Auto body knocks on FinMin door for faster GST reforms

Also seeking clarity on issue of compensation cess

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The Society of Indian Automobile Manufacturers (Siam) has approached the Ministry of Finance, requesting it to fast track the proposed reduction in goods and services tax (GST), which, if not implemented early, could dampen the auto sector's festival sales.

The industry body is also seeking clarity on the issue of compensation cess.

Mahindra & Mahindra (M&M) is stopping its wholesale supply of 'high-ticket internal combustion engine (ICE) vehicles' above ₹15 lakh to dealers, owing to a possible loss on compensation cess, and low sales during the month.

Sources indicate that other companies are also contemplating the move, which may dampen the wholesale numbers for August and September.

"Siam has sought early implementation of GST reforms. It also wants compensation cess concerns to be solved immediately," said a source aware of the development.

"GST is not a problem. If you go for a high-end car in non-electric vehicle (EV), there is no mechanism for the firm to claim cess credit," said a source. This may be one of the reasons why M&M has stopped supply, it added.

While EVs are taxed at 5 per cent GST, ICE vehicles are taxed at 28-53 per cent (including cess). GST rate reduction could reduce tax arbitrage, making the case for EVs less favourable.

Hitting the brakes

- Move comes after M&M stopped wholesale supply of 'high-ticket ICE vehicles
- Other companies also contemplate stopping wholesale supply
- Move may dampen wholesale numbers for August and September
- Industry says GST reduction could reduce tax arbitrage, making EVs less favourable
- OEMS have a significant proportion of their portfolios in 28-31% slab

Interestingly, the compensation cess will lapse in November and cannot be levied beyond that date. Earlier, it was expected to be in force till March 2026, primarily on products in the 28 per cent bracket such as automobiles.

"The company may have taken this decision due to lack of clarity on this front. Anyway, demand is down also. This will affect the company's wholesale numbers during August and probably September as well," said a dealer.

Though the cess was scheduled to be over by 2022, it was reportedly extended to enable the Centre repay Covid-era borrowings taken to compensate states for revenue shortfalls.

A lot of states, including Karnataka, have raised their voices against the cess move.

"Siam highlighted the issue as the entire industry wants to fast-track GST because that is bringing a lot of ambiguity in the market as customers are not buying," said a corporate source.

According to industry estimates, if the sub-4 metre segment passenger vehicles (PVs) and less than 125cc two-wheelers are moved to an 18 per cent GST slab from 28 per cent, the tax arbitrage would reduce from 23 per cent to 13 per cent for e2Ws.

It would also slash — from 24 per cent to 14 per cent — the figure for ePVs in the sub-4 metre segment. This may affect the demand for EVs as well.

Maruti, Hyundai and Tata Motors have a significant proportion of their portfolios falling in the 28-31 per cent slab.

Around 68 per cent of Maruti cars, nearly 62 per cent of Hyundai cars and 87 per cent of Tata cars fall in this slab and this is set to be beneficial. Based on estimates, price reductions would be in the range of 8 per cent for smaller cars if GST is brought down to 18 per cent.