

Changes to Tariffs by GST Council

Why in news?

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GST council made changes to the tariffs of automobile industry within a short period of time.

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What was the change made?

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- Earlier, GST Council lowered the effective tax rates on large cars and SUVs, from 50-55% to 43% i.e 28% basic GST + 15% cess.

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- This went counter to the view that car buyers must be actively disincentivised from acquiring large diesel-guzzling vehicles.

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- Following this, the GST Council recently has increased the cess for large cars and SUVs at 25%.

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- Thus their effective GST rate went to 53%.

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What are the challenges faced by the automobile industry?

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- Diesel vehicles were banned in Delhi.

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- Demonetisation has its own effects.

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- Supreme Court ordered to clear up Bharat Stage III stocks by end-March.

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- Maharashtra government even imposed a 2% road tax as a backdoor move to protect revenues, soon after the GST rollout.

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How does GST complicate them?

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- **Sector Development** - Frequent policy changes disrupt both new product development and capacity building of already vulnerable automobile sector.
- **Transition** - The transition to GST created huge task for industries of recalibrating their supply chain, inventory.
- There are more complexity in convincing vendors and suppliers on the new online tax filing system.
- So frequent changes will further hamper the smooth transition to the new tax system.
- **Price adjustment** - Large automakers had lowered their selling prices post-GST citing the lower effective tax rates.
- The unexpected hike in cess will now require the auto makers to go through this process of re-adjustment all over again.

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Source: Business Line

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