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Impact of GST on Second-Hand Automobile Dealers: A Dealer's Perspective

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ABSTRACT: The implementation of the Goods and Services Tax (GST) in India has significantly impacted various industries, including the second-hand automobile market. This research explores the effects of GST on second-hand automobile dealers, focusing on pricing strategies, profitability, and the role of the Margin Scheme in alleviating tax burdens. Through a structured survey of dealers across different locations, the study examines how GST has influenced operational costs, compliance requirements, and overall business sustainability. The findings reveal that while the Margin Scheme offers some relief, challenges such as complex documentation and limited awareness hinder its full potential. The study concludes with recommendations for policymakers to enhance the scheme's accessibility and improve GST's applicability for second-hand automobile dealers.

KEYWORDS: GST, Second Hand Automobile Dealers, GST Margin Scheme, Input Tax Credit.

I. INTRODUCTION

Before 2017, India's indirect taxation system was complex, with multiple tax rates on goods and services. The introduction of GST simplified this structure, reducing compliance costs and fostering industrial growth. Proposed by Atal Bihari Vajpayee in 2000 and implemented in 2017 under Arun Jaitley, GST replaced multiple indirect taxes, eliminating the cascading tax effect and introducing Input Tax Credit (ITC) to enhance transparency. Classified into CGST, SGST, IGST, and UTGST. GST has significantly impacted various sectors, including automobiles. The GST Margin Scheme was introduced to address tax challenges faced by second-hand vehicle dealers. Under this scheme:

- GST is levied only on the profit margin (selling price – purchase price) instead of the total transaction value.
- This prevents double taxation on used vehicles, as they were already taxed at the time of their initial sale.
- The scheme applies to GST-registered dealers purchasing vehicles from unregistered sellers or businesses that have not claimed ITC.

As per **GST Rule 32(5)**, if a used car is resold in its original condition or with minor modifications, GST applies only to the **profit margin**:

- If no ITC was claimed, GST is levied only on the margin.
- If sold at a loss, **no GST applies**.

The recent GST Council meeting held on December 21, 2024, introduced a uniform **18% GST rate** on the sale of all old and used vehicles by GST-registered dealers, replacing the earlier tax structure that varied between **5% and 28%**.

| Vehicle Type | Previous GST Rate | New GST Rate |
|------------------------------------|-------------------|--------------|
| Electric Vehicles (EVs) | 12% | 18% |
| Petrol (≥1200 cc, Length ≥4000 mm) | 12% ^S | 18% |
| Diesel (≥1500 cc, Length ≥4000 mm) | 12% | 18% |
| SUVs | 12% | 18% |

This update applies exclusively to GST-registered businesses like **Cars24** and **Spinny**, while private sales between individuals remain **GST-exempt**.



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Historical Changes in GST on Used Cars

| Date | Change implemented |
|-------------------|--|
| Up to 12 Oct 2017 | 28% GST + Cess |
| 13 Oct 2017 | Reduced to 18.2% for pre-GST vehicles |
| 24 Jan 2018 | Revised to 12%-18% based on vehicle type |
| Dec 2024 | Unified 18% GST on all used cars sold by dealers |

Exemptions and Dealer-Specific Rules

- Private Transactions: Direct sales between individuals are not subject to GST.
- Dealer Taxation: GST is calculated only on the profit margin (selling price – depreciated value).
- Loss on Resale: If a vehicle is sold at a loss, no GST is charged.

II.OBJECTIVES OF THE STUDY

1. To understand the role of the GST Margin Scheme in easing the tax burden for second-hand vehicle dealers.
2. To explore how GST has influenced the pricing strategies and profitability of second-hand automobile dealers.

III.LITERATURE REVIEW

Input Tax Credit Limitations in the Second-Hand Car Industry

Dutta (2018) investigated the challenges associated with claiming input tax credit (ITC) in the used car market. The research identifies that ITC restrictions on second-hand vehicle transactions have led to increased cash flow difficulties for dealers. The study recommends policy modifications to ease ITC restrictions and improve dealer liquidity.

GST and the Resale Market for Automobiles

Bansal (2019) examined the implications of GST on the resale value of automobiles. The research emphasizes that GST has altered the depreciation rate of used vehicles, affecting consumer perceptions of resale value. Additionally, it outlines how second-hand car dealers have adjusted their pricing and negotiation techniques in response to these changes.

Influence of GST on Used Vehicle Pricing

Sharma and Gupta (2020) analysed the effect of GST on second-hand automobile pricing and dealer profitability. Their study highlights how the shift in taxation has led to fluctuations in used vehicle prices and influenced affordability. The findings indicate that increased tax rates have forced dealers to adjust their pricing strategies to maintain profit margins.

Challenges Faced by Dealers in the GST Era

According to Rajan (2021), second-hand automobile dealers face multiple operational challenges due to GST. Compliance costs, complex documentation, and restrictions on input tax credit (ITC) have made it difficult for small dealers to compete. The study suggests that dealers must adapt by optimizing tax management strategies to mitigate the impact of GST on their business.

Profitability and Pricing Adjustments Post-GST

Singh and Patel (2021) analysed how GST has influenced pricing models and profitability in the second-hand automobile sector. Their research suggests that many dealers have revised pricing strategies to absorb the tax burden, leading to shifts in consumer purchasing behavior. The study also emphasizes the need for dealers to adopt competitive pricing mechanisms.

IV. RESEARCH METHODOLOGY

This study is based on primary data collected from 20 second-hand automobile dealers in Bangalore through a structured questionnaire. Conducted over three months, the research follows a purposive sampling approach to gather insights on GST's impact on pricing, profitability, and the effectiveness of the Margin Scheme. The questionnaire covers aspects such as GST's influence on pricing strategies, profit margins, awareness, and compliance challenges.

This study examines the impact of GST on second-hand automobile dealers in Bangalore, focusing on pricing strategies, profitability, and tax compliance. It evaluates the effectiveness of the GST Margin Scheme in reducing tax burdens and highlights dealer challenges in adapting to GST regulations. The research provides insights into industry trends and offers recommendations for optimizing tax benefits and pricing strategies.



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This study is limited to second-hand automobile dealers in Bangalore, which may not fully represent the impact of GST across different regions. It focuses only on pricing, profitability, and tax compliance, excluding other financial and operational factors. The research relies on primary data, which may be influenced by dealer perceptions and market conditions. Additionally, evolving GST policies could impact findings over time, requiring continuous updates.

V. DATA ANALYSIS & RESULT

Correlation analysis between Impact on Profitability and Effect on Tax Burden.

Numerical conversion of qualitative responses for each variable:

$$r = \frac{\sum (x_i - \bar{x}) (y_i - \bar{y})}{\sqrt{\sum (x_i - \bar{x})^2 \sum (y_i - \bar{y})^2}}$$

Where:

- n= number of data points
- x= values for "GST Impact on Pricing"
- y = values for "Effect on Tax Burden"

| DEALER NAME | IMPACT ON PROFITABILITY | EFFECT ON TAX BURDEN | y-Y | X(y-Y) |
|-----------------------------|-------------------------|----------------------|-------|--------|
| Rahul Motors | +1 | -2 | -0.65 | -0.65 |
| BIKES4SALE | +2 | -2 | -0.65 | -1.30 |
| Royal Wheels | -1 | -1 | +0.35 | -0.35 |
| Bansal Automobiles | 0 | -1 | +0.35 | 0.00 |
| Premium Motors | -2 | -1 | +0.35 | -0.70 |
| City Car Bazaar | +1 | -2 | -0.65 | -0.65 |
| Maruthi Used Cars | +1 | -2 | -0.65 | -0.65 |
| Kumar Auto Mart | 0 | -1 | +0.35 | 0.00 |
| Bangalore Luxury Rides | -2 | -1 | +0.35 | -0.70 |
| Krishna Commercial Vehicles | -1 | -2 | -0.65 | +0.65 |
| Sharma Bros Auto | +1 | -2 | -0.65 | -0.65 |
| Global Auto Zone | 0 | -1 | +0.35 | 0.00 |
| Two- Wheeler Point | +2 | -2 | -0.65 | -1.30 |
| Family Auto Store | +1 | -2 | -0.65 | -0.65 |
| Deluxe Motors | -1 | -1 | +0.35 | -0.35 |
| Bangalore Auto Gallery | 0 | -1 | +0.35 | 0.00 |



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| | | | | |
|--------------------|----|----|-------|-------|
| Truck & Bus Centre | -1 | -2 | -0.65 | +0.65 |
| New Age Wheels | +1 | -1 | +0.35 | +0.35 |
| Highway Motors | 0 | -1 | +0.35 | 0.00 |
| Elite Car Lounge | -2 | -1 | +0.35 | -0.70 |

$r = -8.55$

11.36 — $r = -0.75$

The high value of the negative correlation coefficient ($r = -0.75$) between Impact on Profitability and Effect on Tax Burden is an indication of a high relationship. Let me clarify further on what this finding implies:

Nature of the Relationship:

The negative relationship indicates that when the tax burden rises (moves towards positive values, i.e., "Increased slightly" or "Increased significantly"), the effect on profitability erodes (moves towards negative results, i.e., "Decreased slightly" or "Decreased significantly").

As the tax burden decreases (moves towards "Reduced slightly" or "Reduced significantly"), profitability improves.

Strength of the Relationship:

The correlation coefficient ($r = -0.75$) is very close to -1, and this shows that there is a strong negative linear relationship between the two variables. Although it is not an ideal correlation, the strength is strong enough to state confidently that profitability is heavily affected by changes in tax burden.

Correlation Analysis Between Overall GST Perception And GST Impact On Pricing.

$$r = \frac{\sum (x_i - \bar{x}) (y_i - \bar{y})}{\sqrt{\sum (x_i - \bar{x})^2 \sum (y_i - \bar{y})^2}}$$

| | GST IMPACT ON PRICING (X) | OVERALL GST PERCEPTION (y) | x-X | y-Y | (x-X) (y-Y) |
|------------------------|---------------------------|----------------------------|-------|-------|-------------|
| Rahul Motors | -1 | +1 | -0.65 | +0.85 | -0.5525 |
| BIKES4SALE | -2 | +2 | -1.65 | +1.85 | -3.0525 |
| Royal Wheels | +1 | -1 | +1.35 | -1.15 | -1.5525 |
| Bansal Automobiles | 0 | 0 | +0.35 | -0.15 | -0.0525 |
| Premium Motors | +1 | -2 | +1.35 | -2.15 | -2.9025 |
| City Car Bazaar | -1 | +1 | -0.65 | +0.85 | -0.5525 |
| Maruthi Used Cars | -2 | +1 | -1.65 | +0.85 | -1.4025 |
| Kumar Auto Mart | -1 | 0 | -0.65 | -0.15 | +0.0975 |
| Bangalore Luxury Rides | +1 | -1 | +1.35 | -1.15 | -1.5525 |



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| | | | | | |
|-----------------------------|----|----|-------|-------|---------|
| Krishna Commercial Vehicles | 0 | 0 | +0.35 | -0.15 | -0.0525 |
| Sharma Bros Auto | -1 | +1 | -0.65 | +0.85 | -0.5525 |
| Global Auto Zone | 0 | 0 | +0.35 | -0.15 | -0.0525 |
| Two- Wheeler Point | -2 | +2 | -1.65 | +1.85 | -3.0525 |
| Family Auto Store | -1 | +1 | -0.65 | +0.85 | -0.5525 |
| Deluxe Motors | +1 | -1 | +1.35 | -1.15 | 1-5525 |
| Bangalore Auto Gallery | -1 | 0 | -0.65 | -0.15 | +0.0975 |
| Truck & Bus Centre | 0 | -1 | +0.35 | -1.15 | 0.4025 |
| New Age Wheels | -1 | +1 | -0.65 | +0.85 | -0.5525 |
| Highway Motors | 0 | 0 | +0.35 | -0.15 | 0.0525 |
| Elite Car Lounge | +1 | -2 | +1.35 | -2.15 | -2.9025 |

$$r = -21.7325$$

$$\frac{21.7418}{21.7418} = -0.9996$$

The value of the negative correlation coefficient ($r=-0.9996$) between Impact of GST Perception and GST Impact on Pricing. The further clarification implies:

Nature of the Relationship

Strong Negative Correlation: As GST Impact on Pricing gets higher (going from lower prices to higher prices), the Overall GST Perception gets more and more negative (trending from positive to negative perceptions).

This means that dealers who experienced a sharp increase in prices will tend to perceive GST negatively. Those who experienced a fall in prices will tend to perceive GST positively.

Business Implications

Customer Sensitivity: Dealers are aware of the fact that higher prices are likely to have a negative effect on customers' attitudes towards GST. This can potentially impact overall demand and sales, strengthening the relationship between price and perception.

Strategic Price Adjustments: Dealers can be encouraged to undertake measures to offset price hikes (e.g., cost absorption or utilization of government schemes) in order to realize a positive public image of GST.

VI. DISCUSSION

Practical Implications:

For Companies: Such businesses that are subject to greater taxation under GST (e.g., in the way of regulatory charges or additional overall taxation) are likely to be less profitable. This may be due to narrower margins, higher overheads, or changes in pricing strategies that are not able to compensate for the additional cost of tax.

To Policymakers: The correlation shows the need for tax reforms or relief, like the Margin Scheme, to reduce the burden on businesses and avoid profitability from being adversely affected.

Exceptions: Although the correlation is strong, there can be certain outliers. For instance, some dealers who are able to modify their pricing policies or use schemes like the Margin Scheme could offset the effect of a higher tax burden on their profitability.

Policymaker Insights

Consumer Impact: Large segments of the adverse public perception of GST can be traced back to its impact on prices. Policymakers can offset this by implementing certain relief measures, e.g., tax relief or lower rates, for industries witnessing high price hikes.

Awareness Campaigns: Sensitization of both businessmen and consumers about the advantage of GST, and dissolving worries regarding pricing, would avoid adverse perception.

Practical Examples

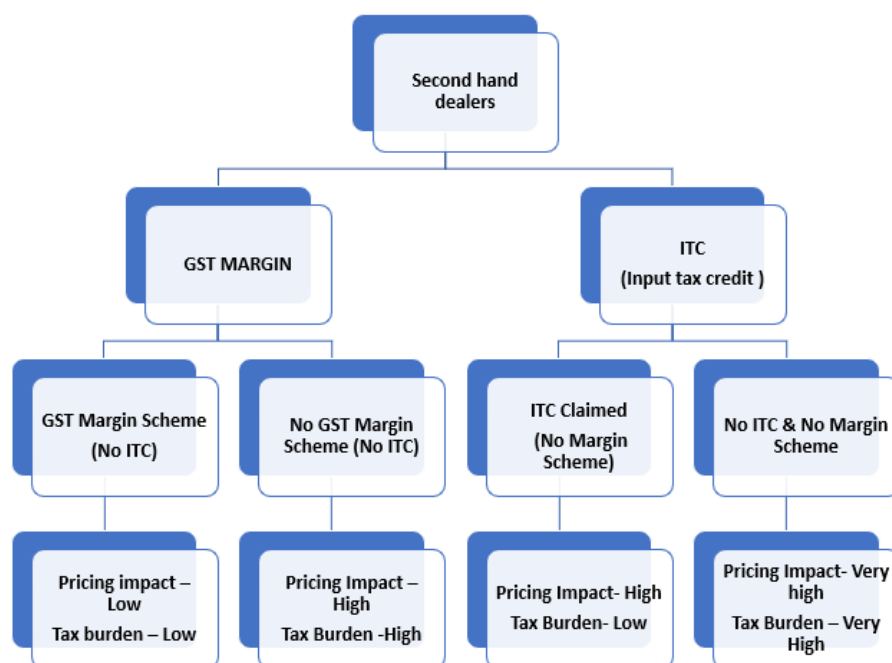


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Retailers such as BIKES4SALE (experiencing a "Decreased significantly" effect on prices) had strongly positive attitudes toward GST.

Elite Car Lounge (with an "Increased slightly" effect on prices) perceived GST quite negatively, corroborating the relation.



VII. RECOMMENDATION

The correlation and regression analysis indicate that GST has a significant impact on pricing due to the tax burden on second-hand automobile dealers. To mitigate this impact, businesses should carefully choose an appropriate taxation scheme. Dealers opting for the GST Margin Scheme benefit from lower tax liability since GST is applied only on profit margins, helping them maintain competitive pricing. On the other hand, those claiming Input Tax Credit (ITC) without the Margin Scheme experience higher pricing but a reduced tax burden. However, dealers who neither use the Margin Scheme nor claim ITC face the highest tax liability, making their businesses less competitive.

A major challenge faced by small-scale dealers is the lack of awareness regarding ITC benefits and the Margin Scheme. To address this, the government should organize regular GST training workshops and provide simplified guides to educate dealers on tax-saving options. Additionally, developing user-friendly online tools can enhance accessibility and make compliance easier.

Another key recommendation is to provide additional tax relief for used electric vehicles (EVs). While the current GST rate on EVs is 12%, petrol and diesel vehicles are taxed at 18%. Reducing GST on used EVs can encourage their adoption in the second-hand market, supporting environmental sustainability and promoting green mobility.

Encouraging digital transactions can also enhance compliance and transparency in tax reporting. Offering small tax incentives for digital payments will motivate dealers to adopt cashless transactions, simplifying their tax obligations. Similarly, implementing a uniform GST rate for all used vehicles can help resolve pricing inconsistencies caused by the current variation between 12% and 18%, reducing confusion and compliance costs.



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Lastly, simplifying compliance and documentation is crucial for easing the burden on dealers. Although the Margin Scheme provides tax relief, its complex documentation requirements make compliance challenging. Streamlining invoice requirements and automating tax calculations on government portals can significantly reduce manual errors and improve efficiency, ensuring smoother GST implementation for second-hand automobile dealers.

VIII. CONCLUSION

The study highlights that GST has significantly influenced the pricing strategies and profitability of second-hand automobile dealers. While the GST Margin Scheme provides some relief by taxing only the profit margin, challenges such as complex documentation and limited awareness hinder its full benefits. The recent uniform 18% GST rate has streamlined taxation but increased costs for certain vehicle categories. A strong correlation between GST impact on pricing and tax burden suggests that tax reforms directly affect dealer profitability. To optimize benefits, dealers should leverage the Margin Scheme, adjust pricing strategies, and enhance compliance awareness. Policymakers should also focus on simplifying procedures to improve GST applicability in this sector.

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