GAP iNTERDISCIPLINARITIES
A Global Journal of Interdisciplinary Studies
(ISSN – 2581-5628)
Impact Factor: SJIF - 5.047, IIFS - 4.875
Globally peer-reviewed and open access journal.

THE IMPACT OF GST ON THE INDIAN AUTOMOBILE INDUSTRY

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Abstract

The Goods and Services Tax (GST) has significantly impacted the automobile industry in India since its implementation in July 2017. The implementation of GST has resulted in significant changes to the taxation system across sectors, influencing how business is conducted within the automobile industry. With its introduction, it has become necessary for manufacturers to adjust their prices according to the changing tax structure, leading to an increase in the prices of vehicles. India's Goods and Services Tax (GST) has profoundly impacted the automobile industry, affecting companies, buyers, and the government. Since the implementation of GST in 2017, it has become an integral part of the overall taxation system of India. This article will explore GST's effects on this industry since its introduction in India. It will analyse how the tax system affects manufacturers, consumers, and revenues for the automotive sector. The Goods and Services Tax (GST) has been a subject of much debate in India since its introduction in 2017. The GST is a significant tax reform that impacted various industries, including the automobile industry. Understanding how this reform has transformed the rules and regulations governing the automobile sector is essential to understand its implications. GST, or Goods and Services Tax, is a significant reform in India's indirect taxation system. Before GST, the automobile industry in India was burdened with multiple taxes such as State Value Added Tax (VAT), Luxury Tax, Central Sales Tax (CST) etc., making cars significantly more expensive than they should have been. With the introduction of GST, auto prices have come down considerably across different vehicle categories and segments.

Keywords: *GST, Automobile Industry, GDP, FDI.*

INTRODUCTION

The Goods and Services Tax (GST) is coming to India and will significantly impact your cars. In this article, we will look at the basics of the GST and what you need to know about how it will affect your car business. We will also provide some tips on how you can prepare for the tax reform that is set to take place in India this year. The Goods and Services Tax (GST) is coming to India and will significantly impact your cars. In this article, we will look at the basics of the GST and what you need to know about how it will affect your car business. We will also provide some tips on how you can prepare for the tax reform that is set to take place in India this year. The GST will replace the existing Customs Tariff in India. The goal of the GST is to create a single market for goods and services in India, which will free up resources for more important things like healthcare and infrastructure development. How does the GST work?

Under the current system, businesses must pay tariffs based on their product or service. For example, if you import a car into India, you may have to pay a tax of 10% or more depending on the type of car you buy. However, under the new GST system, all products will be subjected to an identical GST rate regardless of their price tag. When you purchase something online or from a store in India, you will not have to worry about paying extra taxes because all products will be treated equally under the new regime. What are some of the implications of this change? Businesses with high prices associated with their products will likely see their costs increase significantly.

Additionally, those who purchase items directly from manufacturers may also face higher costs since they cannot avoid paying VAT altogether. Finally, consumers who rely on local retailers for their groceries may find themselves out OF STOCK due to the lack of stock available from international suppliers under the new regime. Are there any exemptions from applying for/being part of the GST? There are several exceptions from using for/being part of the GST, including small businesses; agricultural produce; medicinal plants; certain types of handicrafts; tourist attractions; wedding ceremonies; air travel within India; food passes used in restaurants outside India.

National Securities Depository Limited (NSDL), which created the Goods and Services Tax Network, will assist the government (GSTN). It is a non-profit organisation that will provide IT infrastructure services to central and state governments, stakeholders, and taxpayers to implement and regulate the Goods and Services Tax effectively. (GST)

The structure of India's indirect tax system is as follows at present.

Central-Level Indirect Taxes	State-Level Indirect Taxes
Central Excise Duty Basic Custom Duty Counter Vailing Duty (CVD) Special Additional Duty (SAD) Service Tax CST	VAT Luxury Tax Entry Tax Octroi Entertainment Tax Purchase Tax

Implementation of current taxes

Imported goods are charged essential custom duty, CVC, and SAD. Manufacturing of goods is subject to Central Excise Duty. The sale of goods within a state is subject to VAT.

CST is charged on sales between states. Taxes on services are imposed Entry tax, Luxury tax, Entertainment tax, Purchase tax, and other types of taxes are sometimes charged.

Disadvantages of the Current Tax Structure

- The existence of a cascading effect (tax on tax)
- Input tax credit problems across India
- It is necessary to comply with multiple taxes to conduct business in India.
- Goods are categorised differently in different states.
- Complicated nature of compliance

What are the advantages of GST?

- GST will subsume several indirect taxes as a uniform and transparent tax.
- Registered retailers will not be charged GST, reducing costs and eliminating the time, prices, and effort.
- This will benefit consumers since the prices are expected to be lowered, and consumption is expected to increase, which will also benefit companies.
- Goods and services are taxed separately under the current taxation structure, which leads to more significant complications, administration costs, and compliance costs.
- The GST system would allow the tax burden to be split equitably between manufacturers and service providers when all taxes are integrated.
- As a consumption-based tax, the Goods and Services Tax (GST) will only be imposed at the point of final destination, thereby removing economic impediments and facilitating the development of a national common market.
- In addition to improving the administration, GST will facilitate the development of a transparent and corruption-free tax system.
- In addition to GST, there is also GSTN, a fully integrated platform for all aspects of GST administration.

GST and its Application at different levels

1. GST (CGST) in the central government
2. A GST that is integrated with other taxes (IGST)
3. GST in the Union Territory (UGST)
4. GST (SGST) at the state level

Nature of Transaction	Taxes Applicable
Import of Goods	Basic Custom Duty and Integrated GST (IGST) will be applicable
Intra State Supply of Goods and Services	Central GST(CGST) and State GST (SGST) will be applicable simultaneously. In case of Union Territories GST (UGST) will be applicable
Inter State supply of Goods and Services	Integrated GST (IGST) will be applicable
Export of Goods and Services	GST will not be applicable

GST's impact on the Automotive industry
The auto industry in India is a big business that makes a lot of cars and motorcycles every year to meet the needs of the country's huge population. India has one of the biggest car industries in the world. The industry makes up 7.1% of the country's Gross Domestic Product (GDP). India is the second-largest producer of two-wheeled vehicles and buses, the fifth-largest producer of heavy trucks, the sixth-largest producer of cars, and the eighth-largest producer of commercial vehicles worldwide. According to the Automotive Mission Plan 2026, the Indian Automotive Industry wants to be among the top three in the world in terms of manufacturing, engineering, and exports of vehicles and parts and to make up 12 per cent of India's GDP within the next ten years. In India, 80% of the market is made up of two-wheeled vehicles, while 14% is made up of passenger vehicles. This is because India has many young people and a growing middle class. India also exports many cars, and car companies look for rural markets. It will help the business grow in the next few years. In this area, GST will take the place of taxes like excise, VAT, sales tax, road tax, motor vehicle tax, and vehicle registration duty.

Automobile Tax Laws Currently in Effect
The automobile sector was subject to multiple taxes prior to GST, including:

- Customs and Excise
- Taxes and duties
- Cess on infrastructure
- CENVAT
- Entry Tax / Octroi / LBT

An overview of the various types and rates of taxes levied on the Automobile Sector.

https://www.gapinterdisciplinarities.org/

Category	Excise	CST	NCCD	Infra.	VAT	Total
Small Cars(Petrol) under 4m-	12.5%	2%	1%	1%	12.5%	29%
Small Cars(Diesel) under 4m-	12.5%	2%	1%	2.5%	12.5%	30.5%
Small Cars under 4m- Engine >	27%	2%	1%	4%	12.5%	46.5%
Mid-size cars- Length > 4m,	24%	2%	1%	2.5%	12.5%	42 %
Mid-size cars- Length > 4m,	27%	2%	1%	4%	12.5%	46.5%
SUVs- Ground Clearance >	30%	2%	1%	4%	12.5%	49.5%
Hybrids	12.5%	2%	1%	4%	12.5%	32%
Electric	6%	2%	NA	NA	12.5%	20.5%
Buses	12.5%	2%	1%	NA	12.5%	28%
Trucks	12.5%	2%	1%	NA	12.5%	28%
Three wheelers	12.5%	2%	1%	NA	12.5%	28%
Two wheelers	12.5%	2%	1%	NA	12.5%	28%

(Source- Union Budget,2017, SIAM)

Post-GST tax structure on Automobiles
All cars except electric cars are taxed at a base rate of 28%, and depending on size, engine size, and ground clearance, an additional cess will be added at 1%, 3%, or 15%. However, on September 9, the GST Council decided to raise the cess on mid-size, large, and SUV cars by 2%, 5%, and 7%, respectively, to bring the tax rates on these cars back to what they were before GST. The table in India shows the old and new car GST rates.

(ISSN – 2581-5628)
Impact Factor: SJIF - 5.047, IIFS - 4.875
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Category	Old GST Rates			New GST Rates		
	GST	Cess	Total	GST	Cess	Total
Small Cars< 4m-Petrol	28%	1%	29%	28%	1%	29%
Small Cars< 4m-Diesel	28%	3%	31%	28%	3%	31%
Small Cars<4m- Engine > 1200	28%	15%	43%	28%	15%	43%
Mid-size cars- Length > 4m,	28%	15%	43%	28%	17%	45%
Mid-size cars- Length > 4m,	28%	15%	43%	28%	20%	48%
SUVs- Ground Clearance >	28%	15%	43%	28%	22%	50%
Hybrids	28%	15%	43%	28%	15%	43%
Electric	12%	NA	12%	12%	NA	12%
Buses	28%	15%	43%	28%	15%	43%
Trucks	28%	NA	28%	28%	NA	28%
Three wheelers	28%	NA	28%	28%	NA	28%
Two wheelersEngine < 1500 cc	28%	NA	28%	28%	NA	28%
Two wheelersEngine > 350 cc	28%	3%	31%	28%	3%	31%

(Source- cbec-gst.gov.in)

Comparison of GST rates before and after the implementation of GST

Category	Pre GST Rate	Old GST Rates	Difference	Pre GST Rate	New GST Rates	Difference
Small Cars< 4m-Petrol	29%	29%	-	29%	29%	-
Small Cars< 4m-Diesel	30.5%	31%	+0.5%	30.5%	31%	+0.5%
Small Cars<4m- Engine > 1200	46.5%	43%	-3.5%	46.5%	43%	-3.5%
Mid-size cars- Length > 4m,	42 %	43%	+1%	42 %	45%	+3%
Mid-size cars- Length > 4m,	46.5%	43%	-3.5%	46.5%	48%	+1.5%
SUVs- Ground Clearance >	49.5%	43%	-6.5%	49.5%	50%	+0.5%
Hybrids	32%	43%	+11%	32%	43%	+11%
Electric	20.5%	12%	-7.5%	20.5%	12%	-7.5%
Buses	28%	43%	+15%	28%	43%	+15%
Trucks	28%	28%	-	28%	28%	-
Three wheelers	28%	28%	-	28%	28%	-
Two Wheelers Engine < 1500 cc	28%	28%	-	28%	28%	-
Two Wheelers Engine > 350 cc	28%	31%	3%	28%	31%	3%

GRAND ACADEMIC PORTAL
RESEARCH JOURNALS
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GRAND ACADEMIC PORTAL (GAP) 2017
ज्ञान: अध्ययन: परम्परा

(Source- cbec-gst.gov.in)
Vehicles with a length of fewer than four meters must have a petrol engine of fewer than 1.2 litres

This is one of the nation's largest and most popular markets. Cars such as the Maruti Suzuki Alto, the Maruti Suzuki Dzire, the Hyundai i20, and the Hyundai Grand i10 are included in this category. The difference between the price before and after taxes is 29 per cent, so this type of small car will not experience a significant price change.

Under four-meter vehicles: Diesel engines with a displacement of fewer than 1.5 litres
The range includes Maruti Suzuki VitaraBrezza, Mahindra TUV 300, Mahindra KUV 100, and Suzuki Dzire diesel. The table shows that the difference between the pre-and post-tax rates went up by 0.5%. It means that prices in this car segment will go up by a small amount.
Engines with a displacement of 1.5 litres or more; engines with a displacement of 1.2 litres or more; and all vehicles under four meters in length

There is a handful of vehicles in this segment, such as the Ford Eco Sport with a 1.5-litre gas engine and the Hyundai i20 with a 1.4-litre automatic engine, among others, before and after taxes, the tax structure decreased by 3.5%, as shown in the table. It will decrease the price of this car segment, but as this is a relatively minor aspect of the Indian automotive scheme, its impact may be minimal.

Engines more significant than 1.2 litres for petrol or 1.5 litres for diesel in cars larger than 4 meters (not including SUVs)

This automobile segment is also well-liked in the United States. It includes, among others, the Honda Verna and Honda Amaze. The table illustrates a 1% increase in pre-tax and post-tax structures over the past year; however, due to a 2 per cent increase in cess, the difference between pre-and post-tax structures now reflects a 3 per cent increase in tax rates; consequently, companies are increasing the prices of automobiles, and cars in this segment will be more expensive than before.

Petrol and diesel engines of 1.2 litres or 1.5 litres for larger cars (excluding SUVs)

A significant portion of the Indian automobile market consists of vehicles longer than four metres. This segment consists of sedans, larger hatchbacks such as the Honda City, Suzuki Ciaz, etc., and larger automobiles such as the new Mercedes-Benz E-Class or S-Class. The table shows that the difference between the structures before and after taxes is 3.5%. With the increase in cess, the difference between the tax rates before and after taxes shows that tax rates went up by 1.5 per cent. So, companies are raising the prices of these segments of cars, making them more expensive than before.

Petrol and diesel engines are available for all SUVs larger than four meters, regardless of the displacement

This market segment is popular in India. There are many SUVs in this segment, including the Mercedes-Benz GLC, Audi Q7, Ford Endeavour, Volkswagen Tiguan, Toyota Fortuner, Mahindra Scorpio, Mahindra XUV 500, and Tata Hexa, among others. Before the cess went up, the structure before and after taxes went down by 6.5%. The decision made the companies very happy, so they cut the prices of their cars. However, because of the 7 per cent increase in cess, the auto industry is depressed and must raise prices.

A Hybrid vehicle

Some hybrid cars sold in India include the Toyota Camry Hybrid, the Toyota Prius, the Honda Accord Hybrid, the Volvo XC90 T8 (plug-in hybrid), and the Lexus RX450h SUV and ES300h sedan. The table shows that the price structure before and after taxes went up by 11 per cent, which is why these cars cost more. It is also a strategic move that will prevent most automakers from bringing the newest technology and platforms to India because they will not be as cost-effective as gasoline or diesel engines.

Cars powered by electricity

Only Mahindra Electric sells standard electric cars in India at the moment. India only sells two fully electric cars: the Mahindra e2o, which now has five doors, and the Mahindra eVerito. The table shows that the difference between the structure before and after taxes has decreased by 7.5%, making electric cars cheaper. Only Mahindra Electric sells standard electric cars in India at the moment. India only sells two fully electric cars: the Mahindra e2o, which now has five doors, and the Mahindra eVerito. The table shows that the difference between the structure before and after taxes has decreased by 7.5%, making electric cars cheaper.

This shows that the government wants to promote electric vehicles and make India a country where all cars and SUVs are electric by 2030.

Two-wheeled vehicles

In India, the two-wheeler industry is the largest. The table shows no change in the pre-and post-tax structure for motorcycles under 350 ccs, but prices will decrease by 2 per cent in states with a higher VAT rate than 12.5%. A 3 per cent increase in the pre-and post-tax structure of motorcycles with displacements more significant than 350 ccs will result in a slight price increase. Essentially, 81 per cent of the market's prices would not be significantly affected.

Vehicles such as three-wheelers, buses, and trucks

The table demonstrates that implementing GST will not impact the prices of three-wheelers and trucks. Taxes on buses were formerly 28 per cent but are now 43 per cent, representing a 15 per cent increase between the pre-and post-tax structure. Due to a 15 per cent additional cess imposed under the post-GST structure, the price of buses will increase.

CONCLUSION

The Goods and Services Tax will significantly impact the automotive industry depends on how well it adheres to the new tax regulations. It may be helpful to compare the GST to the experience of driving a vehicle to gain a better understanding. The speed of a car depends on both the car in front and the car in back, and GST compliance depends on both sellers and buyers utilising GST. The customers are the front cars, and the suppliers are the rear cars.

The current tax system has cascading effects and has increased the cost of the product. However, it is anticipated that input tax credits (ITCs) will reduce production costs by a sizeable amount throughout the supply chain. Consequently, the manufacturer, the supplier, the agent, and the final purchaser can all claim input tax credits for taxes paid on purchases. However, it is anticipated that input tax credits (ITCs) will reduce production costs by a sizeable amount throughout the supply chain. Consequently, the manufacturer, the supplier, the agent, and the final purchaser can all claim input tax credits for taxes paid on purchases. Companies are no longer required to maintain warehouses and C&F agents at multiple state points following the elimination of the CST. The warehouse infrastructure could be consolidated to reduce supply chain operating expenses. Since the GST taxes the supply, dealers must worry about their working capital. The GST would be paid when the vehicle was transferred, which would tie up capital. The dealer must now pay GST on the same day he receives the advance, which will negatively impact their cash flow. As a way of helping customers, car companies often offer free services or warranties (at the time of the sale of vehicles). The GST would be paid upfront when the coupon was given out, but the service would not be used until later.

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