

# **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.  $\n$
- This went counter to the view that car buyers must be actively disincentivised from acquiring large diesel-guzzling vehicles.  $\n$
- $\bullet$  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.  $\space{\space{1.5}n}$
- 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.

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- 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.  $\gamma_n$
- So frequent changes will further hamper the smooth transition to the new tax system.  $\n$
- 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.  $\n$

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### Source: Business Line

