Review Article
Volume 13:6, 2022

Business and Economics Journal

ISSN: 2151-6219 Open Access

The Role of GST in the Indian Automotive Sector Slowdown

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Abstract

The Goods and Services Tax (GST) is the biggest tax reform of India. It has been adopted in over 160 countries and has now been implemented in India with the aim to replace all the indirect taxes such as service tax, VAT, luxury taxes, excise tax, etc., and bring them under a single taxation system. It has been introduced with the intent of reducing the burden of taxation on the manufacturer, brings transparency, eliminates the cascading of taxes and thereby help increase the country's economic growth. However, since its inception, the Indian economy has been facing a slowdown in some key sectors. The following research tries to reason whether GST has played any major role in the current economic slowdown with a focus on the automotive industry.

Keywords: GST • Economy • Slowdown • Automotive • Consumer • GDP

Introduction

According to Article 366 (12A) of the Indian Constitution, "Goods and services tax means any tax on supply of goods or services or both except taxes on the supply of the alcoholic liquor for human consumption". It eliminates the extra taxes weighed on manufacturers. The aim of GST is to break state boundaries and bring the nation under single tax reform. It is a destination-based tax where the taxes will be collected not from the place where the goods are produced but from the destination where it is consumed. Taxes are levied from the beginning of manufacture to the end consumption with tax credit being paid at previous stages hence preventing the cascading of taxes. The stage by stage value addition is taxed and the burden of tax is borne by the final consumer [1].

GST has replaced the following taxes

- Central excise duty
- Service tax
- Custom tax
- Additional excise duty
- State value added tax
- Luxury tax
- Purchase tax
- Entertainment tax
- Entry tax
- Advertisement tax
- Taxes on lotteries, betting

GST will boost the country's GDP in the long run. It has succeeded in enlarging the taxpayer base by standardizing a threshold for liability [2]. The taxation system has been made online making it more efficient, accountable. India has adopted the dual GST model in which both the state and central collect taxes on goods and services. The centre collects GST on the intrastate supply of goods and services and is known as the Central GST (CGST). An interstate GST (IGST) would also be levied by the centre on every interstate transfer of goods and services. Under the GST regime, the tax is levied at every point of sale. Intra-state sales are chargeable to state GST. A good tax structure boosts value and attracts investment from foreign countries [3]. The

The implementation of GST has changed the way how other countries view India and has attracted global producers. There are still some faults required to be fixed for the efficient working of the policy. The multiple tax rates are one aspect that complicates the process. A majority of GST filing occurs online and the online portal still needs some improvement. It has been claimed that the country is facing a slowdown in some key sectors especially the automobile sector. It is a concerning claim as the sector constitutes 7% of the country's GDP and about 49% of the country's manufacturing GDP. A slowdown in the automobile sector would affect other major sectors leading to a much longer slowdown [4].

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Received: 22 January, 2020, Manuscript No. bej-20-6626; **Editor assigned:** 27 January, 2020, PreQC No. P-6626; **Reviewed:** 10 February, 2020, QC No. Q-6626; **Revised:** 20 July, 2022, QI No. Q-6626; Manuscript No. R-6626; **Published:** 17 August, 2022, DOI: 37421/ 2151-6219.2022.13.382

Objectives of the study

Find the impact of GST on the economy in the short time of its implementation and what changes may it bring in the future. Get an insight into the economic slowdown with emphasis on the automotive sector. The proposed study is desk research and is a type of review research, based on the secondary data sourced from journals, internet, articles, previous research papers and reference research, government documents and declarations [5].

Overview: Implementation of GST

- GST has helped in reforming the tax structure in a number of ways.
- Many services that had been untaxed previously have now been accounted for under GST.
- It has reduced the burden on the manufacturer by collecting tax from the consumer and on services. This has encouraged manufacturers to start new ventures and boost the economy.
- The previous separate taxes such as VAT, CST, luxury taxes have now been replaced with a single tax.
- The implementation of GST has spread the tax burden on different sectors. Hence, no single person has to bear all the taxation.
- The tax filing and other processes are done online eliminating middlemen thereby making it simpler and transparent.
- Tax collection has become more uniform throughout the country due to the elimination of separate state taxes.
- It immensely avoids the cascading of taxes.
- It makes sure that India's taxation system is on par with other countries.
- GST is a reform that will give some hardships in the beginning but will be fruitful in the future. It was a tax reform that the country needed for long and has been implemented finally. It still needs some improvement and support for proper functioning.

Literature Review

Economic slowdown

An economic slowdown is a condition in which a country's GDP growth slows but does not decline. The GDP is the total value of all the goods and services produced or created in a country in a year. A slowdown is not considered as a recession but unemployment may rise and productivity would decrease. The following are the factors of an economic slowdown [6].

The decline in consumer demand: One of the main concerns for the current economic slowdown is a sharp fall in consumer demand. Consumption is affected by employment rate and wages, consumer confidence, fluctuating prices and interest rates.

Unemployment: A drop in the number of jobs leads to a decline in consumer demand. Unemployment is caused by a number of reasons including technological changes, geographical and occupational immobilities, structural changes and can also be cyclical.

A slowdown in the real estate market: The real estate and construction sector accounts for 40% of the country's jobs. Any slowdown in the real estate is bound to affect the country's economy. A slowdown in this sector is usually caused by buyers observing an unattractive return of investment, stuck and delayed under-construction properties, difficulties in securing bank loans, high taxation, loss of jobs among others.

A decrease in investments: Investment levels are influenced by the country's economic growth, interest rates and financial aid from banks, technological advancements, productivity and government policies [7].

The Indian government has been aiming to achieve a 5 trillion-dollar economy by 2025. To achieve this, a constant 9% rate of GDP growth has to be maintained annually. However, the GDP growth has reached nowhere near 9% but has been slipping every quarter. In its recent report, the World Bank slashed its economic growth forecast for India to 6% for the current fiscal from its April 2019 projection of 7.5%, citing a broad-based and severe cyclical slowdown. It has hit a 6-year low now and the key sectors affected are real estate, agriculture, automobile and others (Figure 1).

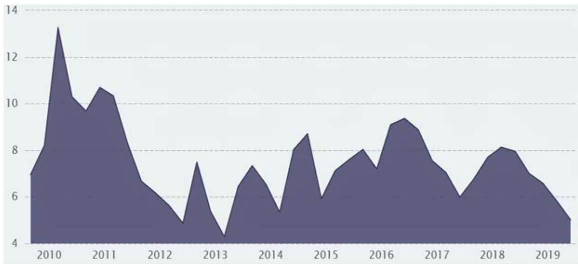

Figure 1. Graph representing the annual GDP variation percentage from 2010 to 2019.

By observing the graph, we can conclude that the GDP growth rate has been at a constant decline in the past three quarters [8]. Analysts are predicting that the situation would worsen and the GDP would be falling in the coming quarters as well with no sight of improvement until 2021 (Figure 2 and Table 1).

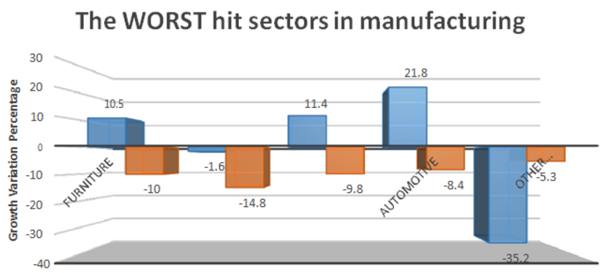

Figure 2. The above figure clearly explains that GST has helped in reducing the end retail price. Hence, GST has had no major role in the automotive slowdown. Note: a) April-June 2018, Furniture: (10.5), Paper products: (-1.6), Metal products: (11.4), Automotive: 21.8, othermanufacturing: (-35.2); b) April-June 2019, Furniture: (-10), Paper products: (-14.8), Metal products: (-9.8), Automotive:(-8.4), Other manufacturing: (-5.3).

Table 1. The worst hit sectors in manufacturing.

	Furniture	Paper products	Metal products	Automotive	Other manufacturing
April-June 2018	10.5	-1.6	11.4	21.8	-35.2

April-June 2019	-10	-14.8	-9.8	-8.4	-5.3

At a glance: The Indian automotive industry

The automotive industry constitutes of companies that are involved in vehicle production and its components [9]. The primary products of this industry are passenger cars, vans, pickups and sports utility vehicles. It has been a massive contributor to industrial with the introduction of mass production [10].

Results and Discussion

The Indian automobile industry is the fourth largest in the world. It employs over 370 lakh people and is a 12% contributor to the country's GDP. It is a key pillar of the Indian economy and a driver of technological advancements [11]. The industry is driven by strong domestic consumer demand, lucrative pricing and adequate support in the form of government policies which has led to the Indian automotive industry become one of the global leaders [12]. Companies need to understand the changing customer needs and find ways to fulfill them to remain competitive in this industry [13]. With the help of government initiatives such as 'Make in India', the sector has attracted huge foreign direct investment in the last couple of years. India is looked upon by other international companies as a favourable destination for low-cost manufacturing. It is supported by low-cost production, skilled labor and excellent R and D centers [14]. The Indian automotive industry has been evolving and undergoing some massive changes in the form of electric vehicles, alternative fuels, stricter pollution norms and the aim of achieving energy independence missioned by the government [15]. The industry has been suffering a slowdown and around 3 lakh jobs have been lost. The major reason behind this slowdown has been a lack of demand. GST cannot be blamed for this lack of demand as the tax rates on vehicles have been lesser than the pre GST times. The following table gives a comparison of tax rates before and after GST implementation (Table 2).

Table 2. The following table gives a comparison of tax rates before and after GST implementation.

Segment	Excise	Nccd +autocess	VAT	Road Tax	Motor vehicle tax	Total	CGST	SGST	Total	Difference
Small cars <1200 cc	0.125	0.011	0.14	State - based	State - based	0.28	0.09	0.09	0.18	0.1
Mid-size cars from 1200 cc to1500 cc	0.24	0.011	0.14	State - based	State - based	0.39	0.09	0.09	0.18	0.21
Luxury cars> 1500 cc	0.27	0.011	0.14	State - based	State - based	0.42	0.14	0.14	0.28	0.14
SUV's >1500 cc, >170 mm >ground clearance	0.3	0.011	0.14	State - based	State - based	0.45	0.14	0.14	0.28	0.17

The above table clearly explains that GST has helped in reducing the end retail price. Hence, GST has had no major role in the automotive slowdown.

There are other factors behind the slowdown. Some of them are;

- There has been uncertainty around the new emission norms. The government has decided to skip one stage and set BS-6 (Bharat Stage-6) which the companies now need to follow. Also, the future of diesel cars under these norms is unpredictable due to tougher pollution norms which will make the consumer think whether he should buy a diesel car at this time. Some people may wait for the BS-6 norms to be implemented completely so that they can enjoy heavy discounts on BS-4 vehicles.
- The traffic on Indian roads has been increasing rapidly making daily commute difficult and the oncoming of mobile taxi services such as Ola and Uber has made people lose interest in buying personal vehicles.
- Some consumers find second-hand vehicles to be cheaper alternatives and buy them instead. This affects the sales of new vehicles.
- The automotive industry has been changing rapidly. New technologies have been launched every year. As buying a car is a one-time investment for many people and they tend to keep it for a long time, these rapid changes make it difficult for them to choose one. They may wait for things to settle and decide to then make a decision.
- The government's aim of electrifying the auto industry in a very short span of time is one of the main reasons for the loss of consumer demand. The government wants the two-wheeler segment to go completely electric by 2021 which is not possible with the kind of infrastructure India has right now. Any consumer would tend to not buy a new vehicle at this time worrying it may become obsolete in the next five to seven years.

Conclusion

The GST is a tax reform that was a long time awaited and was in the works for many years. Its implementation has made the taxation process less complicated and brought all the different services under a single system. The impact of GST cannot be determined in the short time that it has been implemented. Its impact must be interpreted as a long term effect that will be beneficial for the Indian economy. After the research, it has been found that GST has played no major role in the automotive sector's slowdown. It has instead helped in reducing retail prices. Stricter bank loan lending, a rushed electric vehicle conversion plan, pollution norms, overcrowding are some of the reasons behind the slowdown.

The factors slowdown are demand-driven and the government along automotive manufacturers should work on how to tackle them. According to the World Bank Report, India's economic slowdown is a cyclic slowdown rather than structural. The slowdown will pass in some time and the country's GDP may start growing again by 2021.

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How to cite this article: Shetty, Rineet. "The Role of GST in the Indian Automotive Sector Slowdown." *Bus Econ J* 13 (2022): 382.