Fada urges PM to resolve compensation cess issue

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Chennai, 9 September

The Federation of Automobile Dealers Associations (Fada) has written to Prime Minister Narendra Modi, seeking a solution to the matter of the compensation cess before September 22, when the second phase of goods and services tax (GST) kicks off.

The automobile industry is expected to see a hit of ₹2,500 crore due to the removal of the compensation cess on high-end cars.

In a letter to Modi on September 8, Fada wanted the balance in the compensation cess credit ledger as on September 21 to be transferred to the credit ledger of integrated GST/central GST.

“Such balance may then be utilised for discharge of regular GST liability (CGST/SGST/IGST),” the letter said.

It added that GST 2.0 was a once-in-a-generation reset meant to simplify life for citizens and small businesses.

“Ensuring a clean bridge for compensation-cess credits will make implementation truly glitch-free, sustain confidence among micro, small and medium enterprises, and accelerate reform’s demand impulse from consumption, higher capacity utilisation, investments and jobs. In short, a small administrative step now will unleash the full multiplier you have envisaged,” said C S Vigneshwar, president, Fada, in the letter.

Seeking an intervention

- Dealers face a ₹2,500 crore hit from removal of the compensation cess on high-end cars
- Fada wants to transfer cess credit to IGST/CGST ledgers to prevent losses
- The issue affects auto dealers with significant bank-funded inventory for the festive season
- Financial stress on MSME dealers to rise if credits lapse

At present, dealers have an inventory of around 600,000 vehicles, which was loaded up in anticipation of the festival rush. The industry body had approached Union Finance Minister Nirmala Sitharaman with the same demand, so that their sales are not affected. “Auto dealerships across India hold significant, validly availed compensation cess balances in their electronic credit ledgers. Under current law, these balances cannot 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,” he added.

“The systemic angle is stark: 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 stocks for September-to-Diwali deliveries. This is not revenue give-away; it is about preserving legitimate, tax-paid credits and preventing avoidable stress for MSMEs and the financial system,” the letter added.

The industry body added that by eliminating the cess and rationalising rates, GST 2.0 made mass mobility — small cars, two-wheelers, commercial vehicles and tractors — 8-12 per cent more affordable, catalysing demand, formalisation, and job creation. Early analyses indicate an 8-10 per cent uplift in 2025-26 volumes, aided by lower logistics costs (5-8 per cent), as buses and trucks move to 18 per cent.