

A STUDY ON GST IMPACT ON AUTOMOBILE INDUSTRY

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ABSTRACT

The implementation of the **Goods and Services Tax (GST)** in India on 1 July 2017 marked a transformative shift in the country's indirect taxation system. Introduced under the supervision of the Goods and Services Tax Council, GST replaced a complex structure of central and state-level taxes such as excise duty, VAT, central sales tax (CST), entry tax, and octroi. This reform aimed to eliminate the cascading effect of taxes and establish a unified national market. The automobile industry—one of the largest contributors to India's GDP, manufacturing output, employment generation, and exports—has been significantly influenced by this tax reform.

Prior to GST, the automobile sector faced a cumulative tax burden ranging between 30% and 45%, depending on vehicle type and state-level levies. With GST, most automobiles fall under the highest tax slab of 28%, along with an additional compensation cess ranging from 1% to 22% based on engine capacity, length, and fuel type. Small cars, two-wheelers, and entry-level vehicles experienced either marginal tax reductions or neutral impact, improving affordability in some segments. Conversely, luxury cars, SUVs, and high-end vehicles faced a relatively higher tax incidence due to the compensation cess, slightly increasing their final prices.

INTRODUCTION

GST Impact on the Automobile Industry

The introduction of the Goods and Services Tax (GST) on 1st July 2017 marked a historic reform in India's indirect taxation system. It was implemented with the objective of simplifying the complex tax structure and creating a unified national market. The reform was introduced under the supervision of the Goods and Services Tax Council, which was formed to decide tax rates, exemptions, and policy changes under the new regime. GST replaced multiple indirect taxes such as excise duty, Value Added Tax (VAT), central sales tax (CST),

entry tax, service tax, and octroi, thereby eliminating the cascading effect of taxes and promoting transparency in the taxation system.

The automobile industry is one of the most important sectors of the Indian economy. It plays a significant role in contributing to Gross Domestic Product (GDP), manufacturing output, exports, and employment generation. India is one of the largest automobile markets in the world, producing a wide range of vehicles including two-wheelers, passenger cars, commercial vehicles, and electric vehicles. The sector also has strong linkages with allied industries such as steel, rubber, glass, electronics, and auto components, making it a key driver of industrial growth.

LITERATURE REVIEW

1. Efficiency Gains in Manufacturing

The implementation of GST streamlined indirect taxation, directly impacting automobile manufacturing efficiency:

- **Seamless Input Tax Credit (ITC):** Manufacturers can now claim credit for taxes paid on raw materials and components purchased across India, reducing the effective tax burden on the final vehicle.
- **Lower Production Cost:** Removal of multiple state and central taxes eliminated the cascading effect (“tax on tax”), reducing the overall cost of manufacturing.
- **Standardized Pricing:** Uniform GST rates across the country simplified pricing strategies for manufacturers, allowing them to plan production without worrying about state-specific tax variations.
- **Better Resource Allocation:** Reduced tax complexity allowed firms to allocate resources more efficiently, investing more in quality improvement, technology upgrades, and workforce optimization.

Impact: Increased manufacturing efficiency led to cost savings, faster production cycles, and improved competitiveness in the Indian automobile market.

2. Reduced Supply Chain Fragmentation

Before GST, vehicle manufacturers faced a fragmented supply chain due to multiple taxes and entry barriers:

Pre-GST Challenges:

- Entry taxes, octroi, and state-specific VAT led to delays in transporting vehicles and auto components across state borders.
- Companies often maintained multiple warehouses in different states to avoid higher state-level taxes.

RESEARCH METHODOLOGY

Research Problem

The main research problem of this study is:

“To analyze and evaluate the impact of Goods and Services Tax (GST) on the automobile industry in India.”

The study aims to understand whether GST has positively or negatively influenced pricing, supply chain efficiency, tax burden, and overall industry growth.

Research Objectives

The objectives of this research are:

1. To understand the concept and structure of GST.
2. To examine the pre-GST taxation system in the automobile sector.
3. To analyze the GST tax rates applicable to different vehicle categories.
4. To evaluate the positive and negative impacts of GST on the automobile industry.
5. To assess the effect of GST on manufacturers, dealers, and consumers.
6. To study the long-term implications of GST on industry growth.

Research Design

Research design is the blueprint for conducting research. It provides direction to the study.

The present study adopts a **descriptive and analytical research design**.

- **Descriptive Research** is used to describe the GST structure and its features.
- **Analytical Research** is used to compare pre-GST and post-GST scenarios in the automobile industry.

This design helps in systematic examination and logical interpretation of available information.

Nature of Study

The study is:

- Qualitative in nature
- Based on theoretical understanding
- Focused on comparative analysis

The qualitative approach is suitable because the research examines policy changes and structural reforms rather than conducting statistical experiments.

GST TAX STRUCTURE

Category	GST	Cess
Small Cars	28%	1%
Mid-size Cars	28%	3%
SUVs	28%	22%
Luxury Cars	28%	15%
Two-Wheelers	28%	—
EVs	5%	—

GST Impact on Pricing and Demand

Segment	Pre-GST Effective Tax	Post-GST Effective Tax	Pricing Impact	Demand Impact
Small Cars	30–35%	29–31%	Slight decrease	Slight increase
Sedans	32–38%	43%	Price increase	Slight slowdown
SUVs / Luxury	35–40%	50%	Significant increase	Short-term decline
Commercial Vehicles	~30%	28%	Standardized	Increase (fleet expansion)
Two-Wheelers	18–20%	18%	Minimal change	Stable demand
EVs	12–15%	5%	Significant decrease	Strong increase

FINDINGS

1. Structural Transformation of the Tax System

Before GST (pre-2017), the automobile sector faced multiple indirect taxes such as excise duty, VAT, CST, octroi, and entry tax. These created:

- Cascading tax effects
- Complex compliance procedures
- Price variation across states

Finding:

GST replaced multiple indirect taxes with a **single unified tax structure**, reducing tax complexity and improving transparency. This structural reform created a more predictable business environment for automobile manufacturers and dealers.

2.Comparative Tax Burden: Pre-GST vs Post-GST

Findings:

- Tax burden became more standardized.
- Small cars saw marginal benefit.
- SUVs and luxury vehicles remained heavily taxed.
- Electric vehicles received strong tax incentives.

CONCLUSION

• The implementation of the Goods and Services Tax in July 2017 marked a major transformation in India's indirect taxation system and had a significant impact on the automobile industry. As one of the largest contributors to the country's GDP, employment, and manufacturing output, the automobile sector experienced structural, financial, and operational changes after the introduction of GST. The reform replaced multiple indirect taxes such as excise duty, value added tax (VAT), central sales tax (CST), and octroi with a unified tax regime, thereby simplifying the overall tax structure and enhancing transparency. This shift created a more organized and streamlined system that benefited manufacturers, dealers, and consumers.

• One of the most important outcomes of GST was the elimination of the cascading effect of taxes. Under the previous tax regime, taxes were levied on top of other taxes, increasing the overall cost of vehicles. With the introduction of the Input Tax Credit (ITC) mechanism, manufacturers and dealers were able to claim credit for taxes paid on inputs, reducing the overall tax burden and improving cost efficiency. This reform strengthened financial management within automobile companies and enhanced profitability in several segments.

• GST also introduced uniform tax rates across the country, which reduced price variations between states. Earlier, automobile prices differed from one state to another due to varying VAT rates and local taxes. The new tax regime created a common national market, allowing companies to adopt centralized warehousing and efficient distribution strategies. The removal of interstate check posts and the implementation of the e-way bill system significantly improved logistics efficiency, reducing transportation time and operational costs. This development strengthened the overall supply chain management in the automobile sector.

• The impact of GST on vehicle pricing varied across segments. Small and entry-level cars witnessed marginal price benefits due to tax rationalization, whereas luxury cars and SUVs faced higher tax burdens because of the additional compensation cess. However, electric vehicles gained a major advantage with a reduced GST rate of 5%, which encouraged environmentally friendly transportation. Combined with government initiatives such as the FAME India Scheme, the lower tax rate promoted the growth of the electric vehicle segment and supported India's sustainability goals

• From a revenue perspective, the automobile industry remains one of the highest contributors to GST collections. Higher tax rates on premium vehicles ensured steady revenue for the government while maintaining balance in the tax structure. At the same time, GST supported domestic manufacturing by complementing

initiatives aimed at strengthening India's position as a global automobile hub. The simplified and transparent tax environment attracted foreign investment and encouraged technological advancement in vehicle production.

- Despite these advantages, certain challenges persist. High GST rates and compensation cess on luxury vehicles, compliance burdens for small dealers, and fluctuations in consumer demand during economic slowdowns have affected specific segments of the industry. Continuous review and rationalization of tax rates may further enhance sectoral growth. Stability in tax policy and simplified compliance procedures will be essential to ensure sustained progress.
- In the long term, GST has played a transformative role in reshaping the Indian automobile industry. It improved transparency, reduced tax complexities, strengthened logistics, and encouraged innovation, particularly in the electric vehicle segment. Although short-term challenges were observed during the transition phase, the overall impact of GST has been largely positive. With ongoing policy refinements and supportive government initiatives, the automobile industry is well-positioned to achieve sustainable growth, increased global competitiveness, and long-term economic development.
- Furthermore, GST has contributed significantly to improving transparency and accountability within the automobile industry. The digital tax filing system, e-invoicing, and systematic return procedures have reduced tax evasion and increased compliance among manufacturers and dealers. This transparency has strengthened trust between businesses and the government, ensuring smoother tax administration and better monitoring of financial transactions across the automobile supply chain.
- Another important outcome of GST is the positive impact on interstate trade and market integration. Before GST, automobile companies often established multiple warehouses in different states to avoid higher taxes. After GST implementation, companies were able to consolidate warehouses and optimize inventory management. This structural change reduced operational costs and enhanced efficiency, enabling firms to respond more quickly to market demand and consumer preferences.

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