

# HIGHS AND LOWS OF GST: WITH SPECIAL REFERENCE TO AUTOMOBILE INDUSTRY

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**Abstract** - Goods and Services Tax is a singular tax mechanism based on the core concept of 'one nation one tax'. Guarded by innumerable legislative, political and technical hurdles, the giant tax structure came into effect on 1st July 2017. Initially, this indirect single tax mechanism was opposed and criticised by a major sections of the country but with the passage of time and continuous adjustment made both by the Government as well as the general public, the concept has gained its acceptance. GST has made its own path of preference and acceptance due to the benefits offered by it to most of the major players of the Indian Economy. Keeping that factor in mind, I have highlighted the benefits gained and challenges faced by the Automobile Industry after the implementation of GST. This paper will focus on the brief introduction of the Goods and Services Tax, Indian Automobile Industry and will present the merits and demerits of GST with respect to Automobile Industry in India.

**keywords** - GST, Automobile Industry, Input Tax Credit.

## I. INTRODUCTION

The Financial Year 2016-17 witnessed a major change in the history of Indian taxation system when the Finance Minister, Mr. Arun Jaitley announced the implementation of a unified tax rate in the form of GST in the country. The first proposition of GST was made by the Prime Minister Late Shree Atal Bihari Vajpayee in the year 2000. Overcoming all the criticism and hurdles, the Constitutional Bill of 122<sup>nd</sup> Amendment was passed in the year 2014 to introduce GST in the country, which was ultimately passed by the Parliament on 8 August 2016. GST is a value added, consumption based taxation system which has evacuated the entire tax payers including all the businessmen and traders to a different level of taxation environment. While subsuming the entire family of indirect taxes, GST can undoubtedly be called as the mother of Indirect tax. Before the implementation of GST, India was having more than a dozen of indirect taxes which were very complicated for all the parties, to pay, administer and manage.

One of the main objectives behind GST implementation was to remove the cascading effect of tax and to bring uniformity and transparency in the taxation system across the nation. To fulfil the objective, this new taxation mechanism provides the facility of Input Tax Credit or ITC, where the tax paid by the manufacturers and traders on the materials and inputs are claimed back which equalize the amount of tax to be remunerated on the goods and services supplied. With this facility, the ultimate amount of tax is paid by the consumer of the goods and services which not only reduces the tax burden of the business class but also diminishes the cost of the product and hence, the consumer also pays less for the goods or services purchased.

GST can be mainly classified as-

- Central Goods and Services Tax (CGST)
- State Goods and Services Tax (SGST)

Both of the types are self explanatory as the name suggests. The former comes under the charge of Central Government and the later is administered and managed by the respective State Government. Apart from the above two, Integrated GST (IGST) and Union Territory GST (UTGST) are also in force.

Being one of the major financial reforms, GST has impacted almost all the major and minor sectors of our economy. It has come out with both the sides of a coin, that is, along with the advantages it has put forwarded a number of challenges and issues before the working section of different Industries which are still tackling the problems with respect to GST mechanism. Among such Industries, the Automobile Industry is also facing the pros and cons of GST implementation. In the past few years the Auto sector has emerged as one of the fastest growing sector of the Indian Economy and it has shown marked contribution towards the overall exports and production in the country. The Government has set many plans and is looking positively for the progress, development and assistance of this Industry. With the advent of GST, the Automobile Industry has benefitted to a considerable extent but is also faced with a number of technical and other challenges which will be discussed in this paper.

## II. REVIEW OF LITERATURE

- Prof. Dr. Vijayalakshmi Srinivas and Prof. Prasad Ghodke (2020) studied, "GST- Awareness, Perception and Practical Difficulties of Entrepreneurs in the Unorganized Sector of Beed district" and found that most of the entrepreneurs in the unorganized sector are not aware about the GST Structure and they are not satisfied with the implementation of GST and

because of this they have negative perception about this taxation system. Most of the difficulties they are facing are due to the lack of knowledge and awareness regarding the working of GST mechanism.

- Sudipta Chakraborty (2018) studied, “Effects of GST on MSMEs and its impact on GDP Growth of India- A Study” and found that these sectors have faced two fold consequences right from the time when the Indian Government has announced the New Tax Regime till the post implementation period. In the initial stage, it was very difficult for the small and medium entrepreneurs to cope up with the challenges put forth by the GSTN but after the continuous initiatives and financial support by the Government and financial institutions the MSMEs have shown signs of improvement and progress.
- Dr. S. Gautami (2018) studied, “Effect of Goods Services Tax on Micro Small Medium Enterprises in India” and explored the level of awareness among small business entrepreneurs on GST. As per the study conducted, majority of the respondents were aware about the GST mechanism and that there exists a positive relationship between the business size and awareness level. The entrepreneurs have agreed that they would face serious issues and problems which have arisen because of the implementation of GST.
- Akshara Mahesh and Karthika k. (2018) have studied “Impact of GST on Automobile Industry in India” and concluded that major reduction has been noticed in the prices of luxury cars which will boost up their sale, however, the result is not so in case of small cars. The authors have concluded that GST will be beneficial for the automobile sector in the long run.
- S.D Kharde (2017) studied “Impact of GST on Indian Automobile Industry” and found that customers who would buy small and mid size segment vehicles will gain the most among all the different segment buyers.
- Pooja Jha and F.B Singh (2017) studied “A Study on Implementation of GST and its Repercussion on Indian Automobile Sector” and found that GST regime has a positive outlook for the Automobile Industry in terms of improved efficiency in road logistics and reduction in the prices of small cars and two wheelers but focus should be maintained on proper administration of GST and issues resolution.

### III. OBJECTIVES OF THE STUDY

- To study the benefits of GST to the Automobile Industry.
- To understand the problems and challenges faced by the Automobile Industry with the implementation of GST.

### IV. RESEARCH METHODOLOGY

To meet the set objectives emphasis has been given on the secondary data which has been collected from the online database, auto sector websites, newspapers, research journals, etc.

### V. BENEFITS OF GST TO THE AUTOMOBILE INDUSTRY

The advantages and benefits of GST implementation which has been gained by the Automobile Industry can be understood from the following points:

- **Reduction in tax rates:** The overall tax rates which were levied earlier on the different vehicles have been considerably reduced to a great extent. Major reduction in the tax rates on small cars and two wheelers have been noticed. Small cars have a tax cut of flat 10% and in case of mid size cars it has been a sharp deduction of 21%. Reduction in tax rates would surely reduce the overall cost and price of the vehicles and hence, the demand and sale would increase.
- **Input Tax Credit:** It means at the time of paying tax on output one can reduce the amount of tax already paid on input. Under the GST mechanism, the manufacturers and retailers can claim back the tax paid on the materials in the form of Input tax credit which was not there before the implementation of GST. With this facility, the ultimate tax is paid by the consumer at the time of purchase of the product.
- **Single and Unified market:** Due to the removal of cascading effect of taxation under model GST law, the price of the products and services are same throughout the country and hence it has made the entire country as a single common market where one can easily trade and perform his business operations smoothly.
- **Exclusion of subsidies on electric vehicles:** Under the GST law, the amount of subsidy is excluded from the transaction value of the electric vehicles which directly means reduction in tax cost and this reduction will ultimately benefit the consumer along with the manufacturer of electric vehicles.
- **Time Factor for GST payment:** Time factor refers to the payment of CGST and SGST at the earliest of the following time period: when the goods reaches the recipient, date on which goods have been removed, date which is mentioned on the invoice or the date on which goods have been received by the recipient as per his books of accounts.
- **Job Work:** Under the model GST law, the principal can send the taxable goods to the job workers for some processing of a part or whole of the work without paying any tax to him. It is to be noted here that the goods sent for processing to the job workers must be brought back to the principal within 180 days.

### VI. CHALLENGES AND ISSUES:

Following are the issues and problems encountered after the model GST law was implemented-

- **Input Tax Credit:** The facility is available only on capital goods and further more the definition of capital goods is same as it was in the earlier CENVAT rule. Apart from this, Input Tax Credit is also subject to certain exclusions and conditions which must be adhere to before enjoying this facility of tax credit
- **Technical Up gradation:** The GST filing procedure and other legal requirements which need to be performed on the GST portal requires well trained and expert staff to deal with the technical knowhow of GST which has not only added to the technical challenges but has also increased the financial cost to hire and train the workforce of the auto sector.

- **Ambiguous MoU Incentives:** The State Government offers Investment Promotion Scheme to the automobile manufacturers in the form of refund of VAT or as a loan. Under the GST law, the tax is charged on the consumption point and not on the state of origin which will significantly reduce the flow of IPS because in case of interstate sales GST is not credited to the state of origin.
- **Cost of Vendor Tooling:** The vendors of Automobile Industry develop tools for manufacturing parts of automobile which are though kept in the vendor's factory but their ownership is passed on to the OEMs. As the GST law provides for the claim of credit only on the goods which are used at the business place, OEMs are faced with the challenge of claiming tax credit on the cost of these tools.
- **Disputes related to Valuation:** The model GST law is a bit unclear regarding the Transaction Value as what to include and what not. Wide powers and rules are there to reject the transaction value of any spare part or tool which can lead to significant disputes on the valuation matter.
- **Blockage of Working Capital:** Tax under GST is charged on the vouchers and is to be paid at the time of issue of such voucher which will block the working capital to the extent of the amount of tax at the time of issue of such vouchers.
- **High tax rates on Passenger Cars:** Passenger cars have experienced an increase in tax rates as compared to the tax rate applicable pre GST which is a matter of grievance for the automobile industry.

## VII. CONCLUSION AND SUGGESTION:

It has almost been four years of GST implementation and the impact of GST on the Automobile Sector is both positive and negative. On one hand, the industry has gained tax cuts in the different sections and types of vehicles which has reduced the overall cost and price of the different vehicles and on the other hand there are still some regulatory provisions which need to be addressed and revised by the Government authorities to make the model GST law more convenient. Although the GST model has called for many changes and technical requirements for almost all the sectors of the economy to comply with the legal and other regulations of the taxation regime yet, the Automobile Sector has welcomed it and with the advent of time the new taxation model has shown positive outlooks and growth opportunities for this industry across the nation. The fact cannot be denied that still there are some issues which need to be considered in order to cope up with the challenges of GST regulation but the benefits are greater as compared with such issues. The Government has set high plans and targets for the Indian Automobile sector and the best part is that it has been consistently showing the results to accomplish the same.

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