F. No. CBIC-20001/2/2026-GST
Government of India
Ministry of Finance
(Department of Revenue)
Central Board of Indirect Taxes & Customs
GST Policy Wing
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Room No. 16039, Kartavya Bhawan-01
New Delhi, Dated: 26.10.2026

To,

The Principal Chief Commissioners/ Chief Commissioners (All)
The Principal Director General/ Director General (All)

Madam/Sir,

Subject: Clarification on Input Tax Credit admissibility to authorised agents appointed by manufacturers for sale of motor vehicles, pursuant to the circular No. 231/25/2024-GST dated 10.09.2024 – reg.

Attention is invited to circular No. 231/25/2024-GST dated 10.09.2024, wherein certain issues regarding availability of input tax credit in respect of demo vehicles were clarified.

2. Representations have been received from trade and industry seeking clarification with regard to the admissibility of input tax credit (ITC) on demo vehicles to authorized agents appointed by vehicle manufacturers for sale of motor vehicles, in light of para 4.6 of circular No. 231/25/2024-GST dated 10.09.2024 (hereinafter referred to as "the said circular"). In order to ensure uniformity in the implementation of the provisions of law in this regard across the field formations, the Board, in exercise of its powers conferred by section 168 (1) of the Central Goods and Services Tax Act, 2017 (hereinafter referred to as "the CGST Act"), hereby clarifies the issue as under:

3. Vide para 4.6 of the said circular, it was clarified that in case where an authorized dealer merely acts as an agent or service provider to the vehicle manufacturer (hereinafter referred to as the "dealer-agency model"), input tax credit in respect of a demo vehicle purchased by such authorized dealer for providing facility of vehicle test drive would be blocked in terms of sub-clause (A) of clause (a) of section 17(5) of the CGST Act, 2017, as such an agent is not making

the supply of motor vehicles on his own account and is merely providing marketing or facilitation services to the vehicle manufacturer. The relevant extract is reproduced as under:

> *4.6 ...In such a case, the authorized dealer is merely providing marketing and/or facilitation services to the vehicle manufacturer and is not making the supply of motor vehicles on his own account. Therefore, the said demo vehicle cannot be said to be used by the dealer for making further supply of such motor vehicles. Accordingly, in such cases, input tax credit in respect of such demo vehicle would not be excluded from blockage in terms of sub-clause (A) of clause (a) of section 17(5) of CGST Act and therefore, input tax credit on the same would not be available to the said dealer.*

4. Clause (a) of sub-section (5) of section 17 of the CGST Act, provides for the restriction on the availability of ITC in respect of motor vehicles for transportation of persons having approved seating capacity of not more than 13 persons (including the driver). The said clause reads as under:

> *"(5) Notwithstanding anything contained in sub-section (1) of section 16 and sub-section (1) of section 18, input tax credit shall not be available in respect of the following, namely: -*
>
> *(a) motor vehicles for transportation of persons having approved seating capacity of not more than thirteen persons (including the driver), except when they are used for making the following taxable supplies, namely: -*
>
> *(A) further supply of such motor vehicles; or*
>
> *(B) transportation of passengers; or*
>
> *(C) imparting training on driving such motor vehicles*

5. The matter has been examined. As per the prevailing practice in respect of vehicle sales, it is seen that primarily there are two kinds of models of sale in this sector, i.e., the dealer-agency model and the traditional dealership-based model. In the dealer-agency model, the dealer purchases new vehicles from the Original Equipment Manufacturer (OEM) as are required for demo or test drive purposes. New vehicle sales are done directly by the OEM to the customer. In the traditional dealership-based model, the dealer purchases a fleet of new vehicles and designates a few of these as demo vehicles for test drive purposes to promote vehicle sales.

5.1. The basic difference between the two models is that in the traditional model, the sale of vehicles is done by the dealer on its own account while in the dealer-agency model, the sale

of vehicle to customers is done directly by the OEM and the dealer only keeps demo vehicles for the purpose of demonstration and for demo test drive purposes. However, in both the cases, the demo vehicles serve the same purpose of allowing the customer to have the driving experience before actually buying the car. In both the models, these demo vehicles are purchased by the authorized dealers from the vehicle manufacturers against tax invoices and are typically reflected as capital assets in books of account of such authorized dealers. These vehicles are required to be held by authorized dealers as demo vehicles for certain mandatory period and are thereafter, generally, sold by the dealer at a written down value and applicable tax on the same is payable at that point of time. Also, such vehicles are treated at par under the Central Motor Vehicle Rules, 1989. Thus, there is no practical difference in the treatment of these vehicles, and denial of ITC to one business model creates a discriminatory effect on the availability of ITC on such vehicles.

6. Further, the use of the phrase "such motor vehicles" rather than "said motor vehicle" in section 17(5)(a)(A) of the CGST Act, 2017, indicates that ITC is permitted not only on the specific vehicle sold, but also on vehicles used for further supply of similar motor vehicles. Thus, since demo vehicles in both the above types of business model serve the same purpose of furthering the supply of similar vehicles, ITC should be allowed on such demo vehicles in both type of business models, including the dealer-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.

8. It is requested that suitable trade notices may be issued to publicize the contents of this circular.

9. Difficulty, if any, in the implementation of this circular may be brought to the notice of the Board.

Yours faithfully,

(Gaurav Singh)
Commissioner (GST)

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