The tax charged on 100000 at the rate of 28% will be 28000 which will be added to the price of the car payable by the end consumer. Thus, the buyer has to pay more for the car he purchases.

In case of Exchange offer with the dealer, the tax is charged on the new motor vehicle purchased. For Example, When a used car is sold to the dealer for Rs.200000 and a new car is purchased for Rs. 1000000. The tax is charged on the transaction value of Rs.1000000.

A registered dealer purchasing from an unregistered individual is liable to pay tax under Reverse Charge Mechanism as per section 9.4 of the CGST Act. However, the dealer is exempted to tax under RCM if he pays tax under the margin scheme.

As per the recent notification from the GST Council, CESS will not be levied on the sale of used cars. The circular has also notified that there may be a decrease in the GST rate, which may fall to 12% or 18% from the existing 28%.

The tax to be charged on purchase from unregistered dealers is not considered to be a taxable supply and hence no GST has been charged. However, the taxability on purchase from unregistered dealers is suspended only till 31/3/2018.

Impact on Transitional Credit:

In the previous tax regime, the dealers were not availed with the credit on the excise duty. Under the GST scheme, the excise duty shall be claimed as credit by the dealer for the value of stock held by him. This shall be done on the basis of the availability of Invoices. However, 60% of CGST paid on Intra stateoutward supplies and 30% on Interstate outward supplies can be claimed as credit, if the invoices are not available. By issuing a Credit Transfer Document (CTD), the manufacturer can avail the credit on excise duty paid by transferring the same to the dealer who is registered under the GST. The dealer in turn can claim the credit as per the documents transferred.

The manufacturer can issue the Credit Transfer Document (CTD) only if the value per unit is more than 2000, has a brand name of the manufacturer and is separately identifiable..

The unclaimed credit under the service tax can be claimed if the same is reflected properly in the service tax returns using form TRAN- 1. Credit shall be availed on the stock of spares and cars as well.

The dealer who was not availed of the credit under VAT laws shall be given credit under the GST regime on the value of the stock held. However, this shall be made available only the VAT returns replicated appropriately.With the tenure of appropriate documents, the entry tax shall be set off under GST.

In short, a manufacturer or dealer who has paid duty and taxes under the earlier tax regime can take the credit on the goods available with him as closing stock which is supported by the invoices. This shall be applicable if the invoices raised are dated less than a year. However, if the manufacturer does not have appropriate invoices to support the payment of duties under the previous tax regime, he shall not be availed of the credit under the present tax structure. But, the credit can be availed by the dealer on the absence of the invoices only if the stock is identifiable separately and the benefit is passed on to the consumer. The credit shall be availed at a rate of 60% on the intra-state supplies and 30% on interstate supplies.

Conclusion:

Just as a coin has two sides, for any change happening there is a pro and a con. Likewise, the implementation of GST has created both a positive and a very little negative impact on the Automobile industry. The procedural complexities relating to making available the input tax credit is reduced. The cost at which the raw materials are purchased has reduced which in turn increases the number of units produced. The sale price to the end consumer has fallen resulting to a hike in the number of units sold. The duties and CESS paid on procurement were not availed to credit under the previous tax structure; however, the CESS paid under the GST regime shall be given credit, which in turn is the main reason for the reduction in the procurement cost.

On a Contradictive side, there exists a bunch of unsolved problems relating to the working capital requirements of the Industry. In addition to this, the frequent change in the tax rate and CESSdone by the GST council may lead to a failure in the future projections of the automobile companies. Taxes charged on Used and Demo cars seem prohibitive. The taxes charged on commission and other incentive is likely to affect the cash held in hand by the industry.

On a short note, the impact of GST on the sale and profitability of Automobile Industry (particularly cars) has a positive impact as the same results in increased production, sales and profitability, thus contributing to the growth of the Indian Economy and improved standard of living of Indian Citizens.

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