	KERALA AUTHORITY FOR ADVANCE RULING
	GOODS AND SERVICES TAX DEPARTMENT
	TAX TOWER, THIRUVANANTHAPURAM

BEFORE THE AUTHORITY OF : *Shri. B.G. Krishnan IRS &*
: Shri. B.S. Thyagarajababu B.Sc, LL.M

Legal Name of the applicant	M/s. A.M. Motors.
GSTIN	32AAHFA8699Q1ZK
Address	Varangode, Downhill, Malappuram, Kerala.
Advance Ruling sought for	Vehicle dealer, who capitalized the purchase of motor car as 'demo vehicle' can avail ITC paid on the purchase of motor car and set off against OPT payable under GST.
Date of Personal Hearing	19.09.2018
Authorized Representative	Adv. Harisankar. V.Menon

ADVANCE RULING No. KER/ 10 /2018 Dt.26.09.2018

In the motor vehicle industry, demonstration vehicle is an indispensable tool for promotion of sales by providing trial run to customers. It is a business requirement that motor car dealer shall compulsorily acquire the demonstration vehicles from principal supplier. These purchases are capitalized in the books of accounts excluding tax components. These demo cars are used for demonstration purpose for the prospective customer and after a specific period of time, they are sold off for the book value, paying the applicable taxes at that point of time. The petitioner sought for advance ruling on the following:

Whether input tax credit on the motor car purchased for demonstration purpose of the customer can be availed as credit on capital goods and set off against output tax payable under GST in the case of a motor car dealer.

The authorized representative of the firm was heard. He has stated that the demo car is purchased against tax invoice and reflected in the books as capital assets. As per their business norms, every sales outlet is bound to maintain at least three demo cars. The duration of test drive vehicles is usually two years or 40,000 kms, whichever is earlier.

As per Section 16(1) of the GST Act, every registered person shall be entitled to take credit of input tax charged on any supply of goods or services or both which are used or intended to be used in the course or furtherance of his business. The petitioner purchases the vehicles from the supplier against tax invoices, after paying taxes.

The demo cars purchased from supplier are being capitalized. The capital goods which are used in the course or furtherance of business, is entitled for input tax credit. As per Section 2(19), 'capital goods' means goods, the value of which is capitalized in the books of accounts of the person claiming the input tax credit and which are used or intended to be used in the course or furtherance of business.

It is also pointed out that the negative clause on eligibility of input tax credit on motor vehicle is not applicable in this case. As per Section 17(5) of the Act, input tax credit shall not be available in respect of the motor vehicles except when they are used for making taxable supplies and for transportation of goods. The taxable supply includes further supply of such vehicle. The demo cars are being used only for a specified period. Later on, when demo cars are sold at the written down book value, applicable GST is satisfied at that point of time. GST Act does not prescribe the time within which further supply is to be effected. So much so, the embargo under Section 17(5) will not apply and the applicant is entitled for input tax credit as against demo cars.


The issue was examined in detail. The suppliers of vehicles supplied demo cars against tax invoices. The demo car is an indispensable tool for

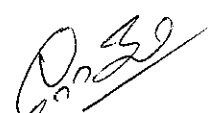
promotion of sales by providing trial run to customers and to understand the features of the vehicle. The applicant capitalizes the purchase in the books of accounts. The capital goods which are used in the course or furtherance of business, is entitled for input tax credit. As the impugned purchase of demo car is in furtherance of business, the applicant is eligible for input tax credit. Furthermore, this activity does not come under the negative clause, as after a limited period of use as demo car, the vehicles are sold at the written down book value.

The availability of input tax credit shall be subject to the provisions of Section 18(6) of the GST Act. In the case of supply of capital goods on which input tax credit has been taken, the registered person shall pay an amount equal to the input tax credit taken on the said capital goods reduced by such percentage points as may be prescribed or the tax on the transaction value of such capital goods determined as value of taxable supply, whichever is higher.

In view of the observations stated above, the following ruling is issued:

Input tax paid by a vehicle dealer on the purchase of motor car used for demonstration purpose of the customer can be availed as input tax credit on capital goods and set off against output tax payable under GST.


B.G. Krishnan IRS
Joint Commissioner of Central Tax
MEMBER


B.S. Thyagarajababu, B.Sc, LL.M
Joint Commissioner of State Tax
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To

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