

FADA urges PM to resolve issues on compensation cess

S Ronendra Singh
New Delhi

Automobile dealers have written to Prime Minister Narendra Modi to resolve the issue of compensation cess before September 22, when the GST 2.0 kicks off and urged for a meeting too, to explain their dilemma. They have also written to Finance Minister Nirmala Sitharaman.

In a letter to the PM, the Federation of Automobile Dealers Associations (FADA) has urged that the balance lying in compensation cess credit ledger, as on September 21, may be allowed to be transferred to the IGST/CGST credit ledger. "Such balance may then be utilised for discharge of regular GST liability (CGST/SGST/IGST)," sources told *businessline* quoting the letter dated September 8.

With the GST Council subsuming compensation cess for automobiles and implementation from September 22, no fresh cess liability will arise on outward supplies, it said. "However, auto dealerships across India presently hold validly-availed compensation cess balances in their electronic credit ledgers. Under current law, these balances can-

not be used against CGST/SGST/IGST—and will lapse unless a transitional pathway is created. This converts legitimate, tax-paid credits into dead capital at the very start of the festive season," CS Vigneshwar, President, FADA, said in the letter.

LOSS ESTIMATED

According to FADA, there would be an estimated cess loss of around ₹2,500 crore to the dealers, if the government does not indicate any solution to recover them. "Over 95 per cent of dealer inventory is bank-funded. If credit becomes unusable, drawing power shrinks, interest costs rise and covenants strain — just when the industry builds stock for September to Diwali deliveries. This is not a revenue give-away; it is about preserving legitimate, tax-paid credits and preventing avoidable stress for MSMEs and the financial system," the FADA letter said.

FADA explained that credit validly availed under Section 16 of the CGST Act is a vested right recognised by apex-court jurisprudence; it cannot be taken away absent clear statutory authority. The GST design itself prizes "seamless flow of credit"; letting cess-credit lapse would defeat first principles.