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RESEARCH ARTICLE

IMPACT OF GST IN THE INDIAN AUTOMOBILESECTOR - A SPECIAL ARTICULATION OF BUDGET 2023

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Abstract

India is currently reviewing its economic and fiscal policies. India is experiencing very strong growth and is expected to become the world's third largest economy by 2030. The public sector is taking significant steps to support the country's economic growth, and the automobile industry in India is one of the fastest emerging manufacturing industries. The industry is expected to grow in the coming years, creating many jobs and contributing to economic development. The Indian government recognizes the importance of the automobile sector to the Indian economy. It is currently working on a Automotive Mission Plan 2026 to bring it closer to the global market. In this article, the researchers focus on the impact of GST on the automotive sector as well as the Automotive Mission Plan 2026 that has been implemented in conjunction with the rapid growth of GDP in the Indian economy. And also keep an eye out for concerns of GST policy in the Automobile Sector in the budget 2023. The research is descriptive and based on auxiliary knowledge.

Introduction:-

India's proposed indirect tax system, called the Goods and Services Tax, aims to consolidate various taxes into a single tax structure. The idea behind this unification of taxes is to streamline the tax system by eliminating multiple taxes and different tax structures across states. After the implementation of GST, all existing indirect taxes will be consolidated into a single tax structure.

The automobile sector in India, which includes automobiles and automotive components, plays an important role in the economy, contributing to manufacturing GDP, exports, and job creation as it is linked to other industrial sectors. The industry's growth has been driven by its historical expertise in casting, forging, and precision machining, the use of low-cost skilled labor, and significant inflows of foreign direct investment. In addition, the industry has benefited from its traditional strengths in manufacturing, such as welding, grinding, and polishing. The Indian auto industry contributes to the Indian economy. It accounts for nearly half of India's manufacturing GDP and about 7.5% of total GDP. In addition, the industry directly and indirectly creates jobs for about 36 million people. This is expected to reach 65 million by 2026. AMP is the second automotive mission plan for the next decade, 2016-2026, announced by the Indian government at the 55th SIAM Annual Congress in Chennai. This plan will set the direction of the automobile industry. The AMP was launched for the period from 2006to 2016. AMP 2026 is the joint vision of the Indian government and the automobile industry' on where the various segments

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of the automobile and automobile supply industry should be by 2026 in terms of size and contribution to the overall Indian economy.

The Automotive Mission Plan 2026 was jointly developed by the Indian government and the Indian automobile industry. The goals of the Automotive Mission Plan 2026 include

1.The Indian automobile industry to become the driving force behind the "Make in India" program.
2.The Indian automobile industry to contribute significantly to the "Skill India" program.
3.Promote safe, efficient and comfortable mobility for all people in the country, taking into account environmental protection and affordability through public and individual transportation options.
4.Increase net exports of the Indian automobile industry many times over.
5.Promote comprehensive and stable policy regimes for all regulations that impact the industry.

Review of Literature:-

Kour M. (2016) stated that there will be a unified tax system, the GST, which will reduce the current burden of obedience. Once implemented, the GST will overcome many challenges and bring many benefits. In general, through this study, we have concluded that the GST plays an active role in the growth and development of our country.

Neelavathi K., Sharma R. (2017). In an analysis of the impact of GST on the automobile industry, it was concluded that the automobile industry is an important contributor to economic growth and also contributes to the growth of employment opportunities for the nation. It was fruitful for them to compare the different tax rates on vehicles in a period before and during the implementation of GST.

Agrawal TJ and Goyal A (2017) suggested that the real estate and automobile sectors could benefit from GST if they are well equipped to deal with the changes in the business environment.

Kharde S.D. (2017) observed the impact of GST on the Indian automobile industry. The paper detailed the overall impact of GST on the country's automobile industry and compared the pre-GST policy with the GST policy. The impact of GST on the 'economic progress of the country was also discussed by the author.

Chaudhary K. et al (2016) concluded in their analysis that GST will help to abolish several taxes, reduce the current burden and tax both domestic and imported goods equally. Since there would be only one tax system, many indirect taxes such as sales tax and VAT would be eliminated.

Pooja Jha & F. B. Singh: The paper provides a succinct examination of the GST, which will significantly change the scope of indirect taxation in India. The paper explains the rationale behind the proposed GST, its objectives and its impact on the Indian economy, focusing on the automobile industry. The paper elaborates on the significance of the GST before reaching a conclusion.

Roy (2017) discussed in his analysis the concerns regarding GST model that must be considered. Restrictions and conditions on earnestness to tax credits on corporate assets are also major concerns, and the credit method should be more permissive. Overall, GST will be a boon to the vehicle industry.

Objectives:-

1. To understand the impact of GST on the Automobile Sector
2. To comprehend the concerns of GST policy in the Automobile Sector in the budget 2023.

Need for the study

As a recognized core sector, the automobile industry contributes 49% to India's gross domestic product of manufacturing and 7.5% to the total gross domestic product and is responsible for 32 million jobs. The automobile sector represents 12% of the gross value of manufacturing in India. The objective of this paper is to provide a brief analysis of the impact of GST on the automobile industry and to stem out GST policy structure of automobile industry in the budget 2023.

Research Gap
There is a large body of literature that theoretically discusses the concept of GST and the benefits it provides to all economic factors, but empirically there has been a particular focus on how GST affects economic growth and transportation. This study attempts to fill this research gap by examining how the GST has impacted the automobile sector, one of the largest contributors to the nations economic growth, and by painting a comprehensive picture of the expectations and concerns of the automobile sector with respect to the 2023 budget.

Research Design
This descriptive research focuses on the impact of GST on auto business sector in India

Data Collection
In this exploration paper auxiliary information has been gathered from different sites, Books, Diaries, Magazines, and so forth.,

Limitations
1. Research depends solely on secondary sources
2. Inadequate direct connection with specific prospects

Impact of GST on Automobile Sector

Sl.No	Sector	Pre GST	Post GST	Impact
1	End Consumers	Tax Charged excise and VAT, with an average combined rate of 26.50% to 44%	GST rates of 18% and 28%.	GST reduces the tax burden on the end consumer.
2	Importers/Dealers	Ineligible to claim the excise duty and VAT paid	Eligible to claim the GST paid on goods	Importers can rejoice because they can claim the tax they have already paid.
3	Manufacturers	Procuring auto parts at a higher cost (value greater than the transaction value of the component)	Procuring auto parts at a cheaper cost	Better supply chain efficiency results in lower costs
4	Automobile cost	High-Cost	Low-Cost	Expect more demand for automobiles as the cost is less
5	Operational Efficiency	Less efficiency	More efficiency	The GST treats the entire nation as one market, which boosts economic activity.
6	Delivery show-rooms and point of sales	Delivery show-rooms in the states with lower tax rates.	Merges the delivery show-rooms and point of sales	One-Nation One-Tax approach uniformity of the system was introduced
7	Curbing tax evasion	Consumers paid tax arbitrages due to state-level differences	Consumers no longer have to pay tax arbitrages.	Tax evasions are being reduced, and the revenue of the Government is increasing considerably
8	Input Tax Credit	The importers and the vehicle dealers could not claim the VAT and excise duty paid.	The importers and the vehicle dealers can claim the tax paid under CGST& SGST heads	The prices of the vehicles are stable and will not see a sharp increase in their costs from their base price.
9	Interstate goods	The credit availed on the central sales tax; they were not eligible to pay the outstanding VAT liabilities.	IGST is now applicable on interstate sales of goods and services	As a result, dealers can now pay their outstanding VAT liabilities because they can claim Input Tax Credit for the tax paid on these transactions

10	Subsidies on the 'Electric Vehicles'	No subsidies	Huge subsidies on the 'Electric Vehicles'	Subsidies on the vehicles"' to encourage clean and green transportation.
11	Discount value	–	Exclusion of discount value while calculating GST	The GST is calculated on the supply value, excluding the discount price. This can be a loophole
12	Vouchers and warranty cards.	–	Vouchers and warranty cards are also charged	The vouchers and the warranty cards are considered "after-sales services," and GST is charged on them when they are issued
13	Supply Chain Management	It is necessary to keep warehouses in multiple states.	There is no need to maintain warehouses in multiple states.	Consolidating the warehousing structure can also lower the operational costs in the supply chain

Source: Researcher compilation

GST Rates on Automobiles

Description of the Motor Vehicle (MV)	GST Rate	Cess
MV transporting not more than 13 persons, including the driver. MV, except ambulances, 3-wheeled MV and vehicles with an engine capacity not exceeding 1200 cc and a length not exceeding 4000 mm, with spark-ignition internal combustion piston engine and electric motor as propulsion engine or with compression-ignition internal combustion piston engine [diesel or semi-diesel engine] and electric motor as propulsion engine.		15%
MV powered by gasoline, liquefied petroleum gas (LPG), or compressed natural gas (CNG) with an engine displacement not exceeding 1200 cc and a length not exceeding 4000 mm.	18%	1%
MV powered by a diesel engine with an engine capacity not exceeding 1500 cc and a length not exceeding 4000 mm.	18%	3%
MV with an engine capacity not exceeding 1500 cc		17%
MV with an engine capacity of more than 1500 cc, except for the motor vehicles listed in item 52B		20%
MV with an engine capacity greater than 1500 cc, popularly known as sports utility vehicles (SUVs), including utility vehicles.		22%
All old and used MV, Electric Vehicles, Vehicles registered as ambulances		NIL
Refrigerated MV&Special purpose MV	18%	
MV designed to carry ten or more persons, including the driver, except buses used for public transportation that run exclusively on bio-fuels	28%	
Passenger cars and other motor vehicles intended primarily for the transportation of passengers, except for the above- mentioned vehicles, including station wagons and racing cars, with the exception of vehicles for physically disabled persons	28%	
Vehicles for the transport of goods (except refrigerated vehicles)	28%	

(Source: https://cleartax.in/s/gst-impact-automobile-industry)

Blows & Slips of automobile sector for 2023-24

The automobile sector is one of the largest industries, contributing about 7.1% to India's GDP and generating numerous direct and indirect jobs. In the FY24 Union Budget, the sector received important impetus from electric vehicle manufacturing, hydrogen fuel adoption, and the changing technology mix.

Blows

1. **Electric vehicles:** tariff reduction from 21% to 13% for capital goods and machinery used to manufacture lithium-ion batteries for electric vehicles (EVs). This is expected to help reduce the price of electric vehicles in the country in the medium to long term. Reportedly, this measure will lower the price of electric vehicles in the country and make electric mobility an affordable and lucrative choice for ordinary citizens.

2.Net Zero Carbon: An expenditure of INR 35,000 million has been announced for the energy transition, with a focus on achieving the country's goal of zero carbon emissions by 2070.The budget includes an exemption from basic customs duty on denatured ethyl alcohol, which would support the ethanol blending programme.
3. MSME': The Production Linked Incentive Scheme for the Automobile Industry provides incentives to promote domestic manufacturing of Advanced Automotive Technology (AAT) products and attract investment in the automobile manufacturing value chain.
4. Scrapping of old vehicles: In line with the Budget Policy 2021-22 on scrapping of cars, the Minister announced that she would provide funds for scrapping of 20 year old vehicles of the Central Government. She said states would receive support for retrofitting obsolete cars and ambulances.
However, the auto industry had expected relief in the form of a uniform GST on components, a cut in R&D spending and higher taxation on hybrid vehicles, which were not mentioned in the budget speech.

Slips
1. **Increase in tariffs:** the government has proposed to increase tariffs on completely built units (CBUs) from 60% previously to 70% and on semi-dismantled units (SKDs) from 33% to 35%. This could remain a barrier to realizing the potential of the luxury car market in the country.
2. No uniform GST on auto parts: The industry has been demanding a uniform GST of 18% on all auto parts, which is not addressed in the Union Budget 2023. This was also important to avoid confusion and ambiguity.
3. **No R&D incentives:** the auto sector expected tax benefits in the form of R&D incentives as emerging and new technologies require significant R&D support.
4. Increase in tariffs on rubber compounds: The increase in tariffs on rubber compounds from 10% to INR 25 (or) INR 30 per kg, whichever is lower, poses a challenge to the Tyre industry, which is largely dependent on imported rubber.
5. **Lower GST for hybrid vehicles:** India is committed to reducing carbon emissions and promoting environmentally friendly mobility. Hybrid vehicles offer optimal fuel utilization through higher mileage. They are still taxed at 43% as luxury items.
6. **Scrappage scheme with caveat:** FM announced that only the polluting government vehicles will be replaced, the number of which is limited. The scrapping of central government vehicles will be directly funded and the scrapping of state government vehicles will be financially supported.

Conclusion:-

The introduction of GST in India has a positive impact on the automobile industry in India. However, there is still room for improvement to lower the tax rates so that the common man can easily afford to buy a vehicle. This article looks at the significant impact of the GST structure on the automobile industry in India and also addresses the key implications of Budget 2023. It is been analyzed and understood the Budget has brought down the tariff rates from 21% to 13% for capital goods and machinery used to manufacture lithium-ion batteries for Electric Vehicles (EVs) whereas the government has proposed to increase tariffs on completely built units (CBUs) from 60% previously to 70% and on semi-dismantled units (SKDs) from 33% to 35%. Overall, the impact of GST on the Indian automobile sector has been positive, with lower prices for customers and a more streamlined taxation system. However, the industry continues to face challenges such as the rising cost and the shift towards electric vehicles. The government's policies and budget allocations in the coming years will play a crucial role in shaping the future of the Indian automobile sector.

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