GST rate rationalization impact on the Automobile sector

Comprehensive GST relief across the automotive spectrum

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The GST Council's 56th meeting will be remembered as a landmark event in India's tax reform journey. The decision to simplify the GST structure is a bold, proactive step toward a "Good and Simple Tax," and it is a testament to the government's trust in the industry to drive economic growth. The automotive sector, a critical pillar of our economy and a major employer, is expected to be a key beneficiary of this reform.

The rationalization of GST rates on vehicles and parts marks a significant and welcome reform for the automotive sector, making mobility more affordable, resolving long-standing classification disputes, and easing the burden of cess.

While the move is broadly positive, companies may need to reassess the financial impact on state-linked incentives and subsidies, potentially renegotiating terms to address cost or clawback implications.

It may also be critical to recalibrate the pricing of vehicles and spare parts to reflect reduced rates and facilitate the timely pass-through of benefits to consumers. With a pragmatic approach that avoids unnecessary administrative burdens, these reforms provide the foundation for a smooth transition and a new phase of growth for the industry under the GST framework.

Impact analysis

Industry impact:

- **Boost to the entire sector** across passenger vehicles, two-wheelers, commercial and agricultural vehicles.
- **Reduced classification and tax disputes:** Relief from long-pending disputes around GST rates on auto components with a single GST rate of 18%.
- **Relaxed stance on anti-profiteering:** This reflects the government's trust in the industry and market forces to provide equitable benefit across the economy.
- Despite recent challenges in the Indian auto sector, a positive turnaround is likely with these GST initiatives.

Consumer impact:

- **Affordability in the budget segment:** The most pronounced relief is for budget cars and two-wheelers, directly benefiting the middle-class and everyday consumers.
- The **reduction in GST on farm machinery** is expected to enhance the **affordability** of agricultural equipment, marking a pivotal reform for the sector.
- Reduced GST on passenger transport vehicles is set to expand accessibility and strengthen mobility for all strata of the population.
- **Compensation cess relief:** There is a slight impact on larger cars (including SUVs and luxury vehicles), with a reduction to 40%, compared to the current rate of 43% to 50%, including cess.
- **Narrowed rate differential:** While EVs retain a tax edge, the reduced gap makes hybrids also attractive, encouraging the adoption of fuel-efficient vehicles.
- **Increased consumer spending power:** Lower GST rates effectively increase disposable income, strengthening purchasing capacity and supporting broader consumption growth, aligning with the government's vision of boosting middle-class prosperity by 2047.

Highlights

Category	Before	Now
Tractors, non-motorized bicycles and parts, fuel cell motor vehicles	12%	5%
Two-wheelers (up to 350cc), small cars, commercial vehicles, buses, trucks, auto components, ambulance, three-wheeled vehicles	28% to 31%	18%
Other than small cars (including mid-size, large, SUVs), two-wheelers (above 350cc)	31% to 50%	40%

Impact analysis

Way forward:

- **Reassess pricing structures:** Commercial assessment of pricing structures to manage profitability, dealer margins and customer expectations.
- **Manage inventory and working capital:** Assessment of the impact of inventory at factories, warehouses, distributors or dealers, etc.
- **Align distribution chain** in terms of pricing, managing returns, promotional schemes, compliance requirements, etc., to minimize disruptions and disputes.
- **Review state incentives or subsidies** and initiate dialogue with state authorities if revisions or renegotiations are needed.
- Assess the **treatment of accumulated compensation cess credits.**
- **IT readiness** to adopt the updated rates effective from the implementation date, i.e., 22 September 2025.
- Assess the **impact of delayed utilization of ITC accumulated** on account of CAPEX due to reduced output tax rate.
- Focus on **media and advertising strategies** to showcase lower prices.

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