GST and Auto Component Industries

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**Goods and Service Tax – An Overview**

GST is a Destination Based Tax Mechanism where taxable event will be Supply of Goods or Services. India has Dual GST structure where Central and State will both levied GST on same taxable value of Supply. For supplies within the state both CGST and SGST will be levied and supplies across states attracts IGST levied by the Central.

Every person with more than 20 Lakhs of turnover and making Inter-state supplies is labile to be register under GST.

Composition Scheme is available to person whose turnover does not exceed 50 Lakhs and who did not make any Inter-state supply (outward), no Input credit be taken and no supply is made through electronic commerce operators.

Supply of Goods will be taxable event and tax will be payable on the basis of following event:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Time of Supply</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Supply of Goods</strong></td>
<td>Earlier of the following:</td>
</tr>
<tr>
<td></td>
<td>• Date of Issue of Invoice.</td>
</tr>
<tr>
<td></td>
<td>• Receipt of Payment.</td>
</tr>
<tr>
<td><strong>Reverse Charge Mechanism on</strong></td>
<td>Earlier of the following:</td>
</tr>
<tr>
<td><strong>Supply of Goods</strong></td>
<td>• Date of Issue of Invoice.</td>
</tr>
<tr>
<td></td>
<td>• Date of Receipt of Goods.</td>
</tr>
<tr>
<td></td>
<td>• Date following 30 days from the date of Issue of Invoice.</td>
</tr>
</tbody>
</table>

Import will attract Custom Duty and IGST, whereby one can take ITC of IGST paid at the time of export. Export and supply to SEZ will be treated as ZERO RATED supplies.

GST Council presently recommended 4 tier tax structures as follows:

- 5% - Essential Goods.
- 12% - Standard Slab.
- 18% - Standard Slab.
- 28% - Luxury and De-merit Goods. (Also attracts additional cess).
There will be following four Acts which govern GST in India:
- The Union Territory Goods and Service Tax Act.

GST Regime will change current Business dynamics by inducement of clear ITC mechanism, Records and data capturing, and Statutory Compliance with Cross-verification trails.

The Input Tax Credit set-off will be as follows:

<table>
<thead>
<tr>
<th>TAX</th>
<th>IGST</th>
<th>CGST</th>
<th>SGST</th>
<th>UTGST</th>
</tr>
</thead>
<tbody>
<tr>
<td>IGST</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>CGST</td>
<td>✓</td>
<td>✓(2)</td>
<td>Not Allowed</td>
<td>Not Allowed</td>
</tr>
<tr>
<td>SGST</td>
<td>✓(2)</td>
<td>Not Allowed</td>
<td>✓</td>
<td>Not Allowed</td>
</tr>
<tr>
<td>UTGST</td>
<td>✓(2)</td>
<td>Not Allowed</td>
<td>Not Allowed</td>
<td>✓(1)</td>
</tr>
</tbody>
</table>

* ✓ implies set-off allowed and Number in brackets implies order of set-off

GST overcomes the limitations in current Indirect Tax regime such as Multiple Taxable events, cascading effects of central and state tax. Though, GST comes with so many advantages albeit there will be increase in compliances cost as separate state wise return and accounting will be require. There will be 3 Monthly Returns on (10th, 15th, 20th day of following month) and 1 Annual Returns on before first 31st December following end of financial year.
Auto Component Sector – An Overview

In past few years Auto Component Sector has recorded robust growth. Revenues have risen to more than 2.5 Lakhs Crore in Financial Year 2015-16. Auto-component industries share the proportion of 25.6% of total Indian Manufacturing and accounts to 2.2% in GDP of India. It caters more than 19 million employments directly or indirectly. Based on current annual growth rate it is estimated that India will be 4\textsuperscript{th} largest automobile producer after China, United States and Japan by end of Financial Year 2020-21 this growth of Automobile sector will directly related to growth of Automobile Component Sector.

Organised Sector sales to OEM i.e., Automobile Manufacturers whereas Unorganised sector fosters the need of after sale services and replacements. Number of Manufacturing unit is unorganised sector is far more than Organised Sector albeit Organised Sectors accounts for 85% of total industries turnover. Both the sectors have their own peculiarities in their respective business methodology.
IMPACT ON ORGANISED SECTORS OR THOSE WHICH SALES DIRECTLY TO ORIGINAL EQUIPMENT MANUFACTURERS (OEMs)

Organised Sector set-up their manufacturing or depots at the nearest location to Automobile Manufacturers to cater Just-In-Time approach of the manufacturers and thus operates on multiple-plant or multiple location business structure and works in Decentralised operations practice. Currently, this mode of operation saves automobile manufacturers (OEMs) from non-creditable CST and attracts state creditable VAT.

The GST regime aims to finish Input Tax Credit hurdles on transactions between different states and will create one market across India. Under GST unbroken Input Tax Credit will prevails across India which calls for significant changes in current supply chain methodology and automobile component sector is not the exception. GST comes with the opportunity to reengineer act of doing business in India.

The Organised Sector may start re-emphasis to combine its operation to gain from economy of large scale with centralised control as nearness with OEM will no longer be the need for their business since procurement from other states will be at par with procurement from same state.

Apart, from above currently Auto Component Manufacture makes pricing arrangement with OEMs such that they settle for periodic rates. In between price fluctuation of finished goods on account of changes in raw materials prices, changing dollar rates, change in EXIM or regulatory policies etc., will be settle periodically either through Debit Notes (on Upward rates revision) or Credit Notes (on Downward rates revision).

Under GST regime, any post sale revision in prices is required to be effected through credit notes/ debit notes which are specifically linked with original invoices. Therefore, unlike under the current regime, auto component manufacturers/ OEMs would not be able to raise single debit note/ credit note against multiple invoices, and would be required to raise debit note/ credit note equivalent to number of invoices for which prices are adjusted. Therefore, post-sale price revisions are likely to increase administrative efforts under GST regime.
IMPACT ON UNORGANISED SECTORS OR THOSE DEALS REPLACEMENT MARKET

This segment operates through multiple distribution chain and large dealers’ network. The industries of this segment set-up their mother depots in each different states to saves dealers from CST cost. Now there are possibilities that these segment may look for new avenues to optimise supply chain operation and saves from working capital cost.

Under current Indirect Tax regime the dealers of auto components immensely impacted by cascading effects. Dealers cannot claim Input Tax Credits of Excise Duty, Service Tax, and Entry Tax etc. thereby increase in supply chain cost and increase in price to consumer is quite natural. With GST, all these tax costs could cease to exist as dealers would be able to take input credit of GST paid at the time of procurement of auto components. Therefore, the pricing of auto components in replacement market should have a favourable impact of GST.

Typically, most of the auto component manufacturers provide incentives to dealers in the form of discounts/ credit notes etc. Generally, the discount is contingent on achieving periodic quantitative target by the dealers. Accordingly, if a dealer achieves the periodic target, then the auto component manufacturers provide the dealer with discount for all the purchases made during the period. This discount is in nature of post-sale discount which is passed through a single periodic credit note. As mentioned earlier, under GST regime, any post sale revision in prices is required to be effected through credit notes/ debit notes which are specifically linked with original invoices. Therefore, replacement market segment schemes/ discounts are likely to increase administrative efforts of auto component manufacturers under GST regime. Hence, the manner of incentivizing dealers may warrant restructuring.
COMMON IMPACT ON BOTH SEGMENTS

The expected rate of GST on auto component is 18%. However, the current effective rate for Intra-state transactions is approximately 27% and in case of Inter-state it is between 16%-21% (differs from state to state) thus the effective rate of tax applicable on auto components will be significantly reduced.

Further, under the draft valuation rules it is mention that stock transfers will be treated at par with common business transaction and value of such transaction will be “open market value” of goods and GST will be levied on stock transfer at such value. This will evidently increase supply chain and working capital cost.

As such, it can be said that GST will change the manner of act of doing business. On the one hand GST comes with many advantages such as seamless input tax credit, transparency in business operations, re-engineering of supply chain practices for better and centralised control. On the other hand it also comes with increased indirect tax compliances and administrative cost.

FOR SMOOTH GST IMPLEMENTATION PLEASE CONTACT US
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