

	KERALA AUTHORITY FOR ADVANCE RULING GOODS AND SERVICES TAX DEPARTMENT TAX TOWER, THIRUVANANTHAPURAM	
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**BEFORE THE AUTHORITY OF : Shri Jomy Jacob IRS &
: Shri Mansur M.I.**

Legal Name of the applicant	GOEXOTIC PLUS91 MOTORS PRIVATE LIMITED
GSTIN	32AALCG9692A1ZI
ARN	AD320825001412N
Address	17/202 A2-A5, Synergy Towers, Metro Pillar No.118, Thaikkattukara, Aluva, Ernakulam, Kerala, 683106
Advance Ruling sought for	<p>A. Admissibility of Input Tax Credit (ITC) on Direct Expenditures for Second-Hand Vehicles.</p> <p>(i) In view of the Notification No. 8/2018-Central Tax (Rate) dated 25th January 2018, the applicant would like to get clarification as to whether the input tax credit would be available on inward supplies of goods or services which are in the nature of direct expenditures like spare purchases, repairs and refurbishment costs of vehicles, etc., except on purchase of old or used motor vehicles as mentioned in para 2 of the notification.</p> <p>B. Admissibility of Input Tax Credit (ITC) on Other Common Business Expenses and Capital Goods.</p>



	(ii) In view of the Notification No. 8/2018-Central Tax (Rate) dated 25th January 2018, the applicant would like to get clarification as to whether the input tax credit would be available on inward supplies of other goods or services except on purchase of old or used motor vehicles as mentioned in para 2 of the notification. That is, whether credit of input tax available on inward supplies of goods or services like office/ showroom rent, telephone, advertisement, professional charges, capital goods, etc., except that on inward supply of old or used motor vehicles.
Date of Personal Hearing	13-10-2025.
Authorized Representative	Shri.Anand Reghunath, Chartered Accountant

ADVANCE RULING No. KER/42/2025 Dated 11.12.2025

1. The applicant, M/s GOEXOTIC PLUS91 MOTORS PRIVATE LIMITED is a Private Limited Company having GSTIN 32AALCG9692A1ZI.
2. In this Ruling, a reference hereinafter to the provisions of the CGST Act, Rules or the Notifications issued there under shall include a reference to the corresponding provisions of the KSGST Act, Rules or the Notifications issued thereunder.
3. **The facts of the issue:** The brief facts of the matter, as submitted by the applicant, are as follows.



3.1 GOEXOTIC PLUS91 MOTORS PRIVATE LIMITED (“the Applicant”) is a registered Private Limited Company under the GST regime and is engaged in the business of buying and selling second hand motor vehicles, primarily old and used luxury cars. These vehicles are procured from both registered and unregistered persons.

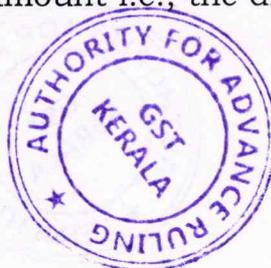
3.2 The applicant, before supplying these vehicles to customers, undertakes minor processing activities such as repairs and refurbishment, including the replacement of spare parts. These activities are intended to enhance the resale value of the vehicles but do not alter their fundamental nature. The said repairs and refurbishments are either carried out at the applicant’s own service station or through external service stations.

3.3 For the purpose of valuation and taxation under GST, the applicant proposes to adopt the special valuation mechanism as laid down under Rule 32(5) of the CGST Rules, 2017, which permits payment of GST only on the margin (i.e., the difference between selling price and purchase price), provided that no input tax credit (ITC) is availed on the purchase of the second hand motor vehicles.

3.4 In the course of business, the applicant incurs various common business expenses such as office/showroom rent, telephone expenses, advertising costs, professional fees, and also procures capital goods such as workshop machinery, office equipment, computer systems, and demo cars, which are utilized in the business operations.

4. Applicant’s Interpretation of Law and Position on Taxability are as follows.

4.1 The applicant is engaged in the business of selling second-hand motor vehicles and proposes to adopt the Margin Scheme as prescribed under Rule 32(5) of the Central Goods and Services Tax Rules, 2017. Under this provision, GST is payable only on the margin amount i.e., the difference between the selling



price and the purchase price, subject to the condition that no Input Tax Credit (ITC) has been availed on the procurement of such used motor vehicles.

4.2 The applicant has submitted a detailed interpretation of the relevant legal provisions concerning the admissibility of Input Tax Credit (ITC) while operating under the Margin Scheme as prescribed under Rule 32(5) of the CGST Rules, 2017, read with Notification No. 08/2018-Central Tax (Rate) dated 25.01.2018.

A. ITC on Direct Expenses and Common Business Inputs

4.3 The applicant submits that, under Section 16(1) of the CGST Act, 2017, Input Tax Credit is generally permissible on inward supplies utilized in the course or furtherance of business, provided the conditions such as holding a valid tax invoice and receipt of goods or services are satisfied.

4.4 The applicant further contends that although Rule 32(5) restricts ITC on the purchase of second-hand goods when opting for the Margin Scheme, there is no express restriction on claiming ITC on other inward supplies such as repair services, spare parts, refurbishment, and other ancillary expenses incurred in the course or furtherance of business.

4.5 This position has been upheld by the Kerala AAR in the case of M/s. Royaldrive Pre Owned Cars LLP (Advance Ruling No. KER/13/2024 dated 14.02.2024), wherein it was held that the restriction on ITC applies only to the purchase of second-hand motor vehicles and not to the related repair/refurbishment expenses or other input services and goods used in the course or furtherance of business as long as such inputs are used in the course or furtherance of business and the conditions of Sections 16 to 21 of the CGST Act and Rules 36 to 45 are fulfilled. The ruling emphasized that neither Rule 32(5) nor Notification No. 08/2018-Central Tax (Rate) mandates disallowance of ITC on other goods or services used in business, and that the provisions of Section 16 of the CGST Act, 2017 remain applicable for all other eligible inward supplies.



4.6 Additionally, the applicant submits that sales made with nil or minimal margin under the Rule 32(5) Margin Scheme should not be treated as exempt supplies, but rather as taxable supplies with a nil taxable value. This interpretation is significant for the purpose of apportionment of common ITC under Rule 42, as treating such supplies as exempt would unjustly trigger reversal of common credits.

B. ITC on Capital Goods

4.7 The applicant submits that Input Tax Credit (ITC) on capital goods is generally available under Section 16(1) of the CGST Act, 2017, when used in the furtherance of business, except where specifically restricted under Section 17(5). While ITC is admissible on capital goods used in the course of business, it is not allowed on the tax component of capital goods if depreciation on that component has been claimed under the Income Tax Act, 1961. The restriction under Section 17(5)(a) relating to motor vehicles applies only to those used for passenger transport with seating capacity of thirteen persons or less, and does not apply where such vehicles are acquired for further supply, including resale or use as demo cars, which enables the applicant to avail credit on such capital goods.

4.8 In support, the applicant refers again to the Kerala AAR ruling in Royaldrive Pre Owned Cars LLP (Advance Ruling No. KER/13/2024 dated 14.02.2024), which explicitly recognized the admissibility of Input Tax Credit on capital goods, confirming that such credit is available on inward supplies in accordance with the applicable legal requirements.

4.9 The applicant has also addressed the issue of apportionment under Rule 43 of the CGST Rules, arguing that nil-margin sales under Rule 32(5) should be treated as taxable supplies (albeit with nil value) and not as exempt supplies. Hence, the applicant contends that ITC reversal should not be applicable on common inputs or capital goods used in making such supplies.



4.10 Further reinforcing the above submissions, the applicant relies on the following Advance Rulings:

- The Karnataka AAR in M/s. Attica Gold Pvt. Ltd. (2020), which clarified that entities operating under the Margin Scheme may claim ITC on common business inputs, input services, and capital goods without any statutory restriction.
- The Kerala AAR in A.M. Motors (2018) and the Goa AAR in M/s. Chowgule Industries Pvt. Ltd. (2019), both of which recognized demo vehicles as capital goods eligible for ITC when used for further supply. This position has been further clarified by CBIC Circular No. 231/25/2024-GST, dated 10-09-2024, which explicitly confirms that ITC on demo vehicles is admissible under Section 17(5)(a)(A) of the CGST Act, since such vehicles are deemed to be used for “further supply of such motor vehicles” and are therefore not blocked from ITC.

5. Comments of the Jurisdictional Officer

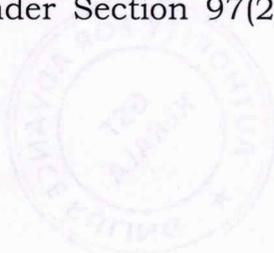
The application was forwarded to the jurisdictional officer as per provisions of section 98 (1) of the CGST Act. The Jurisdictional officer has not submitted any remarks and hence it is presumed that the jurisdictional officer has no specific comments to offer. It is also construed that no proceedings are pending on the issue against the applicant.

6. Personal Hearing:

The applicant was granted an opportunity for a personal hearing on 13.10.2025. Shri. Anand Reghunath, Chartered Accountant represented for the applicant in personal hearing. In the hearing, he explained the nature of activity undertaken by the applicant and reiterated the contentions submitted in the written application..

7. Discussion and Findings:

7.1. On review of the application, facts, and hearing submissions, it is found that the questions fall under Section 97(2) (b) and (d) of the CGST Act, relating to



notification applicability and tax liability determination. The application is therefore admitted for consideration on merits.

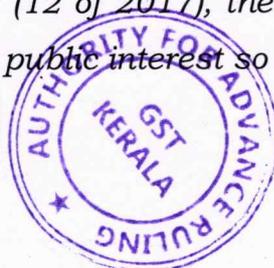
7.2 The applicant is engaged in the business of purchasing and selling second-hand motor vehicles, primarily used luxury cars. The applicant purchases used motor vehicles from both registered and unregistered persons. Before resale, the applicant undertakes minor repairs and refurbishments, including spare part replacements, to enhance the vehicles' market value without altering their essential character. These activities are carried out either at the applicant's own service facility or through third-party service stations.

7.3 In the course of business, the applicant incurs common expenses such as showroom rent, telephone charges, advertising, and professional fees, and also procures capital goods like workshop equipment, office infrastructure, computer systems, and demo vehicles, all used in the regular conduct of business.

7.4 The main issue under consideration is whether, in view of Notification No. 8/2018-Central Tax (Rate) dated 25th January 2018, input tax credit is admissible on inward supplies of goods or services including direct expenses such as repairs, spare parts, and refurbishment of vehicles, as well as common business expenses and capital goods, excluding the purchase of old or used motor vehicles. Further it needs to be determined whether the applicant is entitled to apply the special valuation mechanism under Rule 32(5) of the CGST Rules, 2017 for determining the value of outward supplies of such vehicles.

7.5.1 Now Notification No. 8/2018-Central Tax (Rate) dated 25th January 2018 provides an explanation for a concessional GST rate on the sale of used motor vehicles. The said notification is reproduced as under;

In exercise of the powers conferred by sub-section (1) of section 11 of the Central Goods and Services Tax Act, 2017 (12 of 2017), the Central Government, on being satisfied that it is necessary in the public interest so to do, on the recommendations



of the Council, hereby exempts the central tax on intra-state supplies of goods, the description of which is specified in column (3) of the Table below, falling under the tariff item, sub-heading, heading or Chapter as specified in the First Schedule to the Customs Tariff Act, 1975 (51 of 1975), as are given in corresponding entry in column (2), from so much tax as specified in Schedule W of Notification No. 1/ 2017 -Central Tax (Rate), as is in excess of the amount calculated at the rate specified in the corresponding entry in column (4), of the said Table, on the value that represent margin of the supplier, on supply of such goods.

Sl No	Chapter Heading, Sub heading	Description of goods	Rate
(1)	(2)	(3)	(4)
1	8703	Old and used petrol liquified petroleum gases (LPG) or compressed natural gas (CNG) driven motor vehicles of engine capacity of 1200 cc or more and of length of 4000mm or more	9%
2	8703	Old and used diesel driven motor vehicles of engine capacity of 1500cc or more and of the length of 4000mm. Explanation- for the purpose of this entry, the	9%
3	8703	Old and used motor vehicles of engine capacity exceeding 1500cc, popularity known as sports utility vehicles (SUV's) including utility vehicles. Explanation- for the purpose of this entry, SUV includes a motor vehicle of length exceeding 4000mm and having	9%
4	87	All Old and used Vehicles other than those mentioned from S. No. 1 to S.No.3	6%

Explanation - for the purpose of notification



(i) in case of a registered person who has claimed depreciation under section 32 of the Income Tax Act 1961 (43 of 1961) on the said goods, the value that represents the margin of the supplier shall be the difference between the consideration received for the supply of such goods and the depreciated value of such goods on the date of supply and where the margin of such supply is negative, it shall be ignored; and

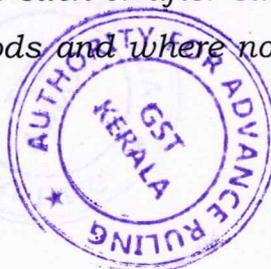
(ii) in any other case, the value that represents the margin of supplier shall be, the difference between the selling price and the purchase price and where such margin is negative, it shall be ignored.

2. This notification shall not apply, if the supplier of **such goods** has availed input tax credit as defined in clause (63) of section 2 of the CGST Act, 2017, CENVAT as defined in CENVAT Credit Rules, 2004 or the input tax credit of value added tax or any other taxes paid on such goods.

7.5.2 Upon examination of Para 2 of the notification, it is noted that the benefit of paying tax on the margin basis is not available in cases where input tax credit (ITC) has been availed on "such goods." The term "such goods," as defined in column (3) of the table in the notification, specifically refers to old or used motor vehicles classified according to dimensions and engine capacity. Accordingly, the restriction on availing ITC appears to be limited to the inward supply of the used vehicles themselves. There does not appear to be any bar under the notification on claiming ITC on other inward supplies, including but not limited to spare parts, repair and refurbishment services, rent, advertising, professional services, or capital goods utilized in the course of business.

7.6.1 Sub-rule (5) of rule 32 of CGST Rule, 2017 provides the determination of value of supply in buying and selling of second hand goods. The same is reproduced below;

"where a taxable supply is provided by a person dealing in buying and selling of second hand goods, ie; 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.”

7.6.2 It is observed that the provision is intended to apply specifically to the second-hand goods themselves, allowing GST to be levied only on the actual value addition by the supplier. Minor processing such as repairs, refurbishment, or replacement of parts to enhance resale value does not affect the applicability of the margin scheme. The rule ensures that transactions in used goods remain tax neutral while preventing cascading of tax, consistent with the objective of Notification No. 8/2018-Central Tax (Rate).

7.6.3 The applicant has conveyed that the minor modifications, repairs, and refurbishments undertaken on the vehicles serve to enhance their market value without altering their essential character. In view of the submissions, it appears that the goods supplied by the applicant would qualify under the provisions of Rule 32(5) for determination of value on the margin basis, subject to the condition that no input tax credit has been availed on the purchase of such goods.

7.7 Upon careful examination of the foregoing paragraphs (7.3 to 7.6), it is evident that where a registered person is engaged in the business of buying and selling second-hand goods, such as used motor vehicles, and does not avail input tax credit on the purchase of such vehicles, the liability to pay tax shall arise only on the margin value, in terms of Rule 32(5) of the CGST Rules, 2017 read with Notification No. 8/2018-Central Tax (Rate) dated 25.01.2018. Both the said Rule and Notification place a restriction solely on the availment of input tax credit in respect of the tax paid on the purchase of the used vehicles themselves. There is, however, no provision under either the Rule or the Notification that prohibits the availment of input tax credit on other inward supplies of goods or services procured in the course or furtherance of business.



7.8 Further, Sub-section (1) of Section 16 of the CGST Act entitles a registered person to take credit of input tax charged on any supply of goods or services or both to him, which are used or intended to be used in the course or furtherance of business, subject to the conditions and restrictions prescribed therein. The detailed conditions for availing ITC are contained in sub-sections (2) to (4) of Section 16, and restrictions are specified under Section 17 of the Act. On examination, it is observed that neither Sections 16 and 17 of the CGST Act nor Notification No. 08/2018-Central Tax (Rate) dated 25.01.2018 impose any restriction on the availment of ITC in respect of goods or services other than those pertaining to the purchase of the used vehicles themselves.

7.9.1 Rule 32(5) of the CGST Rules, 2017 provides a special mechanism for valuation in cases where a registered person is engaged in buying and selling second-hand goods. The Rule prescribes that 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 such margin is negative, it shall be ignored.

7.9.2 It is important to note that Rule 32(5) is purely a valuation provision. It does not determine the taxability of the supply. A supply made under the Margin Scheme continues to be a taxable supply under Section 9 of the CGST Act, even where the margin is nil or negative. The Rule merely results in a taxable value of zero, not a change in the nature of the supply.

7.9.3 Under Section 2(47) of the CGST Act, "exempt supply" means a supply which attracts a nil rate of tax, or which is wholly exempt by virtue of a notification issued under Section 11 of the CGST Act or Section 6 of the IGST Act, and includes non-taxable supplies. Section 2(78) further defines a "non-taxable supply" as one on which tax is not leviable under the GST law.

7.9.4 A supply is treated as exempt only where it is so declared by the Government through a specific exemption notification issued under Section 11. In the present case, Notification No. 08/2018-CT (Rate) is not an exemption notification. It is a rate notification prescribing the method of computing taxable



value where second-hand goods are sold under the Margin Scheme. It does not exempt the supply, nor does it prescribe a nil rate of tax. It merely results in the taxable value becoming zero because the margin is zero, not because the supply is exempt.

7.9.5 Therefore, a supply of used motor vehicles under Rule 32(5) where the margin is nil cannot be classified as an exempt supply, since:

- it is not covered under any exemption notification issued under Section 11,
- it does not attract a nil rate of tax, and
- GST is leviable, though on a computed value of zero.

Accordingly, nil-margin transactions under the Margin Scheme are taxable supplies with a taxable value of zero, and not exempt supplies for the purposes of Rule 42 or Rule 43 of the CGST Rules.

7.9.6 Consequently, such supplies shall not trigger reversal of common input tax credit, since ITC reversal is attracted only in respect of exempt supplies, and not in respect of taxable supplies valued at nil due to the statutory valuation mechanism.

7.10 Based on the submissions of the applicant and facts on record read in conjunction with the relevant statutory provisions of law, we find that the applicant is eligible to claim input tax credit of tax paid on both direct and indirect expenses such as repairs and refurbishment of used vehicles, procurement of spare parts, office rent, stationery, telephone, advertisement, and professional services provided such goods or services are used in the course or furtherance of business. This eligibility is, however, subject to compliance with the conditions prescribed under Sections 16 to 21 of the CGST Act and Rules 36 to 45 of the CGST Rules, 2017. Additionally, supplies made with nil margin under the Margin Scheme remain taxable supplies with a taxable value of zero and are not exempt supplies under the CGST Act. Accordingly, such transactions do not attract reversal of common input tax credit under Rule 42 or Rule 43.



8. In the light of the facts and legal position as stated above, the following ruling is issued:

RULINGS

Question 1- Admissibility of Input Tax Credit (ITC) on Direct Expenditures for Second-Hand Vehicles: In view of the Notification No. 8/2018-Central Tax (Rate) dated 25th January 2018, the applicant would like to get clarification as to whether the input tax credit would be available on inward supplies of goods or services which are in the nature of direct expenditures like spare purchases, repairs and refurbishment costs of vehicles, etc., except on purchase of old or used motor vehicles as mentioned in para 2 of the notification?

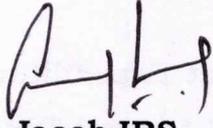
Ruling- Input tax credit on inward supplies such as spare parts, repairs, and refurbishment services is admissible, as Notification No. 8/2018-Central Tax (Rate) restricts ITC only on the purchase of used motor vehicles themselves. Such credit shall, however, be subject to compliance with the conditions prescribed under Sections 16 to 21 of the CGST Act and Rules 36 to 45 of the CGST Rules.

Question 2- Admissibility of Input Tax Credit (ITC) on Other Common Business Expenses and Capital Goods: In view of the Notification No. 8/2018-Central Tax (Rate) dated 25th January 2018, the applicant would like to get clarification as to whether the input tax credit would be available on inward supplies of other goods or services except on purchase of old or used motor vehicles as mentioned in para 2 of the notification. That is, whether credit of input tax available on inward supplies of goods or services like office/showroom rent, telephone, advertisement, professional charges, capital goods, etc., except that on inward supply of old or used motor vehicles.

Ruling- Input tax credit on inward supplies of goods or services such as office/showroom rent, advertisement, telephone, professional fees, and capital goods is admissible, as there is no restriction under Notification No. 8/2018-CT (Rate) or Rule 32(5) regarding such expenses. The availment shall be subject to

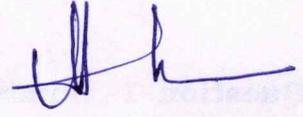


fulfillment of the conditions under Sections 16 to 21 of the CGST Act and Rules 36 to 45 of the CGST Rules.



Jomy Jacob IRS

Additional Commissioner of Central Tax
Member

Mansur M.I.

Joint Commissioner of State Tax
Member

To

M/s GOEXOTIC PLUS91 MOTORS PRIVATE LIMITED
17/202 A2-A5, Synergy Towers, Metro Pillar No.118,
Thaikkattukara, Aluva, Ernakulam, Kerala, 683106



Copy submitted to

1. The Chief Commissioner of Central Tax and Central Excise, Thiruvananthapuram Zone, C.R.Building, I.S.Press Road, Cochin- 682018. [E-mail ID: cccochin@nic.in; ccu-cexcok@nic.in]
2. The Commissioner of State Goods and Services Tax Department, Tax Towers, Karamana, Thiruvananthapuram – 695002.
3. The Commissioner of Central Tax and Central Excise, Kochin Commissionerate.
4. The Commissioner of Central Tax and Central Excise, Thiruvananthapuram Commissionerate, GST Bhavan, Statue, Thiruvananthapuram. (E-mail id: commr-tvmhqrsgov.in)
5. The Commissioner of Central Tax and Central Excise, Calicut Commissionerate.

Copy to :

1. The Additional Commissioner, TPS, HQ, Thiruvananthapuram.
2. The Deputy Commissioner, ITMD, Thiruvananthapuram.
3. The Superintendent, Central Tax, Aluva Range, Aluva Division.
4. The Assistant Commissioner/State Tax Officer, Taxpayer Services circle, Aluva.