

## **A Study On Impact Of GST In Automobile Industry**

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**Abstract:** *“The Automobile Industry is one of the fastest growing sectors in India. The size of the automobile industry relative to overall activity is small, but because of its strong linkages with other parts of the economy, the final impact of a shock in the industry on the broader economy is sizeable. This chapter considers the role of the automobile industry in the current cycle. The automobile industry is among the sectors that have been hit most by the recession. The automobile industry designs, develops, manufactures, markets, and sells the world's motor vehicles. In 2008, more than 70 million motor vehicles, including cars and commercial vehicles were produced worldwide. About 250 million vehicles are in use in the United States. Around the world, they burn over 260 billion US gallons gasoline and diesel fuel yearly. The numbers are increasing rapidly, especially in China and India. The lack of co-ordination results in less customer satisfaction that affects the overall bottom line of manufacturer and dealers. Hence, to assess the evolution of research efforts in this domain a systematic review has been carried out to find the research gaps and probable future studies for sustainable growth of the automobile sector. The automobile sector has been rapidly rising oil prices, industries such as the automobile industry, are experiencing a combination of pricing pressures from raw material costs and changes in consumer buying habits. The industry is also facing increasing external competition from the public transport sector, as consumers re-evaluate their private vehicle usage. Roughly half of the US's fifty-one light vehicle plants are projected to permanently close in the coming years, with the loss of another 200,000 jobs in the sector, on top of the 560,000 jobs lost this decade. Size is no longer a guarantee of success. Only those companies are find new ways to create value will prosper in the future. The purpose of this study is to present a short view of the automobile industry today growth and its GDP, and highlight the challenges facing the industry”.*

**Keywords:** *Automobile Industry, GDP*

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### **I. Introduction**

“Automobile industry has made a tremendous growth in recent years and it is to be expected in the unforeseeable future. The automobile industry comprises of heavy vehicles like trucks, buses, tempos, tractors, passengers cars etc.

The history of the automobile begins as early as 1769, with the creation of the steam engine automobiles capable of human transport. In 1806, the first cars powered by an internal combustion engine running on fuel gas appeared, which led to the introduction in 1885 of the ubiquitous modern gasoline or petrol-fueled internal combustion engine.

The automobile industry is one of India's major sectors; accounting for 22% of the country's manufacturing GDP. The Indian auto industry, comprising passenger cars, two-wheelers, three-wheelers and commercial vehicles, is the seventh-largest in the world with an annual production of 17.5 million vehicles, of which 2.3 million are exported. Two-wheelers dominate the Indian market; more than 75% of the vehicles sold are two wheelers.

According to Ministry of Heavy Industry and Public Enterprises, the total turnover of the Indian automobile industry was estimated at USD 73 billion and exports were estimated to be USD 11 billion in the year 2011–12. The announced cumulative investments in this sector were USD 30 billion during this period. The main automobile hubs in India are based at Chennai, Gurgaon, Manesar, Pune, Ahmedabad, Halol, Aurangabad, Kolkata, Noida and Bangalore. Chennai is the biggest hub accounting for 60% of Indian auto exports. The auto components industry, although largely concentrated near automobile hubs, is fairly widespread in other parts of the country too”.

### **II. Development of automobile sector**

Although the economic growth ability and lower sentiment resulted in market slowdown in 2012 and 2013, India is expected to regain strong growth trend from 2014 onwards. Sounding bullish on the Indian market in the mid to long term, “Investment reform policy will induce better environment for domestic and foreign enterprises. India's light vehicle production is expected to reach 7 million by 2020.

The implications for auto demand are huge in India and the country has been moving along the penetration path. "With demand for vehicles declining in most mature markets in the face of the global recession, high fuel costs and urban driving restrictions, the industry is turning its attention more strongly towards the expanding middle classes in the new powerhouse of China, India, Brazil, Russia and other growing nations. The growth of automobile sales will not be restricted only to mass market vehicles".

### **III. Mission Plan of automobile industry**

"Prepared by the Ministry of Heavy Industries and Public Enterprises, the Automotive Mission Plan aims to accelerate and sustain growth in the sector over the period 2006 to 2016. Under the plan, it is aimed to make India a global automotive hub, with special emphasis on the export of small cars, MUVs, two- and three-wheelers and auto components. The plan also aims to double the contribution of the automotive sector to the country's GDP by taking its turnover to USD 145 billion and providing additional employment to 25 million people by 2016".

### **IV. National Automotive Testing and R&D Infrastructure Project**

"This is a USD 388.5 million initiative of the Government of India and various state governments; it is aimed at creating a state-of-art and dedicated testing, validation and R&D infrastructure across the country. Over half the country's population is in the working-age group and the economy has shown strong growth over most part of the last decade. These factors, in turn, translate into beneficial spillovers for the Indian automobile sector:

- Indian banks provide easy finance schemes for the segment
- The country has low-cost, high-skilled manpower with the second-largest pool of engineering talent in the world

India has a strong auto components industry as is evident from the fact that this sub-sector accounts for about 2% of the country's national income and registered a growth rate of 19.2% in 2011–12. Not surprisingly, the country has emerged as an outsourcing hub for international companies such as Ford, General Motors, Daimler Chrysler, Fiat, Volkswagen and Toyota".

#### **"Challenges faced by automobile sector**

- Transportation (of all types including trucks, buses and cars) is a major contributor to air pollution in most industrialized nations. According to the half of all peoples are breathing unhealthy air.
- It has been to overcome the shortcomings such as poor management, weak support industry, incomplete legislation and regulation, and lack of policy incentives, to attract sufficient investment.
- Car manufacturing must become more of a domestic industry to create employment, promote technology transfer, develop human resources, and reduce the trade deficit.
- The need to meet international standards by improving the design and quality of car production.
- The domestic automobile industry is capable of producing or assembling 500,000 vehicles per year, but it can turn out less than 100,000 units only.
- The researcher proposed developing some certain brands of automobiles which are popular in both regional and international production chains. Businesses should apply advanced technologies to improve the quality of products and raise domestic production proportion".

#### **GST impact on Automobile industry**

"GST law provides that all closing stocks of finished goods and inputs cannot be transferred to GST regime with full tax benefits.) are fulfilled. Assessee's stocks older than one year will result into monetary loss to dealers as 100% tax benefit will be allowed only in cases where conditions are fulfilled.

Depending upon rate of tax on input and spare parts in GST regime, i.e., 18% and above or below 18%, input tax credit would be allowed only to the extent of 60% or 40% respectively resulting in residual loss to auto dealers.

Dealers also get discounts from the manufacturers of vehicles in the nature of quantity or trade discount / incentive. Their tax treatment and documentation would be crucial to avoid interpretational disputes with the Department.

In GST, tax would be payable on all such deals at full value or at differential value where input credit has not been taken. The problem is two-fold, valuation issue as well as rate of tax which is likely to be same as in case of new car. Education Cess may also be applicable which is not yet clear.

Vehicles are generally subject to repair and maintenance which will involve supply of consumables as well as spare parts. Rates of both goods as well as services would be different, i.e., 28 or 18%. The problem of treating a transaction as a mixed or composite supply is a technical issue wherein interpretation may be divergent and would lead to disputes.

Dealing in second hand goods (pre-owned vehicles) is a substantial part of dealer's business. There is no concessional rate of tax prescribed looking to the fact that such goods would have suffered tax already at the time of first purchase.

Vehicles booking by paying advance money has have been taxed in past but in GST regime, advance bookings will be taxed when such advance is paid, adversely impacting working capital. This could result in acceptance of lower advances which will adversely affect the working capital of manufacturers.

Free services on behalf of other dealers or manufacturers, extended warranties, reimbursement of expenses as pure agents are contentious issues which may lead to non-compliance, disputes and litigation.

At present auto dealers offer incentives to potential buyers in the form of free insurance, free accessories, fuel coupon, extended warranty etc which may be taxable in GST regime. Valuation rules do not permit such practices unless properly documented and as such, tax would be attracted. If not, dealers may not get input tax credit on these activities as these would imply exemptsupplies.”

All these pointers go on to reveal that it is not going to be a smooth ride in GST for auto dealers but it could be full of bumps owing to potholes on the journey to GST. Let's hope that the present tax authorities, as they are, will soon come out with proper clarifications.

## **V. Conclusion**

“The researcher has found that no automobile manufacturer can produce every kind of spare part and accessory, and both investors and suppliers need suitable policies to be put in place for them to expand production and market share. Indian Automobile has a lot of scope for both two wheelers and fourIndustry Analysis wheelers due to development in infrastructure of the country.The growth rate of Indian Automobile is so fast that by 2018 Indian Industry will be world 7 largest manufacturers in all sections. The Indian auto market is still untapped the majority of the people in country don't own a four wheeler and all the major auto companies are trying to increase their sales by several moves. By analyzing the current trend of Indian Economy and Automobile Industry say that there is lot of scope for growth. India's Automobile market has evolved and shifted to set foot on an accelerated growth path. Emerging markets become increasingly important and India's role among these becomes progressively significant, both domestic and the acquisition of Indian Automobile companies by global majors and the success of Indian firms in the generics markets have been for the last few years”.

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