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Role of Model GST Law on Automobile Sector

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Abstract - After the 1990s, India's economic reforms propelled the country's emergence as a globally connected nation, with notable gains in regulatory effectiveness, macroeconomic stability, and geopolitical steadiness. One of the fastest-growing economies on the Asian continent has been India in recent years. With the introduction of GST, India's indirect tax system stands to undergo a significant shift. As a result, it's sometimes referred to as "the mother of indirect taxes" since it will include the vast majority of the other types, making it easier for taxpayers to understand. The article explains the history and purpose of the planned GST and its impact on the Indian economy, with a focus on the automotive industry. The relevance of GST is re-examined in the study, and the conclusion is drawn.

Keywords - GST, Automobile Industry, Direct Tax, Indirect Tax

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INTRODUCTION

After the 1990s, India's economic reforms propelled the country's emergence as a globally connected nation, with notable gains in regulatory effectiveness, macroeconomic stability, and geopolitical steadiness. One of the fastest-growing economies on the Asian continent has been India in recent years. In the last three decades, India has seen spectacular indirect tax reform and proven economic endurance by beginning on another breakthrough in July 2017. [1]

India's development narrative has been topsy-turvy yet reasonably steady. Experts say that the Goods and Services Tax (henceforth GST) represents a substantial shift in taxes by the Indian government after the liberalization of the Indian economy in 1991. GST is a good and much-needed indirect tax reform in India, which has taken a long time to implement. By streamlining the tax system and decreasing the number of state and national taxes, GST has made corporate procedures more efficient than ever before. [2]

The Goods and Services Tax (GST) is a levy that is levied at the point of final consumption indirectly, it seems to have affected consumers and directly harmed companies, but its ripple effect is being seen throughout the three key sectors of the economy. [3]

A decade-long debate on tax reform in India had to come to an end because of the complexity and inefficiency of the country's prior tax systems. Cascaded turnover taxes between the federal government's centre and the states were the primary cause of the regime's inadequacies, which made it less comprehensive. To use just one example, central taxes were unable to cover the value addition in items outside of manufacturing, including a few designated services. [4]

India's government launched the long-awaited Goods and Services Tax (GST) in July 2017 in an effort to overhaul the country's indirect taxation structure. FICCI referred to it as a "big bang" economic change following independence because of its significance. Despite the benefits and drawbacks of the Indian GST, stakeholders have a limited knowledge of the impact it would have on the economy as a whole. Even though GST rollout is a process innovation in the economy, there is a lack of information about how to deploy innovation in the rising Indian public policy sphere. It's time to go further into the designated area to see how GST has fared in the economy and what the various stakeholders' reactions have been. [5]

LITERATURE REVIEW

ARUN KUMAR DESHMUKH ET AL (2019) A federal structure has largely complimented India's willingness to implement much-needed fiscal changes, such as the long-awaited implementation of the Goods and Services Tax (GST) (GST). Post-independence, it's been a substantial economic shift that necessitates verification of data. Using an innovation implementation theoretical viewpoint, this paper examines how the introduction of GST has affected tax administration and the overall economic well-being of a democratic political economy like India. In addition, the research sought to learn how stakeholders still felt about such sweeping reforms three years after it was implemented. The research used a case-based qualitative inquiry to examine whether or not the introduction of the GST had a significant impact on the economy in general and on citizens and/or customers in particular. For the case study, the situation–actor–process; learning–action–performance framework was used. In terms of revenue collection, the data show that India's tax base has grown enormously. One would hope that the low tax-to-GDP ratio, the uneven distribution of GST payers, the unfavorable sentiment analyses on Twitter, and the ills of tax evasion might be improved. Benefits for consumers and small and medium-sized enterprises (SMEs), an increase in the ease of doing business rating, and the government's Aatmanirbharat and Make-in-India initiatives are also highlighted. [6]

MS. CHARMI KARIA ET AL (2020) in the pre-GST era, the federal and state governments imposed a variety of taxes on the same supply chain. Cascade impact of taxes occurred because taxes imposed by the federal government could not be deducted from taxes imposed by the states. Since these issues were considered, the various levies were consolidated into one tax called the goods and service tax (GST). After deregulation, India's automobile industry is one of the most productive and fastest-growing segments of the country's industrial sector. Economic growth and job creation are two of the many possible outcomes of this sector's progress. As a result, the Indian government is now working on a plan called Automotive Mission 2026 in order to compete with the world's biggest country. Prolific car exporters in India are also identifying new markets in rural areas that will help the sector's growth in the foreseeable future. Since all taxes will be rolled into one under GST, it is vital to anticipate how GST would affect this business. Tax reform in India's automobile industry is examined in this article. [7]

JOY THOMAS ET AL (2020) it has been adopted in almost 150 nations so far, the Goods and Service Tax (GST). The new GST system went into effect on July 1st, 2017 in India. It is a consumption tax, or an indirect tax on the supply and sale of goods and services. All prior state and federal taxes are included in this one. In contrast to past taxes, which were collected at the source, the GST is set up to collect tax at the point of consumption. The car industry in India is the focus of this research, which examines the many forms and implications of the Goods and Services Tax (GST). [8]

ASHOK SHARMA AT AL (2018) As India's fastest expanding industry; automobiles have a direct link to reform policies that affect domestic demand and trade. India has one of the greatest automobile industries in the world. 7.1 percent of the country's GDP is attributed to the industry's output. There are eight of the world's top commercial vehicle manufacturers in India, including the world's largest tractor producer as well as the world's second-largest maker of two-wheelers and buses. India also ranks fifth in the world for heavy truck manufacturing. The objective of the Automotive Mission Plan 2026 is to make India's automotive industry one of the top three in the world in terms of production, engineering, and exports of automobiles and components. According to statistics given by the Department of Industrial Policy and Promotion (DIPP), the sector has received $17.40 billion in FDI from April 2000 to June 2017. (DIPP). Due to an expanding middle class and a youthful population, the two-wheeler category dominates the Indian automobile industry, accounting for 80% of total sales, while the passenger vehicle segment accounts for 14% of total sales. Auto exports from India are also increasing, and vehicle makers are increasingly looking into rural areas, which would help the industry flourish. For this business, it is vital to anticipate the effect of the Goods and Services Tax (GST), which combines all taxes into one. An effort has been made in this article in order to highlight the effect of GST on the Indian car industry [9]

MR.S D KHARDE ET AL (2017) The Goods and Services Tax (GST) Over 150 countries have already adopted the GST. Indian economy would be transformed by the introduction of the Goods and Services Tax (GST), or as it is well called. Despite this, there is a strong opposition to its adoption. It'd be fascinating to look into how it affects the economy of India. The report will focus on the effect of GST on India's car industry. The car industry and the contrast of former tax schemes with the GST policy [10]

THE PROS AND CONS OF MODELGST LAW ON AUTOMOBILE SECTOR:

1. Taxation and variation in price of automobile

Smaller automobiles and two-wheelers are expected to profit from lower taxes, while larger vehicles like SUVs would be taxed at a higher rate, according to a study by the International Credit Rating Agency (ICRA). According to ICRAviewpoint, if the GST rate is 18 percent, there might be an 8-10 percent fall in car rates.

2. Input tax credit

So when paying taxes on product, it's possible to lower the taxes previously paid on input. Under model GST legislation, only items that are utilized at the point of sale of products are considered capital goods.

Table 1: Distribution of Taxes

Duty structure for automobiles OEM under current and GST Regime	Excise duty	NCCD	VAT	CST	Effective tax	Likely GST	Comments
Two wheelers	12.50%	1.00%	12.50%	2.00%	30.40%	17-19%	Likely to get cheaper
Small Cars(length<4m)	12.50%	1.00%	12.50%	2.00%	30.40%	17-19%	Likely to get cheaper
Sedans (length > 4m with engine < 1,500cc)	24.00%	1.00%	12.50%	2.00%	43.70%	higher	Likely to get cheaper
Sedans (length > 4m with engine > 1,500 cc)	27.00%	1.00%	12.50%	2.00%	47.20%	higher	Likely to get costly
SUV's	30.00%	1.00%	12.50%	2.00%	50.20%	higher	Likely to get costly
Three Wheelers	12.50%	1.00%	12.50%	2.00%	30.40%	17-19%	Likely to get cheaper
Commercial Vehicles	12.50%	1.00%	12.50%	2.00%	30.40%	17-19%	Likely to get cheaper

OEMs' locations seem to be qualified for input credit. Consequently, this presents a problem for the OEMs when it comes to obtaining credit for vendor-supplied tools. This means that either the cost of tooling for OEMs will go up or they will have to come up with a solution of their own.

3. Unified market

Because of the elimination of the cascading impact of taxes under the model GST legislation, prices for goods and services throughout the country would be equal.

4. Job work and GST

In order to finish a step or the whole process, workers process the supplies provided by their employers. Under the GST rules, job workers may get tax-exempt products from their employer and must return them within 180 days.

5. Time of supply for payment of GST

The need to pay CGST and SGST will emerge at the earliest possible moment when items are sold under the GST:

- The date of the items' removal
- when the products will be made accessible to the customer
- The invoice date
- The date when the supplier received payment for their goods.
- According to the recipient's account book, when products were received.

6. Dealer incentive scheme and GST

No VAT applies to dealer incentive programmers, while the application of service tax to dealers might vary based on the parameters of each programmed. Dealers are not providing an independent service to the manufacturers, but rather are providing post-sale discounts, according to the industry's position It's unclear from the Model GST statute whether or not these reductions and incentives are subject to GST. As a result, the question of whether these incentives/discounts would affect the price and credits, or will they be kept out of GST (in the VAT chain) has to be addressed. This needs more investigation. As a further consideration, if such plans are subject to GST, it is important to know if they are considered services or products.

7. Impact of GST on logistics

The proposed Model GST legislation is anticipated to alleviate the many bottlenecks and complexity that arise when commodities are transported by road.

8. GST is yet to provide clarity on taxation for excise duty or vat exempted manufacturing unit

It is not apparent how exemptions would be handled under the new GST system. Existing units, on the other hand, are expected to continue to benefit from the programmed until it expires. There is no better example than Ashok Leyland and hero MotoCorp.

9. Stock in the hands of dealer on the transition date – possible double taxation the transition provisions provide that credit

Carrying forward of current regime balances is possible under GST. Excise tax and CST paid by a dealer to acquire stock is not eligible for credit under the current system. As a result, the transfer of such taxes/duties from the dealer's stock must be permitted. To avoid double taxation, such stocks will have to pay excise duty and CST and CGST on supply after the appointed date under the GST system.

10. Lack of clarity on MOU incentives

Car businesses' investments have a huge impact on the state's economy and have a big multiplier effect. Investment Promotion Subsidies are a common kind of state incentive (IPS). State Investment Promotion Subsidies are given to a large number of vehicle manufacturers by the State Government (IPS). Loans and refunds of VAT/CST paid are also options.

The tax burden shifts from the source state to the destination state as a result of the adoption of GST. Due to the fact that GST on interstate sales does not go back to the origin state, this would reduce the amount of IPS flow back to the origin state. Segment growth is now being bolstered by factors that were previously discouraging.

Segments	FY2015	FY2016	FY2017(e)	Growth Drivers
Commercial Vehicles	(2.8%)	11.5%	12-13%	Pick-up in infra & mining sectors to Support recovery in tippers??Pre-buying owing to implementation of BS-IV (by April 2017)??Replacement-led demand due to ban on old vehicles
Passenger Vehicles	3.9%	7.2%	8.5-9.5%	? Improving sentiment levels in urban Market; Return of FTBs? Replacement demand due to ban on old diesel vehicles ? Expectation of recovery in rural demand From H2 FY 2017? Favorable impact of Seventh Pay Commission
Two Wheelers	7.9%	3%	4-6%	? Favorable impact of Seventh Pay Commission? Expectation of better demand from rural areas in H2 FY 2017
Tractors	(13%)	(10.5%)	7-8%	? Primarily contingent on outlook on Monsoon? Rabi harvest (March-16) was Healthier than expected? Agri-Commodity Prices have started inching upwards? Subsidy program in states like A.P., Telengana and M.P.

CONCLUSION

Improved road logistics efficiency, lower prices of small cars and two-wheelers, and lower taxation are some of the benefits of GST for the automobile industry, but more clarity is needed on the multiple aspects of the draught model of the GST law, such as the treatment of tooling costs, tax for job w, and the treatment of input costs. Thus, the study paper's conclusion is that reduced taxing is anticipated to increase demand for automobiles, but customers may wait until more information on new taxes surfaces before making a purchase. As a consequence, new car sales may drop in the near future. GST administration and dispute settlement (especially on interstate transactions) are very significant. In addition, the sector expects the changes in procedures to be communicated in advance and may demand a six-month lead time before the implementation of GST.

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