



JUDGEMENT

Input Tax Credit Can Be Claimed on Demo Cars Used for Demonstration and Later Supplied Further After Specified Time Period.

Issued By:	West Bengal AAR
In Case Of:	Landmark Cars East Pvt Ltd
Represented By:	CA Nitesh Jain
Order No:	WBAAR 26 of 2023
Order Date:	4 th April 2024

OBSERVATIONS

➤ The applicant is an authorized agent of Mercedes Benz India (MB India), supplies cars, spare parts, and services including repairs and roadside assistance, and facilitates Mercedes-Benz sales. The primary objective is to support MB India's direct sales to customers. Under an agreement since August 30, 2021, MB India provides demo vehicles for demonstrations, which the agent can later sell, with MB India reimbursing any losses incurred on these sales.

➤ The applicant seeks an advance ruling under section 97(1) of the GST Act on the following questions:

1. Can the applicant claim input tax credit on demo cars purchased from Mercedes Benz India?
2. What is the tax classification and rate for selling demo cars, based on the above answer?
3. Does reimbursement from Mercedes Benz India for loss on demo car sales constitute a supply, and if so, what is its tax classification and rate?

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- The AAR observed that the applicant keeps demo vehicles for a specified period, buying them in its own account with full title and ownership, recording them as inventory, and accounting for sales proceeds when sold. Despite deterioration, demo vehicles are always intended for further supply after a specific period, with the applicant managing the entire process independently.
- At the same time, The applicant has an agreement with MB INDIA to receive compensation for demo car losses due to deterioration, categorized as a service of tolerating the loss.
- Based on its observations, the Authority ruled:
 1. The applicant can claim input tax credit on demo cars used for demonstration and later supplied further after specified time period.
 2. The vehicle is classified under Chapter 8702 or 8703, with the outward supply tax rate matching the inward supply rate, per section 14 of the GST Act.
 3. Reimbursement from Mercedes Benz India for demo car sales loss is considered taxable service income at 18%, classified as 'agreeing to tolerate an act' (SAC: 9997974).

N J JAIN & ASSOCIATES

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