

Demo Cars and ITC: Circular 262 Lifts the Block for Dealer-Agency Model Dealers

Published 27 October 2026 · Category: GST · Circular No. 262/08/2026-GST dated 26.10.2026 (F. No. CBIC-20001/2/2026-GST)

The graphic features a yellow background on the left and a pink circular area on the right. In the yellow area, there is a small black circle with 'ITC' in white. Below it, the text 'Demo Vehicle ITC for Dealers' is written in large, bold, black font. Underneath that, in a smaller black font, it says 'Dealer-agency model no longer blocked'. In the pink circular area, the text 'CIRCULAR NO.' is at the top, followed by the large number '262' in bold black font, and '/2026-GST' at the bottom. At the very bottom of the graphic, a black bar contains the text 'Arpan Bohra & Co., Chartered Accountants' on the left and 'CBIC · 26.10.2026' on the right.

A premium-car showroom on the Hyderabad outer ring road does not sell cars on its own account any more. The manufacturer bills the customer directly; the showroom earns a facilitation fee, and keeps three cars for test drives that it buys on tax invoices. In September 2024 the Board said ITC on such cars was blocked under section 17(5)(a). Circular No. 262/08/2026-GST, dated 26 October 2026, reverses that.

In short: para 4.6 of Circular No. 231/25/2024-GST dated 10.09.2024 is **withdrawn**, and it is clarified that ITC on demo vehicles is **not blocked** under section 17(5)(a) for a dealer working under the dealer-agency model.

Demo vehicles: same car, one rule for both dealers

Para 4.6 of Circular 231/25/2024-GST dated 10.09.2024 withdrawn

Dealer-agency model

OEM sells new vehicles directly to customers. Dealer buys demo vehicles for test drives and earns facilitation / marketing remuneration.

Before: ITC blocked (para 4.6 of Circular 231/25/2024)

Now: not blocked under s.17(5)(a)

Traditional dealership

Dealer buys a fleet, sells on own account, and designates a few as demo vehicles.

Earlier position: ITC not blocked, as vehicle used for further supply

Now: unchanged

Reasoning in the Circular

- Same purpose in both models: let the customer drive before buying.
- Bought on tax invoice, held as capital asset for a mandatory period, later sold at written-down value with tax.
- Clause (A) says "further supply of **such** motor vehicles" — not "the said vehicle".
- Denial to one model creates a discriminatory effect.

Provision involved

Section 17(5)(a) blocks ITC on motor vehicles for transporting persons with approved seating capacity of not more than thirteen persons (including the driver), except when used for (A) further supply of such motor vehicles, (B) transportation of passengers, or (C) imparting training on driving such motor vehicles.

What the earlier circular said

Para 4.6 of Circular 231/25/2024-GST said a dealer that merely acts as an agent or service provider to the manufacturer is not making the supply of motor vehicles on its own account. The demo vehicle therefore could not be said to be used for further supply, and ITC on it was not saved from the block in clause (A).

What the new Circular says

The Board notes two business models:

- **Dealer-agency model** — the dealer buys demo or test-drive vehicles from the manufacturer; new vehicles are sold by the manufacturer directly to customers.
- **Traditional dealership** — the dealer buys a fleet, sells on its own account and designates some vehicles for demonstration.

Reasoning recorded in paras 5 and 6:

1. In both models the demo vehicle serves the same purpose — letting the customer experience the drive before buying.
2. In both, vehicles are bought on tax invoices from the manufacturer, usually carried as capital assets, held for a mandatory period, then generally sold at written-down value with applicable tax.
3. Both are treated at par under the Central Motor Vehicles Rules, 1989.
4. Denial to one model creates a discriminatory effect.
5. The phrase in clause (A) is "further supply of **such** motor vehicles", not "said" vehicles; ITC is thus allowed not only for the specific vehicle sold, but for vehicles used for further supply of similar vehicles.

Effect

Dealer	Position after Circular 262
Dealer-agency model	ITC on demo vehicles not blocked under section 17(5)(a)
Traditional dealer	Position unchanged: not blocked as vehicles are used for further supply

Points for reading the Circular carefully

- **Other conditions still apply.** The clarification removes the section 17(5)(a) block; eligibility under section 16 (tax invoice, receipt, return filing, payment to supplier) and use in the course or furtherance of business are independent conditions.
- **Subsequent sale.** The Circular notes the vehicle is usually sold later at written-down value with applicable tax. Reversals and valuation on disposal of capital goods continue to follow the Act and rules; the Circular does not alter them.
- **Past periods.** The Circular withdraws para 4.6 and states the position without describing it as prospective. Where ITC was reversed or denied earlier on the strength of para 4.6, or demands were raised for it, the dealer may consider whether the clarification supports re-claim or defence. Time limits under section 16(4) for fresh claims, and the status of pending proceedings, are not addressed (litigative; confirm for each case).
- **Demo cars not used for test drives.** The reasoning rests on use as demonstration vehicles. A vehicle used for staff or personal use is a different factual position.

Litigation view

Issue	View
Pending SCN denying ITC on demo cars on the basis of para 4.6	Strengthened position; the withdrawn para can no longer support the demand
Orders already confirmed	Appeal route and limitation to be examined case by case
Re-claim of reversed ITC	Subject to section 16(4) and any timing restrictions; not addressed in the Circular
Risk of departmental reliance on facts (e.g. vehicles used otherwise)	Moderate

Frequently asked questions

Does this apply to every vehicle a dealer buys? The clarification is on demo vehicles used to promote sales of such vehicles; vehicles bought for other purposes are outside it.

Which circular is withdrawn? Para 4.6 of Circular No. 231/25/2024-GST dated 10.09.2024.

Is ITC available for vehicles of any seating capacity? Section 17(5)(a) applies to vehicles with approved seating capacity of not more than thirteen persons including the driver.

Does the Circular say anything about the later sale of the demo vehicle? It records that applicable tax is payable on such sale; it does not change the manner of computation.

Who is covered? The clarification expressly covers the dealer in the dealer-agency model, i.e. one who keeps demo vehicles while the manufacturer sells directly to customers.

Sources

- CBIC Circular No. 262/08/2026-GST dated 26.10.2026 and Circular No. 231/25/2024-GST dated 10.09.2024 — [CBIC website](#).
- Section 17(5)(a), CGST Act, 2017.

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