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Impact of GST on Automobile Industry

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Abstract: *Automobile industry in India is one of the most successful and emerging manufacturing industry post liberalization. The industry has potential to grow and become a major contributor for the economic development and employment creation. The Government of India has also recognized the significanceof Automobile industry in the Indian economy and is currently working on Automotive Mission Plan 2026 to be at par with the supreme nations of the world. The Government of India has planned to implement GST in manufacturing sector in India.*
Keywords: *GST, Automobile Sector, Economic Development,*

I. Introduction

Goods and service tax is expected to eliminate the cascading effect of taxes it provides the much needed stimulant for economic growth in India by transforming the existing base of indirect taxation towards the free flow of goods and services.Vehicle area has been sitting tight for this change hopefully. Notwithstanding, as GST prepares to be taken off with different changes and adjustments, there appears to a feeling of absence of fulfillment over the esteem affix contrasted with the eagerness it had ingrained in the underlying draft. However, the whole esteem chain of car industry vouches for GST ideals for acquiring simplicity of working together the nation. In India it is developing quick and the development design appears to have a reasonable relationship with the changes related strategies those impacted both local request design and in addition exchange. India is worldwide major in the bike business creating engine cycles, bikes and mopeds chiefly of motor limits underneath 200cc. The bike business in India has developed at an aggravated yearly development rate of over 15% amid the most recent five years and Indian bikes conform to the absolute most stringent discharge and fuel productivity gauges looked after around the world. In India bikes is the second biggest maker on the planet and the world's main maker is situated in India. India is the biggest tractor maker, the fifth biggest business vehicle maker and the thirteenth biggest maker of traveler autos on the planet. The Auto business as of now utilizes more than 30 million individuals both specifically and by implication. The car business is a key work generator in the OEM processing plant that makes the vehicles, in the inbound auto part and coordinations industry that makes and conveys segments and frameworks and the out bound coordinations and merchant organize that offers, keeps up and disperses the autos. Each vehicle delivered, produces optional and tertiary work. The business produces work of 13 people for each truck, 6 people for every auto and four people for every three wheeler and one individual for bikes. It is imperative to value the segment's multiplier impact on financial movement. On the off chance that the business creates according to its potential, it could produce work of more than 35 million individuals by 2020.

Objectives Of The Study

1) To study implementation of GST of automobile industry in India
2) To study the growth of automobile sector in India
3) To analyze tax levied on different category of vehicles

Impact of GST on the automobile industry

The two expenses charged to the end buyer on auto and bicycles right now are extract and VAT, with a normal consolidated rate of 26.50 to 44% which is higher than the normal rates of 18% and 28% under GST. Along these lines, there will be less weight of duty on the end buyer under GST.

There is uplifting news for the shippers/merchants as they would have the capacity to guarantee the GST paid on merchandise imported/sold while as of now, they are ineligible to assert the extract obligation and VAT paid. Extract paid on stock exchange will be secured by IGST under the GST law. Progress got for supply of merchandise will likewise be burdened under GST. GST would help the producers in acquiring vehicle parts at a less expensive cost because of an enhanced production network component under GST.

The last products and enterprises charge rates have been reported for the distinctive sort of vehicles. Of course the GST on auto and bicycles are kept under 28% sections and a rundown of cess to be imposed on an alternate sort of car has additionally been proclaimed by the Indiangovernment. Cess has been levied on various sorts of cars running from 1 to 15%. We have made info graphic for a comprehension of various cess rates connected on various sort of autos.

There is a considerable measure of disarray at the present time on how much different things will cost after implementation of GST and vehicle are one of them . Different makers are putting forth pre – GST rebates yet some aren't. This makes perplexity for a potential purchaser as to which vehicles will get less expensive and which ones won't. While the GST proposition appears to be helpful generally, little autos wouldn't witness quite a bit of an adjustment in costs after GST,while extravagance autos will get less expensive. with a specific end goal to clear the disarray and enable you to settle on whether to purchase at the present time or hold up , here's a total break – up of what the up and coming GST structure hold for every classification in the car part.

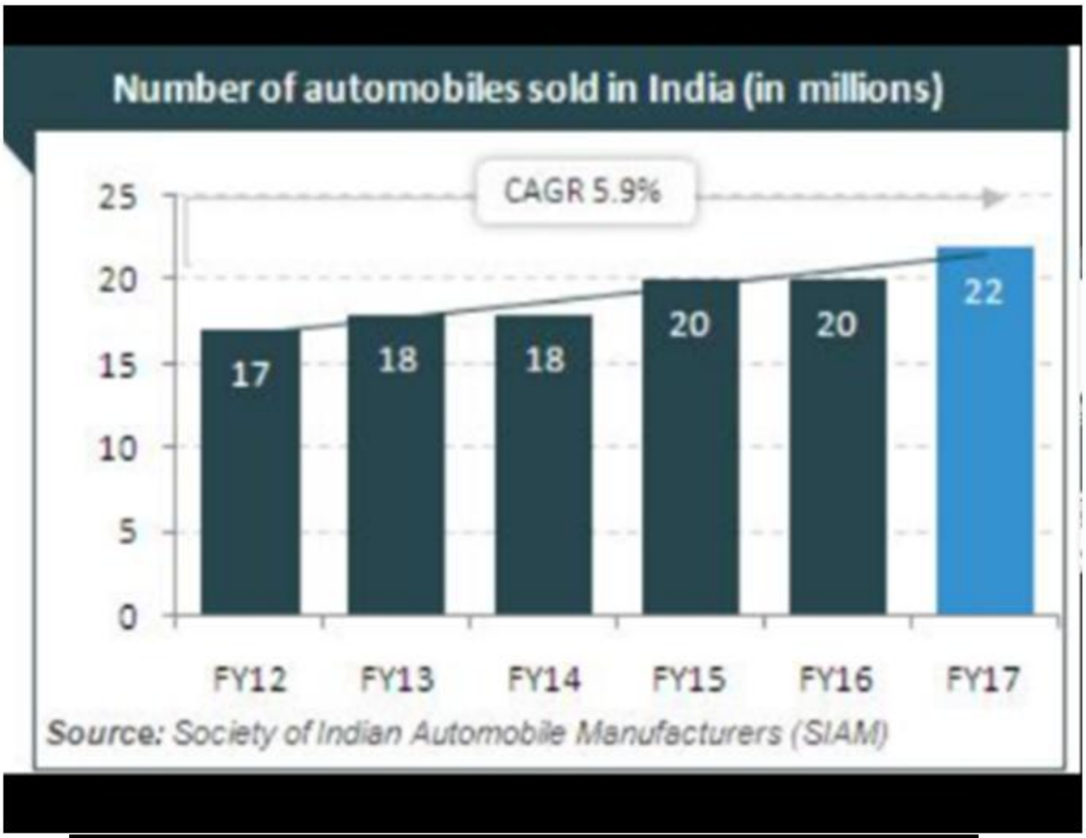

Figure 1: graph showing growth of various automobiles

- The automotive manufacturing industry comprises the production of commercial vehicles, passengers cars, and three and two wheelers.
- Two wheelers are by far the most popular form of vehicle in India . Taking an 80% share in 2015-16
- 25 million automobiles produced in FY17
- Total production volume grew at a CAGR of 5.56 per cent between FY12-17.

Positives & challenges of the GST Law relevantto the automobile sector.
Positives
1. Vehicle prices - At present, the excise duty for vehicles is divided into four slabs, in which the smallest tax rate is applicable to small cars. With GST implementation, taxes levied by the centre like excise duty and state levels taxes like sales tax, road and registration tax would all be subsumed into one.

Assuming that the proposed tax rate of 18-20 percent is accepted, the vehicle prices are expected to decrease. The vehicle costs are relied upon to be more reasonable and consequently will make request. Despite the fact that regardless it stays to be checked whether there would be a double assessment structure for little and enormous autos.

2. 'One Market' - The general consistence trouble is required to diminish and bring parcel more proficiency in operations. From the Indirect expense forthcoming the entire nation will be dealt with as 'One Market' and will add to operational efficiencies. One could expect the logjam at checkpost, and so forth will get disposed of.

II. Challenges

1. Valuation Disputes - The Automobile business has seen critical question under focal extract valuation like: deal underneath the cost for showcase entrance, consideration of State Industrial Promotion Subsidies held by the producer, deductibility of post-deal rebates from an incentive under extract, valuation of demo autos, treatment of PDI charges and other merchant repayments, commercial charges recuperated from merchants and so on., and deals through advertising organizations and commonality of intrigue. The Model GST law proceeds with the idea of 'exchange esteem' which is an appreciated measure however the forces for dismissal of the exchange esteem are wide, and could prompt noteworthy valuation debate.

At present, merchant motivating force plans are not subject to VAT, but rather there are issues on materialness of administration charge on merchants, contingent upon the terms of each plan.

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2. Employment work - The activity work process is the spine for vehicle industry operations. The Model GST law treats 'work' as an administration and looks to keep up existing extract systems for the activity work exchanges, i.e. non-taxability of employment work exchange and giving credits to the vital to provisions to work laborer, 180 days condition for bringing back products after occupation work, and so forth. In any case, some greater clearness is required in the calculated structure for work else will represent a test.

3. Credits on seller tooling - It is a typical practice in the car business for merchants to create apparatuses/molds for fabricate of parts of autos. Normally, the responsibility for apparatuses is exchanged to the OEMs, and the cost is likewise recouped from OEMs. Be that as it may, the devices are physically situated in the merchant's processing plant for produce of parts. Under the Model GST law; the meaning of 'capital products' spreads just that merchandise which is utilized at the place of business of supply of products.

Thus, only goods which are used in the place of business of OEM seem to be eligible for GST credit in the OEM's hands. This definition would pose a challenge to the OEMs in availing credits relating to tools located in the premises, on which cost is recovered by the vendors. This could possibly result in increase in the cost of tooling and the cost for manufacture.

4**. Time of supply for payment** - Currently, under the excise law, duty is paid at the time of removal of the vehicles manufactured. VAT is paid at the time of sale of vehicles. The Model GST law specifies that the time of supply of goods shall be at the earliest of: Date of removal of goods, Date of which goods are made available to recipient, Date of invoice, Date of receipt of payment with respect to the supply, Date of receipt of goods as shown in the books of accounts by recipient. Under the existing law, receipt of advance towards supply of goods is not a taxable event, both under Central Excise and VAT law.

Classification Of Tax On Vehicles Before GST And After GST

- **Two wheeler** – the classification of two wheelers is done in two types, those with the engine capacity of less than 350 cc and those with the greater than 350 cc. a total of 30.2 percent tax is charged including 12.55 % , NCCD at 1 % , vat 12.5% and CST two percent brings the total tax rate to 30.2 % . After the implementation the tax levied is 31% only. that said , the difference in the new tax scheme would not be significant and hence will not affect the buying sentiment of the sector in the long run

	Before GST	After GST
Engine size below 350cc	30.2%	28%
Engine size more than 350 cc	30.2%	31%

- **Commercial vehicles** – the commercial vehicle category is classified into two parts , commercial vehicles and three wheelers .the tax structure before the implementation of GST officially includes 12.5 5 VAT and 2% CST bringing it to a total of 30.2 % for the commercial vehicle category . After the implementation of GST the tax levied on commercial vehicles ranges from 28% to 29%.

	Before GST	After GST
Commercial vehicles	30.2%	28%
Buses with 10 to 13 passenger capacity	30.2%	43%

- **Passenger Vehicles** – this category has the most number of segregations based of a vehicle as well as engine capacity. The pre-GST tax structure included excise duty, NCCD, Infra cess , CST and VAT . Before GST the tax levied on passenger vehicles is 31% and after implementation of GST it reduced to 29%.

	Before GST	Base rate	Cess	Effective Rate
Small cars below four metres (petrol)	31.3%	28%	1%	28%
Small cars below four metres (diesel)	33.4%	28%	3%	30%
Mid size cars more than 4 metres but less than 1500cc	45.6%	28%	15%	27.6%
Bigger cars more than 4 metres and 1500cc	50.3%	28%	15%	29%
SUVs	53.6%	28%	15%	27%
Hybrid	30.3%	28%	15%	30%

Criteria / Applicability	Import Duty in %
Used car import	125
Cars CBUs whose CIF value is more than $ 40,000 or Petrol Engine > 3000 CC or Diesel engine > 2500 CC	100
Cars CBUs whose CIF value is less than $ 40,000 and Petrol Engine < 3000 CC and Diesel engine < 2500 CC	60
Two-wheeler CBUs with engine capacity <800 cc	60
Two-wheeler CBUs with engine capacity >=800 cc	75
Commercial Vehicle CBUs (Trucks & Buses)	20
CKD containing engine or gearbox or transmission mechanism in pre-assembled form, but not mounted on a chassis or a body assembly	30
CKD containing engine, gearbox and transmission mechanism not in a pre-assembled condition	10

Figure 2: table showing import duty in percentage for different vehicles

AUTO INDUSTRY CONTRIBUTION TO GDP

Auto industry is said to be the engine of growth in most developed countries, including in China and India today. Indian automobile industry which was at its nascent stage at the beginning of the 21st century has now become a huge industry that contributes majorly to growth and development of Indian Economy. As per the current statistics, the auto industry’s turnover is estimated to be equivalent to7.1% of overall GDP About 26% of Industry GDP About 49% of manufacturing GDPThe industry employs 29 million people, directly and indirectly, and contributes to 13% of excise revenue for the Government.

The Automotive Mission Plan 2006-16, a joint document of the Government and industry has projected that the industry’s turnover would increase from US$ 34 billion to US$ 145 billion, an investment of US$ 35-40 billion (Rs.160,000 -180,000 crores) and 25 million additional job would be created over a period of 10 years. The auto industry’s contribution to GDP would rise from nearly 5% to 10%, thus making it a greater driving force of the economy.

As envisaged, the industry has made major investments to achieve the targets set. The industry has made investments to the tune of Rs 50,000 crores in the last three financial years. However at the current level of growth, the industry is expected to be just over US$110 billion, a shortfall of about 25%.

The industry was growing at the right pace until financial year 2012 to achieve the targets set in AMP 2016. However, the industry witnessed two difficult years, FY13 and FY14, in which the segments across the industry witnessed de-growth, carrying nearly 60% surplus production capacity.

The current change in policy environment and consumer sentiments have brought the industry out from the bottoms seen during the last two financial years. The Government recognized the fact that automobile industry was one of the highest taxed industry in India and the high taxes were acting as a deterrent for growth of the industry. Hence, in the Interim Budget 2014-15 excise duties on all products across various segments within automobile industry were reduced.

The changes to the excise duties were as below:
Excise duty on small cars, commercial vehicles, two wheelers and three wheelers was reduced from 12% to 8%
Excise duty on (other passenger vehicles) of engine capacity not exceeding 1500 cc was reduced from 24% to 20%
Excise duty on (other passenger vehicles) of engine capacity exceeding 1500 cc was reduced from 27% to 24%
Excise duty on SUVs/UVs of engine capacity exceeding 1500 cc was reduced from 30% to 24%

This reduced duty structure regime was further extended until December 2014 in June 2014, before the General Budget 2014-15 was announced in July 2014. Even after the reduced duties on automobiles, the industry is highly taxed. For every Rs 100 that the four-wheeler auto industry (other than small cars) collects from the consumer, the Government collects approximately Rs 81 from the consumer in the form of various taxes such as excise duty, sales tax, road tax and service tax. While for every Rs 100 that the four-wheeler auto industry (small cars) collects from the consumer, the Government collects approximately Rs 58 from the consumer in the form of various taxes. Taxes are levied on fuels as well.

The auto industry currently employs more than 29 million people both directly and indirectly. The auto-industry is a key employment generator in the OEM factory that manufactures the vehicles, in the inbound auto component and logistics industry that makes and delivers components & systems and the outbound logistics and dealer network that sells, maintains and distributes the cars. Every vehicle produced, generates secondary and tertiary employment. The industry generates employment of 13 persons for each truck, 6 persons for each car and four persons for each three wheeler and one person for two-wheelers. It is important to appreciate the sector’s multiplier effect on economic activity. If the industry produces as per its potential, it could generate employment of over 35 million people by 2016.

Suggestive Measures:

If the Government's goal is to build the offer of assembling in the GDP of the economy from an expected 15 for each penny to no less than 25 for each penny with the goal that business gets a positive lift, the part of vehicle industry can't be disregarded and the business has officially made speculations to accomplish this target and have expanded the ability to levels that would be expected to accomplish the goal.

The industry requires the Government to help by giving it an environment that encourages development. While the car business is centered on creating volumes in the distinctive sections to gather development, it is in light of a legitimate concern for the Government to proceed with the lower extract rates as this will help build volumes and accumulate extra duty income. High duty rates and ensuing high costs of vehicles have a hurtful impact of bringing down volumes, bringing down gross expense accumulations and eventually bringing down development in the auto part.

The Government ought to encourage a helpful domain for development of car industry by characterizing positive long haul arrangement for speculation. Because of the troublesome approach condition in the nation where assess rates on vehicles are getting changed each year and Government is arranging FTAs where custom obligations are probably going to descend, numerous global organizations that had plans to enter the market have slowed down the arrangement and are presently considering other developing markets, for example, China and Brazil.

III. Conclusion

The execution of GST, charges moves from the root state to the utilization state because of that general financial action is required to broaden and it could expect a vastly improved GDP development that should push interest for vehicle crosswise over classes. Effect of duty falling will escape that may decrease general cost of auto creating as all assessments on input paid are counterbalanced with the yield obligation of GST.

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