

Impact of Recent Changes in GST Law on Automobile Industry

Many changes have been announced by the GST council and have been made effective by the government, following is a gist of these changes especially on the Automobile sector. Three major changes have been announced and relevant notification and circular for the same have been issued which directly impacts the Automobile Industry.

I. Post Sale Discounts

Before we explain the change, it is important to understand what is the law applicable currently.

It is very normal in FMCG and Auto sector to give discounts upfront at the time of sale as well as after the transaction of sale is complete (post sale discounts) based on many variables like achievement of periodic targets etc. GST law via section 15(3) of the CGST Act controls how these discounts upfront as well as post sale discounts are treated to arrive at the taxable value.

a. From 1.07.2017 to 31.10.2026

Section 15(3) reads as under:

(3) The value of the supply shall not include any discount which is given—

(a) before or at the time of the supply if such discount has been duly recorded in the invoice issued in respect of such supply; and

(b) after the supply has been effected, if—



(i) such discount is established in terms of an agreement entered into at or before the time of such supply and specifically linked to relevant invoices; and

(ii) input tax credit as is attributable to the discount on the basis of document issued by the supplier has been reversed by the recipient of the supply.

b. From 1.11.2026 onwards

Section 15(3)

(3) The value of the supply shall not include any discount which is given—

(a) before or at the time of the supply if such discount has been duly recorded in the invoice issued in respect of such supply; and

(b) after the supply has been effected, if for such discount, a credit note has been issued by the supplier and input tax credit as is attributable to such discount has been reversed by the recipient of the supply, in accordance with the provisions of section 34.

Analysis

Please note section 15(3)(a) prescribes conditions for treatment of discounts being given at the time of sale, any discount which is declared in the tax invoice, price net of such discount will be considered as taxable value and tax would be payable on this value. **There is no change in this provision.**

Section 15(3)(b) prescribes condition for deduction of post-sale discounts, there was a huge controversy, and many big corporates had taken diverse views on the implementation of this provision. This provision requires



fulfilment of 3 conditions if one wants to deduct post sale discount for arriving at taxable value:

- i. Discount is established in terms of an agreement entered into at or before the time of such supply
- ii. Discount is specifically linked to relevant invoices; and
- iii. Input tax credit as is attributable to the discount on the basis of document issued by the supplier has been reversed by the recipient of the supply.

Fulfilment of these 3 conditions was considered as problematic because of which many OEMs were giving post sale discounts without GST which was resulting in ITC overhang down the supply chain. To address this issue GST council had amended section 15(3)(b) and removed 2 conditions, from 1.11.2026 onwards all post sale discounts will be deductible from the taxable value if the supplier

- i. Issues a credit note for the post sale discount with GST
- ii. The recipient has reversed ITC equivalent to the GST in the said credit note.

Henceforth, there would be no need to prove that the post-sale discount was agreed upon before the said supply was done (by way of an agreement) and linkage with the original invoice would not be mandatory for both B2B and B2C transactions.

Impact of this change on:

a. B2B transactions

In case of B2B transactions, from 1.11.2026 onwards all post sale discounts will be deductible from the taxable value if the supplier



- i. Issues a credit note for the post sale discount with GST
- ii. The recipient has reversed ITC equivalent to the GST in the said credit note.

b. B2C transactions

If any post sale discount is passed on in case of a B2C transaction, question of ITC reversal by the recipient consumer would not arise as he is not eligible to avail ITC in the first place, hence post sale discount can be passed on to him with GST.

All discounts received post 01.11.2026 irrespective of when the main supply took place will be governed by the amended law.

II. ITC of Demo cars

Eligibility of ITC on demo cars was a much debated issue, to clarify issues surrounding it, Government issued a circular 231/25/2024-GST dated 10.09.2024 where ITC of demo cars was allowed in all situations barring one.

Para 4.6 of this circular clarified that authorized dealer who is merely providing marketing and/or facilitation services to the vehicle manufacturer and where the new car is being sold directly by the manufacturer to the customer will not be eligible for ITC on demo cars purchased by them.

After due representations by the industry and related associations, the council has vide circular 262/08/2026-GST dated 26.10.2026 withdrawn para 4.6 of the old circular and clarified as under that ITC of demo cars would be eligible to a dealer working under agency model.

7. Accordingly, the clarification issued vide para 4.6 of circular No. 231/25/2024-GST dated 10.09.2024 is hereby withdrawn and it is clarified that the input tax credit on the demo vehicles is not blocked



under clause (a) of section 17(5) of the CGST Act, to the dealer in the dealer-agency model.

Analysis

Circulars are mere clarification on a law that already exists and therefore they are retrospective in nature. They would be applicable from the earliest time since the law existed, in this case agency model dealers would be eligible for ITC on demo cars from the beginning.

What happens to dealers who did not avail ITC in compliance with the old circular, they would also not be impacted because they merely followed what was stated by the government.

Ideally from 26.10.2026, dealers working under agency model will have to avail ITC on the demo cars.

III. Eligibility of ITC on refurbishment expenses to a Used Vehicle Supplier

Used vehicle suppliers are governed by Rule 32 of CGST Rules for arriving at taxable value and notification 8/2018 for GST rate. Used goods suppliers who have opted for margin scheme (tax being paid on difference between Gross Sale and purchase price) are not eligible to avail ITC on the purchase of the said goods.

This condition was being misinterpreted across India, used car suppliers were facing inquiries where ITC on refurbishment expenses was being challenged and demand notices were being issued.

Analysis

In the recently concluded 57th GST Council meeting, it has been decided to clarify this important issue whereby ITC on refurbishment expenses like spares, maintenance etc will be allowed.



4. To clarify that the suppliers of second-hand vehicles, under the GST margin scheme, are allowed to avail Input Tax Credit (ITC) on various inputs (other than second-hand vehicles) or input services such as spares, repair and maintenance services, technology services, rent, marketing and advertisement services, etc. The restriction on availment of ITC under the said scheme applies only on the tax paid on the procured second-hand vehicles.

Official Circular for the same is awaited.

IV. Conclusion

The adage goes that “better later than never”, I guess the council has taken this to heart. We the taxpayers have also somehow adjusted to this attitude, too much litigation and pain are followed by solutions, hope this system of policy making is reversed and we make law which do not need course correction of this nature.

Formulated by:

N J Jain & Associates
Chartered Accountants
Member of JPP Network

CA Nitesh Jain
Managing Partner

CA Praveen Maheshwari
Partner

CA Gaurav Khetan
Senior Partner

CA Jay Dalwadi
Partner

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