

OVERVIEW OF GST TREATMENT OF SECOND-HAND VEHICLE SALES



OVERVIEW OF GST TREATMENT OF SECOND-HAND VEHICLE SALES

Rule 32(5) of CGST Rules, 2017:

- Where a taxable supply is provided by a person dealing in buying and selling of second hand goods i.e., used goods as such or after such minor processing which does not change the nature of the goods and where no input tax credit has been availed on the purchase of such goods, the value of supply shall be the difference between the selling price and the purchase price and where the value of such supply is negative, it shall be ignored:

Provided that the purchase value of goods repossessed from a defaulting borrower, who is not registered, for the purpose of recovery of a loan or debt shall be deemed to be the purchase price of such goods by the defaulting borrower reduced by five percentage points for every quarter or part thereof, between the date of purchase and the date of disposal by the person making such repossession.

OVERVIEW OF GST TREATMENT OF SECOND-HAND VEHICLE SALES

Rule 32(5) of CGST Rules, 2017 applies only to dealers engaged in buying and selling second hand goods and provides as follows:

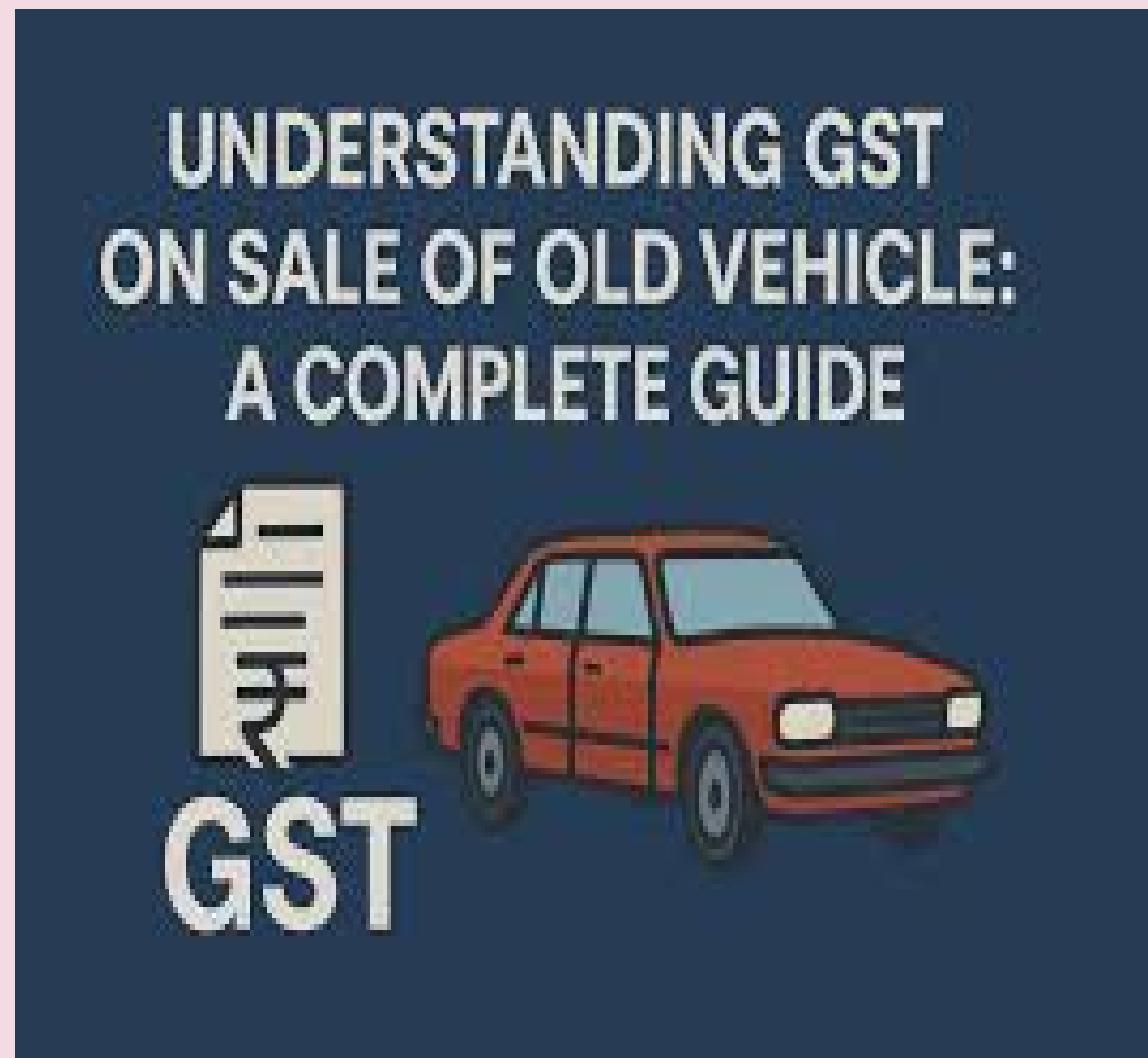
Applies to **intra-State** supply of second-hand goods.

Registered dealer pays **CGST only on the margin** when selling the goods (per rule 32(5) CGST Rules), subject to conditions.

Ensures **no double taxation** and reduces compliance burden for second-hand goods dealers.

OVERVIEW OF GST TREATMENT OF SECOND-HAND VEHICLE SALES

➤ A second-hand vehicle, also known as a used or pre-owned vehicle, is a vehicle that has had one or more previous owners and is being sold again. Its condition may vary based on prior use and maintenance, and it is available through dealers, auctions, or private sales.



➤ The GST landscape for old and refurbished cars has undergone significant changes, simplifying tax compliance for both dealers and buyers. With the 56th GST Council meeting introducing a uniform GST rate on used vehicles and the CBIC notifying the same, the tax structure now focuses on profit margins rather than the entire sale value. This shift clears misconceptions such as “tax on losses” and ensures fairness in the second-hand car market.

OVERVIEW OF GST TREATMENT OF SECOND-HAND VEHICLE SALES

➤ Section 7 of the CGST Act, 2017 – Definition of “Supply”

Section 7 of the Central Goods and Services Tax (CGST) Act, 2017 defines the term “supply”, which is the foundational concept for the levy of GST.

It includes:

- All forms of supply of goods or services, or both, such as **sale, transfer, barter, exchange, license, rental, lease, or disposal**,
- Made or agreed to be made **for a consideration**,
- **In the course or furtherance of business**. Additionally, Section 7 covers:
 - **Import of services** for a consideration, whether or not in the course or furtherance of business.
 - Activities specified in **Schedule I**, which are treated as supply **even if made without consideration**.

Activities or transactions specified in **Schedule III** are **neither treated as supply of goods nor supply of services**.

In essence, Section 7 establishes the scope of taxable transactions under GST by clearly defining what constitutes a “supply.”

OVERVIEW OF GST TREATMENT OF SECOND-HAND VEHICLE SALES

➤ Sale of second-hand vehicles = Supply of Goods

- HSN Code 8702 covers motor vehicles designed to transport ten or more persons, including the driver.
- Examples include buses and coaches.

**HSN Code
8702**

**HSN Code
8703**

- HSN Code 8703 is for vehicles primarily designed for transporting fewer than ten people, such as motor cars, SUVs, and racing cars.

**HSN Code
8704**

- HSN Code 8704 is for motor vehicles specifically designed to transport goods.
- Examples include pick-up trucks and delivery vans.

OVERVIEW OF GST TREATMENT OF SECOND-HAND VEHICLE SALES

➤ Notification No. 8/2018 as amended vide Notification No. 4/2025 – CGST (Rate) provides for GST rates on profit margin (sale price less Income Tax depreciated value)

S. No.	Chapter, Heading, Sub- heading or Tariff item	Description of Goods	Rate
1.	8703	Old and used, petrol Liquefied petroleum gases (LPG) or compressed natural gas (CNG) driven motor vehicles of engine capacity of 1200 cc or more and of length of 4000 mm or more. <i>Explanation.</i> — For the purposes of this entry, the specification of the motor vehicle shall be determined as per the Motor Vehicles Act, 1988 (59 of 1988) and the rules made there under.	9%

OVERVIEW OF GST TREATMENT OF SECOND-HAND VEHICLE SALES

S. No.	Chapter, Heading, Sub-heading or Tariff item	Description of Goods	Rate
2.	8703	<p>Old and used, diesel driven motor vehicles of engine capacity of 1500 cc or more and of length of 4000 mm</p> <p><i>Explanation.</i> — For the purposes of this entry, the specification of the motor vehicle shall be determined as per the Motor Vehicles Act, 1988 (59 of 1988) and the rules made there under.</p>	9%
3	8703	<p>Old and used motor vehicles of engine capacity exceeding 1500 cc, popularly known as Sports Utility Vehicles (SUVs) including utility vehicles.</p> <p><i>Explanation.</i> — For the purposes of this entry, SUV includes a motor vehicle of length exceeding 4000 mm and having ground clearance of 170 mm. and above.</p>	9%
4.	87	All Old and used Vehicles other than those mentioned from S.No. 1 to S.No. 3	2[9%]

OVERVIEW OF GST TREATMENT OF SECOND-HAND VEHICLE SALES

For the purposes of this notification, the margin of the supplier shall be determined as follows:

- Where a registered person has claimed depreciation under section 32 of the Income-tax Act, 1961 on the goods, the margin shall be the difference between the consideration received and the depreciated value of the goods on the date of supply. Any negative margin shall be ignored.
- In all other cases, the margin shall be the difference between the selling price and the purchase price, and any negative margin shall be ignored.

Further, the benefit of this notification shall not be available where the supplier has availed input tax credit, including ITC under the CGST Act, CENVAT credit under the CENVAT Credit Rules, 2004, VAT credit, or credit of any other taxes paid on such goods.

This Notification is independent of rule 32(5) and applies even to persons not engaged in the business of dealing in second hand goods.

OVERVIEW OF GST TREATMENT OF SECOND-HAND VEHICLE SALES

For Example:

- On re-sale of used car, GST will be @9% (on car above 1500 cc or below 1500 cc)

however, GST is payable on the difference between:

- depreciated value (i.e. purchase price less depreciation as per Income Tax Act) and the sale price.
- if sale price is Rs.1,00,000/- and depreciated value is Rs.90,000/-, then GST payable only on Rs.10,000/- and not entire Rs.1,00,000/-
- if sale price Rs.1,00,000/- but depreciated value Rs.1,10,000/- then GST not payable at all,
- however, in such case, Rs.1,00,000/- will be treated as exempt value and proportionate ITC will have to be reversed under **Rule 42/43 of CGST rules, 2017.**

THANK YOU



B-216/217, Monalisa
Business Centre, Manjalpur,
Vadodara, Gujarat-390011



0265-2986115
9033088865



info@saurabhdixit.in



www.saurabhdixit.in