Impact of GST Implementation on Indian Automobile Industry

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Abstract: Goods and Services Tax (GST) is implemented in around 150 countries so far. In India, the GST regime started on 1 July 2017. It is an indirect tax or also called as consumption tax on the supply and services of goods. It includes all the previous state and central taxes. The GST is designed such that to collect the tax from the point of consumption, not like the previous taxes which were collected at the origin. This current paper discusses the types and significance of GST and its impact in India especially on the automobile sector.

Key words: GST in India, impact of GST, Automobile sector in India, GST and Automobile sector, impact of GST on commercial vehicles, Impact of GST on two wheelers, GST implementation

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1. INTRODUCTION

Implementation of GST in India is the biggest and the most significant tax reform in the history or tax. GST eliminates the tax on tax structure and implements a single tax structure though out the country. This is a simplified tax policy and removes the cascading taxes. Avoids multiple taxes levied by the central and state governments. Replaces all the taxes with a single tax structure.

2. OBJECTIVES

- To discuss the need and implementation of GST in India
- To discuss the benefits of GST
- To study the impact of GST on the sales and growth of automobile industry in India.

3. IMPLEMENTATION OF GST IN INDIA

Many countries are following a single tax system which is nothing but GST system. A single unified tax rate is applicable throughout the country. In India this unified tax system is implemented from the mid night of 30th June 2017.

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In this tax system all central taxes like sales, excise and service tax, all state taxes like entry, entertainment, Sin and luxury tax etc are combined and collected as a single GST. It is a value added tax levied by the government for all the goods and services inside the country for domestic consumption.

Consumers will pay the GST for the goods and services they purchase. The industries who sell the goods and services will pay the GST to the government thus the government gets revenue in the form of tax.

GST is first implemented in European countries. France implemented it first and later many countries like Canada, Vietnam, South Korea, Brazil, Spain, Singapore etc followed it.

Before implementation of GST, Indian had sales tax in practice where the tax will be levied each time the product is goes for sale from the stage of manufacturing till the stage of final consumption. This was resulting in cascading of the tax and all the burden was falling on the end consumer. This in turn resulted in economy inflation in India. With the implementation of GST, this issue is solved to some extent. After implementing the GST, only the final buyer or consumer bear the GST that is being charged by the last dealer in the supply chain.

The GST structure is or two-tier type where the tax will be levied by center and state both based on the interstate or intra state supplies. The tax levied by center is Central Goods and Service Tax (CGST) and the tax levied by state is State Goods and Service Tax (SGST). If the products or services are between the states, then the center will levy the Integrated Goods and Services Tax (IGST). Apart from the products, GST is also levied on different transaction like purchase, barter, sale, lease, import of good and services.

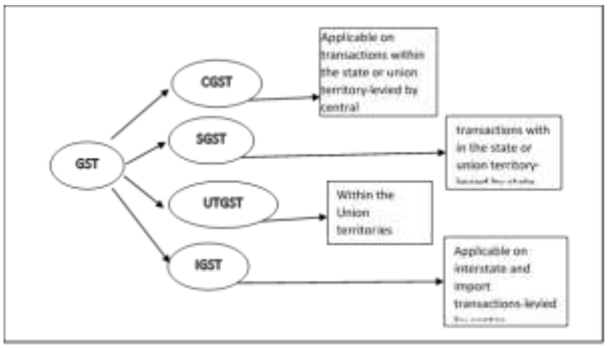

Fig.1 different categories of GST

3.1 Different Slabs of GST

GST has different slab rates as 0%, 0.25%, 3%, 5%, 12%, 18% and 28%. It is carefully defined such that the essential food items and services are charged at low tax rates and luxury products are taxed at higher slab rates. The structure of different slab rates are explained below.

There are almost 500 services and 1300 products are divided into different slab rates, gold is kept at 3% tax rate and precious stones at the rate of 0.25% GST.

0% Tax -Regular consumption material like the vegetables, handlooms, milk and curd etc are falling in the category of no tax. There will be 7% of goods and services under this no tax category.

5% Tax- 14% of items like cashew nut, coffee, tea, kerosene fertilizers, small restaurents etc

12% Tax -17% of items like ayurvedic medicines, cellphones, sewing machines, spectables, work contracts etc fall under this category.

18% Tax – 43% of goods and services like pasta, cornflakes, jams, mineral water, notebooks, bamboo furniture, telecom services etc.

28% Tax – 19% of goods and services such as chewing gum, cacuum cleaner, automobiles, deodorants, paints and movie tickets etc will fall under this slab rate.

3.2 Taxes not subsumed in GST

The main purpose of introducing GST is to subsume different taxes of state and central. But few of indirect taxes are not subsumed in GST. They are Basic customs duty, export duty, toll tax, property tax, stamp duty and road and passenger tax.

3.3 Positive impact of GST

- Tax evasion can be avoided with the introduction of GST
- Middle men interaction is eliminated thus the overall cost of the product will come down.
- Few fields like health and education are exempted from GST
- Lifesaving drugs are taxed at nominal rate such as 1%

3.4 Benefits of GST to Business

- GST implementation reduces the hassle of indirect taxes and it is easy to pay the taxes for the businesses. Filing of GST is made easy and transparent by using an advanced IT platform.
- The tax rate will not vary from state to state as there is one tax for one product.
- There is no overlapping of taxes and thus the hidden costs are avoided.
- As the tax burden comes down, the consumption will increase and thus the production will also be increased, helping the industry to grow.

3.5 Benefits of GST to State and Central Governments

- It is easy to oversee the GST paid by using an advanced IT platform whereas it was difficult to oversee the multiple taxes in the previous VAT regime.

- As the tax evasion cannot be done, revenue can be generated easily by the government.
- Cost of revenue collection is also come down as there are no multiple taxes.
- With the implementation of GST, a unified market is established in the country and make way for foreign investments.
- Procedures and tax rates are unified across the country and this brings harmony between State Governments and Central government.

3.6 Benefits of GST to Consumers

The price of the products will be transparent as the input tax flows seamlessly from the manufacturer to the dealer and to the retailer. As the cascading effect of tax is avoided, the burden on the consumer will be reduced in the long run.

Small retailers will be either exempted from tax or will have to pay tax at lower rates thus the goods sold by them will be at lower price bringing the benefits to the consumer.

3.7 Negative impact of GST

Though there is lot of positive impact of GST implementation, there exists negative impact to some extent. Cost of few of the products has gone high compared to VAT regime, because of grouping the goods and services. These are grouped into higher slab group which had lower tax rate in earlier regime.

At the initial stage of implementation, revenue to the states has seen a downfall and states faces loss of revenue.

Until the public and industries are used to the new method of tax rate, they are getting confused to see too many tax rates and too many groups of products and services.

4. GST IMPACT ON THE AUTO SECTOR

The automobile sector can be considered as the beneficial sector as the logistics cost is almost removed which was the additional cost burdening the overall cost of the vehicles. With the introduction of GST, the trade hurdles are removed, and logistics cost is brought down.

Multiple taxes at different stages is removed after implementing the GST. In the automobile industry, the manufacturers will be located in few states and the auto parts manufacturing will be located at some other states. All these to be transported to one place, manufacture the vehicle and then to be transported to different states in the country for selling. This shows that lot of logistics is involved in the auto industry.

It can be said that the automotive sector is the one that is impacted positively with the implementation of GST. Earlier there were multiple rates of excise duty, and that situation is changed to single tax, GST which is lesser than the cumulative tax. The cost on the logistics which is 30 to 40 percent of total cost has come down and this impacts the overall vehicle cost and the benefit is passed to the consumer.

Before the GST, different taxes that were imposed on automobile industry were excise duty, sales tax, road tax. Motor vehicle tax, VAT and registration duty etc. There were different tax rates at different states of the country. Though all these taxes are subsumed into GST,

GST rate is fixed such that all the cars attracts 28% of GST along with the Cess levied on them which has different slabs of 1%, 3%, 15%, 17%, 20% and 22%. Cess has major impact on the sale price of the vehicles as the GST is fixed for all the cars.

The automobile sector is combination of commercial and non-commercial vehicles. Commercial vernicles are three wheelers, minibuses etc. Personal vehicles such as two wheelers, cars etc are called as non-commercial vehicles

4.1 Impact of GST implementation on Commercial vehicles

Commercial vehicles are used for business services and public services. Tax rate for these vehicles in before GST was 12.5% Excise duty and 12.5% VAT along with 2%CST, in total 30 to 33%. After implementing the GST, these vehicles fall under the 28% tax segment. Thus, the impact is almost negligible in case of commercial vehicles.

The minibuses which are having the capacity of 13 seats are levied with 15% cess, which makes the tax rate as 28%GST and 15% Cess that is 43%. This will impact the ticket cost of the passengers.

4.2 Impact of GST implementation on non-commercial vehicles

Non-Commercial vehicles comprises of small budget cars, luxury cars and SUVs. Again these are sub divided based on the engine capacity of the car.

Small budget cars: Cars costing below 10Lakhs are considered as small budget cars. These cars are levied with 28% GST and 1 to 3% of Cess. This tax rate is lower than the tax rate of pre-GST regime. Earlier it was 30 to 33%. Thus the middle class families who wants to buy the small budget cars are beneficial with the GST implementation.

4.3 GST rate based on Engine capacity

GST rate and Cess varies based on the engine capacity of the vehicle. Cars with the engine capacity less than 1200cc are charged with 28% GST and 1% Cess whereas the SUVs whose engine capacity is more than 1500cc are levied with 28% GST and 15% cess. Thus, the upper middle class and rich class who wants to own such cars will be affected with the high tax rates

4.4 GST impact on luxury cars

For luxury cars the cess rate is more compared to other cars which is varies from 15% to 25%, thus the total GST becomes 53%. This is too high compared to previous tax regime and the sales of luxury cars is also affected because of this high tax rate.

4.5 Impact on two wheelers

Two wheelers are not much affected after GST implementation. Pre GST tax rate on two wheelers was 30.2% and after GST, the tax is 28% on the engine capacities below 350cc and 31% above 350cc.Most of the two wheeler market is not affected with GST transition.

4.6 Impact on operational cost

In Pre GST regime, the interstate sale has Central State Tax (CST) was there. This is totally eliminated after GST. This facilitates the manufacturer to maintain single warehouse instead of having different warehouses at different states. Thus, the operating cost of the manufacturer has come down. Also, the other expenses related to sales such as promotions and advertising etc. has the facility of input credit tax. This will further bring down the operational cost of the companies.

Impact of GST on Spare parts

In the pre-GST regime, the tax rate on the automobile spare parts was 12% whereas the tax rate after GST implementation is 28% which is more than double. Thus, the burden falls on the end customer.

A gist of tax rates before and after GST implementation is shown below to have an idea.

Table 1-Difference of pre-GST and GST on vehicles

Type of vehicles	Pre-GST rate	GST rate
Two wheelers	30.2%	28 – 31%
Commercial vehicles	30.2%	28%
Small cars	24-25%	29-31%
Hybrid cars	30%	43%
Luxury cars	50%	42-45%
Spare parts	12%	28%

5. CONCLUSION

The overall effect of GST on the Indian automobile sector is considered as positive as the rates are reduced as a whole. The unified taxation system reduces the complication in taxes. Multiple taxes are subsumed into GST thus the tax payer need not go to different tax departments like CST, VAT, Entry tax, Excise duty service tax etc. The manufacturer or the corporates can interact with only GST officials. This makes method of tax payment simple. Government also enjoys the benefits of GST as the tax is shared between the State and Central. As the consumers of automobiles increases, the revenue to the Government also increases.

As the vehicles cost come down, the demand will increase and the manufacturing can see a growth. Unified tax across the country enables the consumers to buy the vehicles in the same state unlike in the pre-GST period where the purchase will be in peak in the states where tax rates are less. This will make the states to gain the revenue where the manufacturing happens.

As the manufacturing cost and operational cost comes down due to the unified tax system which is a boon to the growth of auto mobile sector. Thus it can be concluded that the GST implementation is having a positive impact on automobile sector.

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