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NAVIGATING THE SHIFT: ASSESSING THE IMPACT OF GST2.0 IN THE AUTOMOBILE INDUSTRY

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ABSTRACT

The introduction of the Goods and Services Tax (GST) in India marked a significant milestone in the country's tax reform journey. The subsequent amendments, including GST 2, have further refined the tax structure, aiming to ease compliance and reduce tax burdens. This paper examines the impact of GST 2 reforms on the automobile industry, a sector that has witnessed significant changes in tax structures over the years. Automobile is the fastest growing and promising industry all set to make India grow further. India's automotive industry is a powerhouse, contributing around 7.1% to the country's GDP and a whopping 49% to its manufacturing GDP. This sector is a massive employment generator, supporting millions of jobs directly and indirectly, and has strong links to other key industries like steel, electronics, and IT. It's also driving innovation, particularly in green mobility, and playing a crucial role in shaping India's economic landscape. The GST 2 reforms have brought about several changes, including revised tax rates, altered input tax credit (ITC) structures, and streamlined compliance procedures. This paper analyses the effects of these changes on the automobile industry, focusing on passenger vehicles, commercial vehicles, and two-wheelers. We examine the impact on vehicle pricing, industry growth, and the overall competitiveness of the sector. This study assesses the pre- and post-GST 2 scenarios, drawing insights from industry data, government reports, and expert opinions. The paper also explores the challenges faced by the industry, including the transition to new tax structures, compliance issues, and the impact on consumer behaviour. This study reveals that the GST 2 reforms have had a mixed impact on the automobile industry. While the reduced tax rates have led to increased demand and growth in certain segments, the industry still grapples with compliance complexities and ITC-related issues. This study contributes to the ongoing discourse on tax reforms and their impact on key industries, providing valuable insights for informed decision-making and strategic planning. By examining the GST 2 reforms' effects on the automobile industry, this paper sheds light on the complexities of tax policy and its far-reaching implications.

KEYWORDS: GST2.0, automotive, stakeholders.

INTRODUCTION

The 56th meeting of GST council meeting, chaired by the honourable finance minister Smt Nirmala Seetharaman announced GST 2 reforms. The GST 2.0 reforms, effective from September 2025, have streamlined India's tax structure into mainly three slabs: 5% for essentials, 18% for standard goods and services, and 40% for luxury and sin goods. This overhaul simplifies compliance and aims to boost economic growth. These changes, effective from September 22, 2025, address inverted duty structures, enhance input tax credit flow, and streamline compliance for businesses. In the automobile industry, a key economic driver contributing 7.1% to GDP, GST 2.0 lowers rates on small cars to 18%, maintains 5% for electric vehicles (EVs), and eliminates compensation cess, reducing overall vehicle prices. Post-supply discounts and risk-based refunds (90% provisional for low-risk taxpayers) ease liquidity and reduce litigation for manufacturers. This rationalization fixes compliance pain points, particularly for MSMEs in auto components. Lower taxes on small cars and bikes have spurred demand, with Maruti Suzuki reporting a 50% booking surge and 30,000 deliveries on launch day. Festive sales rose 10-15% in Q4 2025, boosting production, jobs in manufacturing, dealerships, and logistics. EVs benefit from aligned incentives like reduced duties on batteries, supporting India’s 40% EV market share goal by 2030. Price reductions enhance affordability, increasing consumer purchasing power and formalizing supply chains. Japanese automakers like Suzuki and Toyota expand investments under CEPA, integrating India into global chains. Exports grew 24% in 2025, with projections for strong 2026 demand amid policy certainty. Overall, GST 2.0 positions the sector for sustainable growth, aligning with Atmanirbhar Bharat. Clearer classification of vehicles and auto parts will cut down disputes, improve compliance, and support growth in India’s automotive manufacturing and exports. he Indian government's initiatives, such as Make in India, Automotive Mission Plan 2026, and NEMMP 2020, have aimed to establish the country as a global auto manufacturing hub, driving growth in the sector. As the population grows and commercial activities increase, the need for efficient transportation has led to improved road connectivity, boosting demand for two-wheelers, four-wheelers, and other vehicles. Taxation has been a key factor influencing vehicle purchases, with the earlier tax regime's complexity and cascading taxes contributing to higher vehicle prices. The introduction of GST has simplified the tax structure, subsumed multiple taxes and enabling more efficient supply chains. Benefits include input tax credit (ITC), reduced tax cascading, and lower vehicle prices. GST has also eliminated tax arbitrage opportunities between states and excluded government subsidies for e-vehicles from transaction values, further supporting the automobile sector.

OBJECTIVES OF THE STUDY

1.Examine the impact of GST2 reforms on the growth of the automobile industry, including sales, production, revenue, pricing and its affordability among common people.

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METHODOLOGY

This study is an examination of the impact of GST 2.0 on the automotive industry, relying on secondary data from reputable sources such as the Society of Indian Automobile Manufacturers (SIAM), annual automotive reports, trade data from the Ministry of Trade and Industry, Ministry of heavy industry, Society of Manufacturers of Electric Vehicles (SEMV).
GST 2.0 Reforms: Key Changes and its implications.

Indias automobiles sector has come a long way starting from the 1991 liberalization which open 100% foreign direct investments to this sector. GST 2.0 have bought considerable changes to tax rates to significantly streamline and simplify the tax structure on vehicles. Earlier separate compensation cess was included with basic GST rates. In GST 2.0 cess rate is either eliminated or combined into single unified rate. The government has prioritized boosting domestic automobile manufacturing, upgraded infrastructure, and driven innovation through initiatives like Make in India, Production Linked Incentive (PLI), and National Logistics Policy. The revised GST rates for automobiles and related sectors align with this vision, targeting job creation, MSME growth, sustainable mobility, and enhanced export competitiveness.

Comparing the old and new GST tax rates

Vehicle type	Old GST rate	Revised GST rate
Two-wheeler up to 350cc	28%	18%
Two wheelers above 350cc	28% GST + 3% cess	40%
Small cars up to 1500cc	28%	18%
Large cars above 1500cc	28% GST+17% cess	40% without cess
Electric vehicles	5%	5%
Hydrogen fuel cell vehicles	5% GST	5% GST

The data given above clearly depicts the tremendous changes bought forward by the 56th GST council aimed to simplify tax system. These changes are considered as the transformative reforms to place India among the top nations in terms of its capacity building. Reduced GST rates are poised to boost automobile demand, benefiting manufacturers and ancillary industries like tyres, batteries, and electronics. This surge will have a ripple effect, supporting MSMEs and creating jobs in sales, logistics, and maintenance. The industry already sustains 3.5 crore direct and indirect jobs; increased demand is expected to drive hiring in dealerships, transport, and component manufacturing. Informal

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sector workers, such as drivers and mechanics, will also benefit. Credit-driven vehicle purchases will fuel retail loan growth, improve asset quality, and promote financial inclusion. The rationalized GST structure provides policy clarity, attracting investments and supporting Make in India initiatives. Additionally, GST cuts will encourage fleet modernization, promoting cleaner, fuel-efficient vehicles and sustainable mobility solutions.

SECTORAL ANALYSIS

Implication of GST 2.0 on two wheelers

The reduction in GST from 28% to 18% on two-wheelers up to 350cc has made these vehicles more affordable for the common man. This significant tax cut has led to price reductions ranging from ₹5,000 to ₹12,000, benefiting popular models such as the Splendor, Activa, Pulsar, and Classic 350. As a result, first-time buyers and middle-class consumers are likely to find these bikes more accessible, potentially driving sales growth, particularly during festive seasons, aided by easier EMI options and attractive loan deals. The two-wheeler segment experienced a notable upswing in sales during the festive season, following a relatively subdued period from January to September, with monthly registrations averaging below 20 lakh units. The momentum shifted in October 2025, with registrations surging to over 30 lakh units, followed by a strong November 2025, with over 25 lakh units sold, marking the peak sales period for automotive brands in 2025. The upsurge can be attributed to new GST reforms, Concurrently, personal income tax relief measures have increased disposable incomes, enhancing purchasing power. Additionally, the Reserve Bank of India's multiple repo rate cuts have reduced borrowing costs, facilitating more accessible vehicle financing options. To meet robust demand, production facilities operated at heightened capacity while supply chain networks efficiently managed increased volumes of finished vehicles, ensuring streamlined distribution across the country. The export segment demonstrated strong growth during the quarter, with passenger vehicle exports reaching 2.25 lakh units in October-December 2025–26, marking an 11.7% increase over the corresponding period, while total exports for calendar year 2025 grew by 16.0% to 8.63 lakh units. Sustained demand from markets in the Middle East, Africa, and Latin America, paired with consistent order volumes, further fortified this upward trend. The quarter's exceptional sales performance was supported by a convergence of favourable domestic policy reforms, monetary easing, and stable international demand. Consequently, manufacturers ramped up production schedules, and financial institutions processed a higher volume of automobile loan applications. Establishing new industry benchmarks, the October-December 2025 quarter underscored the sector's positive response to improved economic conditions and strategic policy interventions.

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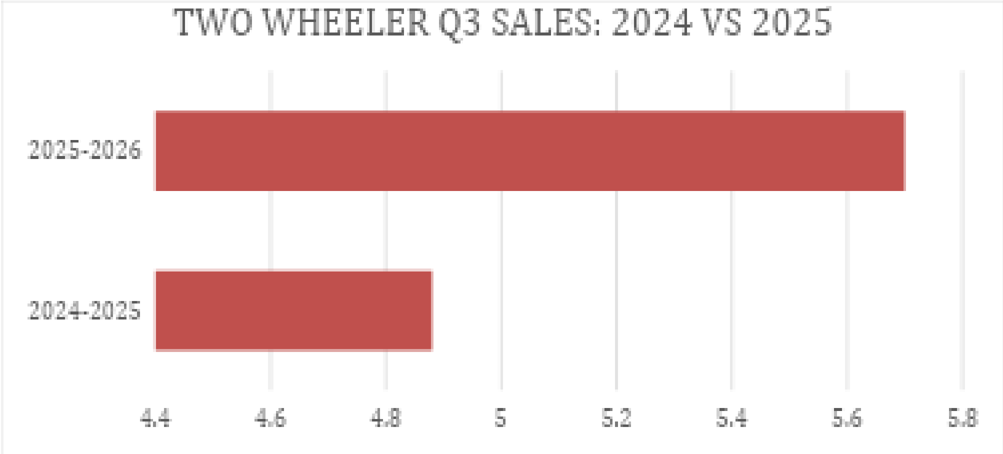

The graph depicts the 16.9% growth in 3rd quarter of 2025, touching the record of 5.70 million units with more 5 million vehicle production.

Implication of GST 2.0 on small cars (up to 1200cc).
his reform simplifies the tax framework, reducing rates for small cars from 28% to 18%, while larger cars and SUVs are taxed at 40%. Electric vehicles retain the 5% concessional rate, and auto components now attract a uniform 18% GST, down from 28% earlier. Maruti Suzuki, India's largest carmaker, reported a 10.48% year-on-year increase in domestic passenger vehicle sales, with 1,76,318 units sold in October 2025, compared to 1,59,591 units in October 2024. The company also supplied 8,915 units to Toyota Kirloskar Motor and exported 31,304 units during the month. Meanwhile, Mahindra & Mahindra achieved its highest-ever monthly SUV sales, delivering 71,624 units in October 2025, marking a 31% year-on-year growth, driven by strong demand for models like the Scorpio, XUV700, and Thar. moving beyond just rate changes. By consolidating multiple central and state taxes into a single unified system, manufacturers now face reduced paperwork, fewer administrative hurdles, and a streamlined process for interstate movement of parts and finished vehicles. The GST framework also enables manufacturers to claim input tax credits on raw materials and components, leading to reduced operational costs. This increased efficiency is likely to have a positive impact on the final price of cars, making them more competitive in the market. Overall, the simplified tax structure has improved the ease of doing business for car manufacturers in India.

Old and new GST rates comparison on small cars (up to 1500cc)

Particulars	Old GST rate	New GST rate
Ex-showroom price	500000	500000
GST at 28%	140000	
GST at 18%		90000
Cess at 1%	5000	nil
Total tax	145000	90000

The table below shows how GST 2.0 works. Tax and cess are now combined into one single tax rate, making it simpler. The new tax rate made small cars more affordable saving an average of 55000 according to this example. Lowered cost of cars helps the common middle classes of India buy cars which leads to more demand. To meet the increased demand production units are working at full capacity. With this India is set to rule the world in terms of manufacturing of cars. Prior to GST, the movement of parts and components was hindered by multiple taxes and checkpoints, leading to inefficiencies and increased costs. GST has unified the national market, streamlining the flow of goods across state lines. With the removal of interstate barriers, manufacturers can now transport materials and finished vehicles more efficiently, reducing transit times and costs. The input tax credit system ensures that businesses pay tax only on the value added at each stage, rather than on the full price, thereby avoiding tax cascading and promoting cost savings. This has made the entire automotive supply chain more efficient.

Impact of GST2.0 on EV's

The implementation of GST 2.0 has brought about a mixed bag for electric vehicles (EVs) in India. On the one hand, the concessional GST rate of 5% on EVs remains unchanged, providing a significant boost to the industry. This rate applies uniformly to all electric vehicles, whether used for personal or commercial purposes, making EVs more affordable for consumers and aligning with the government's push for green mobility. However, industry experts point out that the GST rate changes for internal combustion engine (ICE) segments have reduced the price difference between EVs and ICE vehicles, potentially making the latter more appealing in the short term. In response, Tata Motors has urged the government to introduce targeted incentives for entry-level EVs and include fleet-segment EVs in the PM E-DRIVE scheme. The 5% GST rate on charging infrastructure and services is a welcome move, supporting the growth of the EV ecosystem. Nevertheless, some industry players argue that a correction in the GST structure, coupled with targeted incentives for charging and battery infrastructure, is vital for sustaining India's EV growth trajectory. The inverted duty structure, where

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critical components are taxed at 18%, poses a challenge for domestic manufacturers. Despite these challenges, Volvo Car India reports that EVs continue to account for around 25% of their sales, attributing this stability to their focused electrification strategy and increasing consumer acceptance of battery-electric models. In conclusion, while GST 2.0 has maintained the incentive structure for EVs, industry stakeholders are calling for further support to drive the adoption of electric vehicles in India. The Indian government's efforts to promote green mobility are evident, but a more nuanced approach might be necessary to address the concerns of industry players and consumers alike. As the country strives to increase its EV adoption, a balanced GST structure and targeted incentives could play a pivotal role in shaping the industry's future. With the right policies in place, India can accelerate its transition to sustainable transportation and reap the benefits of a growing EV market.

IMPACT OF GST 2.0 ON VEHICLE DEALERS.

GST 2.0 have bought considerable changes into the automobile industry. The reform had its pros and cons for the dealers. The affordable car segment has seen high demand due to reduced price and tax rate. Bikes and small cars have attracted middle class to purchase and the sales have surged in the festive period. Luxury and SUV’S might undergo serious demand issue due to higher headline rate.
Positive impacts:

● Higher demand: 18% GST on smaller cars demand increases with the new GST rate. To meet the demand the producers, tend to produce more leading to increased production and increased employment opportunity.
● Increased transparency: simplified and unified tax rate by abolishing cess made the tax structure more transparent.
● Growth of EV: to create a more sustainable environment government puts effort to reduce emission from petrol and diesel vehicle, more incentive on EV vehicles was introduced to encourage its adoption and EV dealers will benefit from this.
● Overall growth: reduced tax rates create a ripple effect. The benefit is extended to the service centres, finance providers, spare parts suppliers.
Negative impacts:
● Abolition of cess: with the removal of cess, valid cess credits on existing inventory purchased under the old tax system. These credits can no longer be offset against CGST, SGST, or IGST, resulting in loss and strain on working capital.
● Financial loss: an estimated financial loss of 2500 crores were predicted across the industry and this in turn leaves an Impact on employment.
● Margin pressure: GST 2.0 rates have led to price cuts, but it's putting pressure on dealer margins as the market adjusts to the new pricing and potentially reducing commissions.

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IMPACT OF GST 2.0 ON CONSUMERS

Consumers play a key role in the economy and it is important to understand how consumers perceive this change. The GST 2.0 reforms have magnified consumer purchasing power, Lowering GST rates on essentials from 12-18% to 5% has reduced living costs for millions, making aspirational purchases like small cars, two-wheelers, and electronics more affordable for India's growing middle class. The reforms cater to the benefits of all kinds of consumers. Urban demand expected to rise due to cheaper consumer durables and vehicles. reduced GST on farm equipment, fertilizers, and agricultural inputs, driving demand in key sectors are helping the rural households. This promotes inclusive growth, stimulating consumption across demographics and economic segments. By making goods more affordable, the reforms aim to increase consumption, benefiting consumers nationwide

Positive Impacts:

- Lower Vehicle Prices: Reduced GST rates, especially for small cars (from 28% to 18%), have led to lower ex-showroom prices, making vehicles more affordable for buyers.
- Increased Affordability: With lower prices, more people can consider purchasing vehicles, especially in the entry-level segment.
- Boost to Sales: The price cuts have driven sales growth, benefiting consumers who can now own a vehicle at a lower cost.
- Simplified Tax Structure: GST 2.0 has streamlined the tax framework, reducing compliance complexities and potentially leading to better services.

Negative Impacts:

- Reduced Discounts: With lower GST rates, manufacturers might reduce discounts or offers, offsetting some benefits for consumers.
- Potential Price Hikes for Certain Models: Some models, especially those previously attracting lower taxes, might see price increases, affecting specific consumer segments.
- Impact on Electric Vehicles: Changes in subsidies or incentives for electric vehicles could make them pricier, affecting adoption rates.
- Dealer Margin Pressure: Dealers might face margin pressures, potentially impacting after-sales services or pricing strategies.
- Stuck Credits Issue: Some consumers might indirectly bear the cost of stuck credits (estimated ₹2,500 crores) if manufacturers or dealers pass on the burden.

CASE STUDY

GST 2.0 reforms, effective September 22, 2025, triggered explosive sales growth in India’s automobile industry by slashing rates on small cars to 18% and eliminating the compensation cess, making vehicles more affordable. Major manufacturers like Maruti Suzuki, Tata Motors, and Hyundai posted record single-day figures, validating swift implementation success.

Maruti Suzuki Surge

Maruti Suzuki achieved its highest single-day delivery in 35 years, billing 30,000 cars amid 80,000 enquiries on launch day, with small-car bookings up 50% over festive norms. Models like Swift, Alto K10, and Brezza saw price drops of ₹46,000-₹129,000, driving mass-market demand.

Tata Motors Boom

Tata Motors delivered nearly 10,000 passenger vehicles with over 25,000 enquiries nationwide on Day 1, fuelled by reductions like ₹155,000 off Nexon and ₹75,000 off Tiago. Compact SUVs and hatchbacks benefited most from the 28% to 18% GST shift, boosting showroom traffic and conversions.

Hyundai Record

Hyundai notched 11,000 dealer billings—it's best in five years—with Venue and Creta prices down ₹72,000-₹124,000. The tax simplification enabled quick price pass-through, aligning perfectly with Navratri festivities for heightened sales.

Broader Outcomes

These cases show GST 2.0's immediate compliance ease and demand stimulation, with luxury models like Mahindra XUV700 also cheaper by ₹143,000 post-cess removal. Industry-wide festive sales rose 10-15%, supporting production ramps and economic linkages.

IMPACT OF GST 2.0 ON EMPLOYMENT

GST 2.0, effective from September 22, 2025, has spurred job growth across sectors like automobiles and manufacturing by boosting demand through lower tax rates on mass-market goods, easing working capital for businesses, and enabling production ramps. Sectors such as automotive saw hiring surges to meet record sales, while MSMEs—employing over 111 million—benefited from simplified compliance and cheaper inputs, enhancing formal employment opportunities.

MSME and Broader Effects

Simplified slabs (5%, 18%, 40%) unlocked capital for MSMEs in textiles, electronics, and logistics, reducing tax disputes and creating jobs in compliance tech, IT, and finance amid digital GST upgrades. Women's employment rose in garments and handicrafts due to lower input costs and affordability boosts.

Challenges and Strategies

Demand volatility from rate cuts necessitated agile hiring via contract staffing, helping firms align labour with consumption surges from ₹2 lakh crore in added household income. Staffing firms advocate GST cuts to 5% for their sector to further formalize jobs and cut compliance burdens

IMPACT OF GST ON MANUFACTURING COST

GST 2.0 have a significant impact on lowering the manufacturing costs in India's automobile industry primarily through reduced input tax rates, unified GST on components at 18%, and seamless input tax credits that eliminate cascading taxes.

Input Cost Reductions

Auto components, previously taxed variably up to 28%, now unify at 18% GST, cutting procurement expenses for raw materials like steel, plastics, batteries, and tyres used in assembly. Commercial vehicles like trucks and buses at 18% improve logistics efficiency, further compressing supply chain costs for OEMs. Tractors and EV parts at 5% slash expenses in specialized manufacturing.

Supply Chain Benefits

MSME suppliers gain from lower input costs and faster credit claims, stabilizing payments and reducing liquidity strains amid demand surges. Elimination of cess simplifies compliance; freeing capital previously locked in disputes for production scaling.

Net Effects

Overall, these changes enable 5-10% lower production costs for small cars and two-wheelers, supporting price cuts like ₹46,000-₹155,000 on models from Maruti, Tata, and Hyundai while maintaining OEM margins around 5.4%

LONGTERM IMPLICATION FOR THE ECONOMY

GST 2.0 reforms promise sustained growth and competitiveness for India's automobile industry by streamlining taxes and boosting demand. Over the long term, these changes foster investment in production capacity and innovation, particularly in affordable and electric vehicles.

Demand Surge

Lower rates on small cars and two-wheelers at 18% drive higher volumes, with projections of double-digit growth in FY26 and beyond. This elevates plant utilization, stabilizes employment, and encourages mid-tier manufacturers to expand market share.

Investment Boost

Simplified compliance and input tax credits attract global players, enhancing local assembly and Indo-Japan collaborations for technology transfer. Expect increased capex from firms like Maruti Suzuki and Stellantis, positioning India as an export hub.

EV Transition

EVs maintain a 5% rate advantage, but narrowing gaps with ICE vehicles spur localization and battery supply chains. Long-term policy stability could accelerate adoption, though premium segments face margin pressures from 40% slabs.

ADVANTAGES OF GST 2.0 OVER GST 1

GST 2.0 brings significant improvements over GST 1.0, enhancing the overall taxation framework and benefiting various stakeholders. Here's a detailed look at the advantages:

Simplified Tax Structure

GST 2.0 has streamlined the tax structure, reducing the number of tax slabs and rationalizing rates. This simplification has made compliance easier for businesses, especially SMEs, allowing them to focus on growth rather than tax complexities.

Lower Tax Rates

Many goods and services have seen reduced tax rates, making products more affordable for consumers. For instance, the GST rate on small cars has been reduced from 28% to 18%, boosting demand in the automobile sector. This has directly benefited consumers and stimulated sales growth.

Increased Threshold

The turnover threshold for GST registration has been increased, exempting smaller businesses from GST compliance. This has eased the burden on SMEs, allowing them to allocate resources to growth and development.

Improved Compliance

GST 2.0 has enhanced the technology infrastructure, introducing features like auto-populated returns and simplified filing processes. This has reduced compliance hassles and improved accuracy, making it easier for businesses to adhere to tax regulations.

Sector-Specific Benefits

The reforms cater to specific sectors, providing tailored benefits for textiles, agriculture, and electric vehicles. For example, reduced GST rates on electric vehicles promote eco-friendly transportation, aligning with India's sustainability goals.

Boost to Consumption

Lower prices driven by reduced GST rates have increased consumer purchasing power, stimulating demand and economic growth. This has a positive ripple effect on industries, employment, and overall economic development.

Promoting Inclusive Growth

GST 2.0 aims to promote inclusive growth by benefiting both urban and rural consumers. Reduced GST rates on farm equipment and agricultural inputs support rural development, while cheaper consumer durables boost urban demand.

Reducing Tax Evasion

The improved technology framework and compliance measures have helped curb tax evasion, increasing revenue for the government. This ensures more resources are available for public welfare and infrastructure development.

GST 2.0 offers several advantages over GST 1.0, focusing on simplification, reduced tax rates, and improved compliance. These reforms aim to drive economic growth, promote inclusive development, and benefit consumers and businesses alike. By making taxation more efficient, GST 2.0 paves the way for sustainable growth and development.

CONCLUSION AND WAY FORWARD

GST 2.0 has revitalized India's automobile industry through tax rationalization, paving the way for sustained expansion. As of early 2026, the sector shows robust recovery with double-digit growth projections for FY26, driven by lower rates on mass-market vehicles and components. Festive sales and rate cuts from October 2025 propelled passenger vehicles, two-wheelers, and commercial vehicles into a strong Q4 recovery, with experts forecasting 7-8% annual growth into 2026 and beyond. This momentum supports higher plant utilization, job creation, and capacity expansions by leaders like Maruti Suzuki. EVs retain a favourable 5% rate, encouraging localization amid rising sales (now ~4% of total), though ICE price drops narrow the gap slightly. Luxury segments benefit from a flat 40% slab, boosting accessibility and new launches, while premiumisation trends persist.

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