BACKGROUNDERS
Press Information Bureau
Government of India

# GST Reforms in Automobiles

*Cheaper Cars, More Accessibility*

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**Key Takeaways**

- **The auto industry supports over 3.5 crore direct and indirect jobs in manufacturing, sales, financing, and maintenance.**
- **GST on two-wheelers (bikes up to 350cc) and small cars reduced from 28% to 18%, benefitting the middle class.**
- **GST on tractors (<1800 cc) reduced from 12% to 5%, promoting mechanisation in the agriculture sector.**
- **GST on buses (seating capacity 10+ persons) reduced from 28% to 18%, encouraging usage of public transport.**
- **Input Tax Credit (ITC) has been extended and passed on where needed to avoid cascading effects in transport services.**

## Introduction

In a globally competitive automobile ecosystem, the Government of India has prioritised transformative reforms in the auto and related industries. Through flagship schemes like Make in India, Production Linked Incentive (PLI), and National Logistics Policy, the government has focused on increasing indigenous automobile manufacturing, modernising infrastructure, and incentivising innovation. The rationalisation of GST rates on automobiles, components, and allied sectors reflect this larger vision, aimed at job creation, MSME empowerment, cleaner mobility solutions, and heightened export competitiveness.

- GST rate cuts cover **bikes (up to 350cc), buses, small to luxury cars, tractors (<1800cc), and auto parts.**
- Lower GST will increase demand, benefiting automobile manufacturers and ancillary industries such as tyres, batteries, glass, steel, plastics, and electronics.
- Rising vehicle sales will create a multiplier effect, boosting MSMEs across the supply chain.
- The auto industry supports over 3.5 crore direct and indirect jobs in manufacturing, sales, financing, and maintenance.
- Increased demand will lead to new hiring in dealerships, transport services, logistics, and component MSMEs.
- Informal sector jobs like drivers, mechanics, and small service garages will also benefit from the GST reductions.
- Credit-driven vehicle purchases will support retail loan growth, improve asset quality, and promote financial inclusion in semi-urban India.
- Rationalised GST rates provide policy certainty, encouraging fresh investments and supporting Make in India initiatives.
- GST cuts will incentivise replacing old vehicles with new, fuel-efficient models, promoting cleaner mobility.


## Automobiles

<u>Two-Wheelers (Bikes upto 350cc which includes bikes of 350cc) – (28% to 18%)</u>

- Lower GST will reduce prices of bikes, making them more accessible to youth, professionals, and lower-middle-class households.
- Bikes are the primary mode of transport in rural and semi-urban India, and cheaper bikes will directly benefit farmers, small traders, and daily wage earners.
- It is expected to help and boost the savings of the gig workers through reduced costs and EMI for 2-wheeler loans.

<u>Small Cars (GST down to 18% from 28%)</u>

*(covers petrol engine cars of <1200 cc and not exceeding 4 meters length and diesel cars of <1500 cc and not exceeding 4 metres length)*

- Cars in the affordable segment will become cheaper, encouraging first-time buyers and expanding household mobility.
- Reduced GST will stimulate sales in smaller cities and towns where small cars dominate.
- Higher sales will benefit car dealerships, service networks, drivers, and auto-finance companies.

<u>Large Cars (GST reduced to flat 40% with no cess)</u>

- The removal of the additional cess has not only reduced the rates but also makes taxation simple and predictable.
- Even at 40%, the absence of cess will lower the effective tax on larger cars, making them relatively more affordable for aspirational buyers.

- Bringing the tax rate to 40% and removing the cess will also ensure that these industries are eligible for ITC fully whereas previously the ITC could only be utilised up to 28% and not for the cess component.

**What is Cess?**

The proceeds from the cesses collected are deposited in Consolidated Fund of India in terms of the Article 266 of the Constitution of India. The proceeds, being the resources of the Union Government, are predominantly utilized towards various schemes of the Government of India through various Reserve Funds.

**Auto components**

- The majority of the components used for the manufacture of Motor cars and Motor bikes: the auto components, have also been **reduced to 18%.**

## Tractors & Commercial Goods Vehicles


**Tractors (<1800 cc down from 12% to 5%)**

**Road tractors for semi-trailers (engine capacity more than 1800 cc down from 28% to 18%)**

**Tractor parts (Tractor parts, including tyres, tubes, hydraulic pumps: GST cut from 18% to 5%)**

- India is one of the world's largest tractor markets; GST cut will push demand in both domestic and export segments.
- The components for tractor manufacturing like tyres, gears etc will also be taxed at 5% only.
- Ancillary MSMEs making engines, tyres, hydraulic pumps, and spare parts will benefit from higher production. The GST Cut will also strengthen India's positioning as a global tractor manufacturing hub.
- Increased affordability of tractors will increase mechanisation in the agriculture sector. This will improve the productivity of staple crops like paddy, wheat, etc.

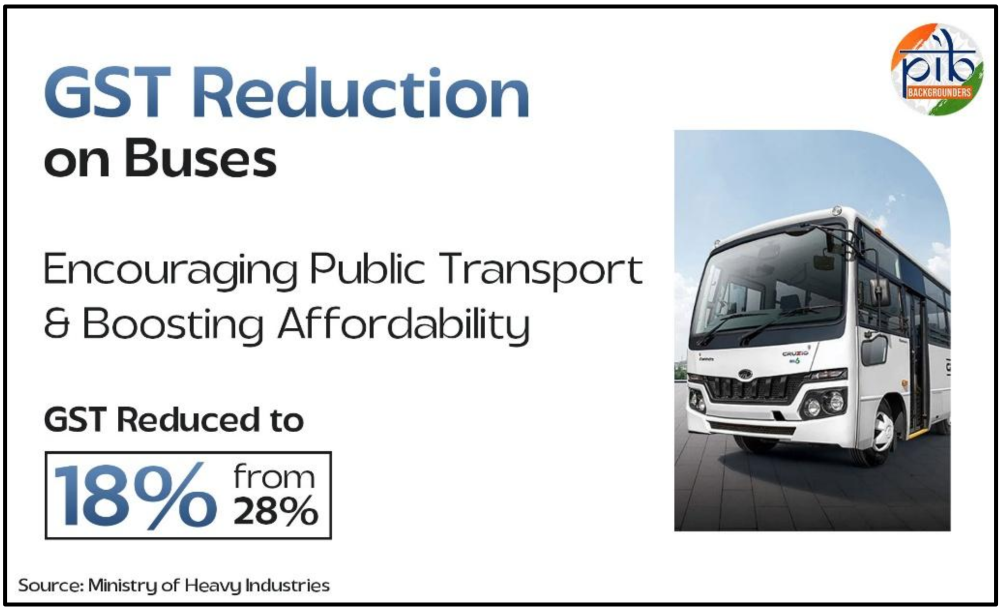
**Commercial Goods Vehicles (Trucks, delivery-vans, etc) [GST down from 28% to 18%]**

- Trucks are the **backbone of India's supply chain** (carry 65%-70% of goods traffic).
- Reducing GST reduces upfront capital cost of trucks, which will lower **freight rates per tonne-km**.
- This will further lead to **cheaper movement of agri goods, cement, steel, FMCG, and e-commerce deliveries** and reduce inflationary pressures.
- The reduction will additionally support **MSME truck owners**, who form a large share of India's road transport sector.
- Cheaper trucks will directly help reduce **logistics cost**, therefore improving **export competitiveness**.
- Reduction of GST from 12%to 5% with ITC on third-party insurance of goods carriage will also complement these efforts.
- The GST reduction does not include 'Refrigerated motor vehicles' (they have a separate classification).

- These steps further align with **PM Gati Shakti & National Logistics Policy** targets.

<u>Buses (seating capacity of 10+ persons) [GST down from 28% to 18%]</u>

- Lower tax rate will reduce the upfront cost of buses and minibuses (10+ seater).
- This will spur demand from fleet operators, corporates, schools, tour operators, and state transport undertakings.
- **Affordable ticket fares** for passengers (especially in semi-urban/rural routes).
- The GST reduction will encourage the shift from **private vehicles to shared/public transport**, reducing congestion and pollution.
- **This boost will encourage fleet expansion & modernization**, along with encouraging use of public transport.




It is also important to note that the **services associated with the transport of goods and passengers have also undergone significant changes and rationalisation**. The rates have been reduced where necessary, and ITC has been passed on to avoid the cascading effect.

## Conclusion

The GST rationalisation for automobile sector signals the government's unwavering commitment to fostering growth and innovation, advancing MSME participation, and realising the vision of Aatmanirbhar Bharat. These policy reforms will not only spur domestic demand and job creation but also usher in a modern, inclusive, and globally prominent manufacturing ecosystem, paving the way for sustainable, technology-driven growth in India's heavy industries.

References:

- Ministry of Heavy Industries
- https://www.pib.gov.in/PressReleasePage.aspx?PRID=2164904
- LOK SABHA UNSTARRED QUESTION NO. 3290

**SK / M**