

Auto industry in a bind on compensation cess as GST 2.0 kicks in from Sept 22

REPRIEVE SOUGHT. Industry approached PM, FM seeking ways to recover an estimated ₹2,500 cr for dealers

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The automobile industry is in a bind on the compensation cess issue and is hoping for a reprieve from the Centre.

The industry has already approached Prime Minister Narendra Modi and Finance Minister Nirmala Sitharaman over the last few days, seeking ways to recover an estimated ₹2,500 crore for the dealers.

"We are constantly in touch with the Finance Ministry and hoping for the best," Shailesh Chandra, President, Society of Indian Automobile Manufacturers (SIAM), told *businessline* on the sidelines of SIAM's 65th annual convention.

According to sources, industry representatives are again approaching the Finance Ministry on Friday with a request for an immediate solution to the compensation cess issue.



TALKING POINT. Minister of Road Transport and Highways Nitin Gadkari in conversation with SIAM President Shailesh Chandra at 65th SIAM Annual Convention ANI

The recent changes in GST and the removal of the compensation cess on automobiles have created a significant challenge for car dealers in India, particularly regarding their existing stocks.

WHAT'S AT STAKE

When dealers purchased vehicles from manufacturers before the change in the GST rate, they paid a higher tax that included both GST and a

compensation cess.

This cess amount was an "input tax credit" in their books, which they would adjust against the cess they collected from the final customer. But, after the change in the rate with the cess now removed for most vehicles, dealers cannot charge this tax to customers from September 22 when the new GST rates kick in.

However, they still have a large balance of cess credit

on the cars they have in stock. The Federation of Automobile Dealers Associations (FADA) has said that 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 it before September 22.

Both original equipment manufacturers (OEMs) as well as dealers are stuck with the stock with high price, and they will have to give reduced prices to the customers after September 22.

Speaking at FADA's Retail Conclave on Wednesday, Commerce Minister Piyush Goyal assured the industry that he would discuss the compensation cess with the Finance Minister.

Auto industry sources said each company has to bear losses worth crores of rupees if the compensation cess was not paid off or some solution is not arrived at.

For instance, sources at Škoda Auto Volkswagen India, which has brands like

Audi and Lamborghini, said it would have compensation cess amounting to around ₹300 crore with all brands put together.

BALANCE TRANSFER

In a letter dated September 8, automobile dealers urged Prime Minister Narendra Modi that the balance lying in compensation cess credit ledger as on September 21, 2025, 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)," FADA said in the letter.

With the GST Council subsuming compensation cess for automobiles (decision of September 3, 2025) and implementation from September 22, no fresh cess liability will arise on outward supplies, the automobile dealers representative said.

FADA had written a similar letter on September 5 to the Finance Minister.