

RESEARCH ARTICLE **GST 2.0: A New Gear for Accelerating the Indian Automobile Sector****Abhishek Srivastava***

*Research Scholar, Department of Commerce, University of Lucknow, Lucknow, India.

Abstract:

This paper analyses the transformative impact of India's GST 2.0 framework, effective September 22, 2025, which marked a historic departure from the complex, high-tax structure of the 2017 regime. Previously, the Indian automobile sector was burdened by a multi-tiered tax system where cumulative levies, including compensation cess, reached as high as 50%, often stifling demand and distorting market dynamics. The 2025 policy intervention sought to dismantle these barriers by rationalizing rates into a simplified dual-slab structure: a reduced 18% rate for mass-market vehicles and a flat 40% for luxury models, while retaining critical fiscal concessions for Electric Vehicles (EVs). Drawing on a synthesis of industry commentary and quantitative sales data from the immediate post-implementation window (September to December 2025), this study examines the immediate economic fallout of the policy shift. The analysis highlights three primary outcomes: significant consumer-facing price corrections, a rapid surge in booking volumes, and a structural shift in consumer sentiment. Most notably, the data reveals a distinct revival of the small-car segment, which had previously stagnated under the high-tax burden. This paper argues that the GST 2.0 framework has not only simplified compliance but has successfully reinvigorated the automotive market by restoring affordability to the entry-level segment.

Keywords: GST 2.0, Indian Automobile Sector, Goods and Services Tax Reform, Vehicle Taxation Policy and Automotive Industry India

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1. Introduction

For nearly a decade, the Indian automobile industry—a critical sector contributing roughly 7% to the national GDP—operated under a GST 1.0 regime. This structure was widely criticized for stifling demand, particularly in the price-sensitive entry-level segment, due to a prohibitive effective tax burden ranging from 29% to 50% (28% GST + a fluctuating Compensation Cess of 1–22%). The implementation of GST 2.0 on September 22, 2025, marked a decisive pivot aimed at rationalizing this complex framework. By simplifying tax slabs to primarily 5%, 18%, and 40% and removing the separate cess structure for many goods, the reform seeks to democratize mobility. The key impacts include a reduced effective tax burden for small cars and two-wheelers to spur demand in the mass market, while in the luxury segment, the application of a transparent, consolidated 40% flat rate will maintain revenue neutrality. To appreciate the scale of the September 2025 reforms, it is essential to contrast the new fiscal architecture with the complexities of the 2017 regime. The pre-2025 structure was characterized by a high base rate (28%) compounded by a multi-tiered 'Compensation Cess' that varied arbitrarily by engine capacity and vehicle length 'GST 2.0' dismantles this cascading structure, replacing variable cesses with a rationalized dual-slab system. Table 1 provides a comparative snapshot of this tax incidence, highlighting the direct fiscal relief extended to specific vehicle categories.

Table 1: OLD VS NEW GST STRUCTURE FOR DIFFERENT CATEGORIES

Vehicle Category	GST 1.0 (Old Regime)	GST 2.0 (New Regime)	Net Impact
Small Cars (<1200cc, <4m)	28% GST + 1% Cess = 29%	18% Flat	-11% (Major Relief)
Diesel Compacts (<1500cc, <4m)	28% GST + 3% Cess = 31%	18% Flat	-13% (Major Relief)
Mid-sized / Hybrids (>4m)	28% GST + 15% Cess = 43%	40% Flat	-3% (Moderate Relief)
SUVs / Luxury (>1500cc)	28% GST + 22% Cess = 50%	40% Flat	-10% (Significant)
Two-Wheelers (<350cc)	28% GST	18% Flat	-10% (Demand Booster)
Electric Vehicles (EVs)	5% GST	5% GST	No Change (Policy Continuity)

Commercial Vehicles	28% GST	18% Flat	-10% (Logistics Boost)
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Source: Compiled by Author

As illustrated in Table 1, the transition to GST 2.0 offers three distinct structural corrections to the automotive market:

1. Democratization of Mobility (Mass Market Relief):

The most profound impact is observed in the small car and two-wheeler segments, where the tax burden has been slashed by 10% to 13%. By reclassifying these vehicles from the 28% 'luxury' bracket to the 18% 'standard' bracket, the policy acknowledges them as essential utilities rather than luxury assets.

2. Rationalization of the Ceiling (SUV & Luxury):

While luxury vehicles continue to attract a higher tax, the shift from a cumulative 50% (GST + Cess) to a flat 40% represents a significant relief. More importantly, it removes the volatility of the 'Compensation Cess,' providing long-term pricing stability for manufacturers.

3. Logistics & Green Continuity:

The policy maintains the concessional 5% rate for EVs, ensuring that the green transition is not derailed, while simultaneously reducing the tax on Commercial Vehicles (CVs) to 18%, a move aimed at lowering logistics costs for the broader economy.

2. Research Methodology

i. Data sources:

Public company monthly sales bulletins, major media reports and research summaries.

ii. Time window:

Sept–Dec 2025 (immediate post-GST 2.0 period). The study compiles observed sales, booking figures, and reported price cuts to infer market impact.

2.1 Data Analysis and Interpretation

2.1.1 Sector-Specific Economic Impact

The implementation of GST 2.0 has not applied a uniform stimulus across the board; rather, it has recalibrated the market structure by addressing specific pain points in different vehicle categories. The following analysis details the immediate fallout across four critical sub-sectors.

2.1.2 The Renaissance of the Entry-Level Segment (A & B)

The A (mini/micro) and B (compact) segments have historically been the volume drivers of the Indian auto industry. However, between 2020 and 2024, these segments faced a sharp contraction due to rising input costs and regulatory compliance prices. GST 2.0 has effectively triggered a renaissance in this space.

- **Taxation & Pricing Mechanics:**

The shift from a prohibitive multi-tiered tax structure (28% GST + Cess, totaling ~29-31% for small cars) to a flat 18% slab is the most significant fiscal intervention in this segment's history. This 11-percentage-point reduction has translated directly into ex-showroom price cuts ranging from ₹40,000 to ₹85,000. For a price-sensitive consumer base where the average transaction price is often below ₹7-8 lakhs, this reduction represents a massive improvement in affordability.

- **Consumer Behavior & Elasticity:**

The entry-level segment exhibits high **price elasticity of demand**—meaning even small changes in price lead to disproportionately large changes in demand.

Data from the fourth quarter of 2025 validates this economic theory, showing a 15–20% surge in bookings for marquee models like the Maruti Alto and Tata Tiago. This surge signals a decisive reversal of the 5-year declining trend (2020–2024), bringing first-time buyers back into the market.

2.1.3 Rationalization of the Luxury Segment

While the mass market benefited from rate cuts, the luxury segment benefited from

structural simplification. The removal of the fluctuating Compensation Cess in favor of a consolidated tax rate has fundamentally altered the business environment for premium manufacturers.

- **The No-Cess Regime:**

Previously, luxury vehicles attracted the highest GST slab (28%) plus a complex Compensation Cess that could elevate the total burden to 50%. GST 2.0 caps this at a **flat 40%**. While the effective tax relief for many SUVs is roughly **10%**, the primary benefit is the elimination of regulatory volatility.

- **Investor Sentiment:**

This transparency has improved long-term planning and investor sentiment for global OEMs such as Mercedes-Benz and Audi. The predictability of a no-cess regime encourages the localization of assembly lines, as manufacturers no longer fear sudden cess hikes.

- **Policy Philosophy:**

The cap at 40% (down from the previous 50% peak) marks a tacit admission by the government that larger vehicles are not exclusively equivalent to sin goods in terms of tax structure. This shift acknowledges the functional necessity of SUVs for larger families and usage in rugged terrains, moving away from purely punitive taxation.

Table 2: PERCENTAGE GROWTH OF TOP 5 CARS SOLD IN SEPTEMBER 2025

Rank	Models	Sep-25	Aug-25	Sep-24	MoM (%)	YoY (%)
1	Tata Nexon	22,573	14,004	11,470	61	97
2	Maruti Dzire	20,038	16,509	10,853	21	85
3	Hyundai Creta (including Creta N Line)	18,861	15,924	15,902	18	19
4	Mahindra Scorpio (Scorpio Classic + Scorpio)	18,372	9,840	14,438	87	27

5	Tata Punch (including Punch EV)	15,891	10,704	13,711	48	16
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Source: Compiled by Author

The sales performance of the top five models in September 2025 provides irrefutable quantitative evidence of the market's sensitivity to the new tax regime. As detailed in Table 2, the immediate implementation of the lower tax rates on September 22 triggered a disproportionate surge in volume, decoupling current performance from historical trends. The most aggressive growth was observed in vehicles falling under the new 18% 'Mass Market' slab. Tata Nexon and Tata Punch recorded Month-on-Month (MoM) growth of 61% and 48% respectively. Maruti Dzire, a proxy for the price-sensitive entry-level sedan segment, registered a staggering 85% Year-on-Year (YoY) growth. These figures validate the hypothesis that the sub 4m segment was artificially suppressed by the previous 29-30% tax burden. The immediate price correction effect is visible in the MoM jump, where buyers likely postponed August purchases to capitalize on the September notification, releasing pent-up demand in a single window.

2.1.4 The Cess Removal Effect on Large SUVs (Mahindra Scorpio)

Despite falling into the higher 40% slab, the model posted the highest MoM growth at **87%**. This confirms that the removal of the variable Compensation Cess—which previously pushed effective taxes on such SUVs to nearly 50%—was viewed by consumers as a significant discount. The reduction from ~50% (Old Regime) to a flat 40% (GST 2.0) triggered a massive unlocking of hold-out orders, proving that even the Luxury segment benefited from the rationalization of the tax structure.

2.1.5 Deviation from Seasonality

Typically, the August-to-September transition reflects modest growth (5-10%) as dealers stock up for the festive season. However, growth rates of 20% to 87% (MoM) are statistical outliers that cannot be attributed to festive stocking alone. The uniformity of this surge across diverse manufacturers (Tata, Maruti, Hyundai, Mahindra) isolates GST 2.0 as the single common variable driving this systemic recovery.

TABLE 3: PERCENTAGE GROWTH OF TOP 3 COMPANIES FOR OCTOBER 2025

Manufacturer	October Sales	YoY Growth (%)
Maruti Suzuki	2,38,991	17.4
Tata	73,879	12.7
Mahindra	67,442	9.58

Source: Compiled by Author

2.1.6 Two-Wheelers: A Critical Correction

Perhaps the most socially impactful reform is the correction in the two-wheeler segment, which sustains the mobility needs of India's vast middle and lower-middle class.

- **Addressing the Anomaly:**

Under the previous regime, a 100cc commuter motorcycle was taxed at 28%—the same base rate as a luxury sedan. GST 2.0 has rectified this inequity by reducing the rate for motorcycles under 350cc to **18%**.

- **Rural Relief:**

Two-wheelers are a utility, not a luxury, especially in rural India where public transport is often sparse. This tax reduction acts as a direct stimulus to the rural economy, freeing up disposable income and making personal mobility accessible to millions who were previously priced out.

2.1.7 Commercial Vehicles & Logistics

The impact of GST 2.0 extends beyond personal transport into the backbone of the economy: logistics.

- **Supply-Side Stimulus:**

Trucks and buses have been moved to the 18% slab. This reduction serves as a supply-side stimulus by lowering the Capital Expenditure (CapEx) required for logistics companies to upgrade or expand their fleets.

- **Macroeconomic Ripple Effects:**

Theoretically, lower CapEx for fleet operators reduces the cost of operations. In a competitive market, these savings are eventually passed down, leading to reduced freight costs. Since freight is a component of almost every good sold in the country, this reduction acts as a deflationary force, potentially easing broader inflation metrics.

3. Findings

3.1 Company & Segment Evidence

The immediate aftermath of the GST 2.0 implementation on September 22, 2025, triggered a definitive V-shaped recovery in consumer sentiment. The market reaction was characterized not just by a gradual uptick, but by an aggressive release of pent-up demand, particularly in the entry-level hatchback and commuter two-wheeler segments. The price corrections were instant and visible. With the tax burden on small cars (<4m length, <1200cc petrol) dropping from ~29% (28% GST + Cess) to a flat 18%, on-road prices for popular mass-market models fell by ₹45,000 to ₹70,000 overnight. This reduction bridged the affordability gap for first-time buyers who had been priced out of the market since the regulatory price hikes of 2020–2023. Conversely, while the luxury segment saw a nominal headline rate increase to 40%, the removal of the variable compensation cess (which previously pushed effective tax up to 50%) stabilized pricing, preventing the feared demand collapse in the premium SUV category. The most striking data point, however, was the booking velocity. Dealership footfall in the last week of September 2025 surged by over 60% compared to the previous month. This momentum carried heavily into October, resulting in record-breaking festive season dispatches.

TABLE 4: SELECTED COMPANY METRICS

Company	Observed metric	Effects
Maruti Suzuki	4 lakh bookings in 4 weeks (small-car surge); small cars share ↑ to 22.2% from 16.7%	Large booking spike for entry models; price cuts reported up to ₹1.3 lakh on some models.
Tata Motors	Reported record monthly PV sales 60,907 (Sept 2025) and	Strong month influenced by rate cut for small cars.
Hyundai Motor India	Sep 2025: total 70,347 units; Creta monthly sales 18,861 (all-time high)	SUV sales strong; export growth also noted.
Mercedes-Benz India	Best ever Sep sales; +36% YoY	Luxury segment also recorded strong demand after reforms.
Industry (aggregate)	Passenger vehicle sales surged in Dec 2025 to record highs (year data)	Analysts attribute part of the surge to GST 2.0 driven affordability.

Source: Compiled by Author

4. Conclusion

The implementation of GST 2.0 represents a pivotal maturation in India's fiscal approach to the automobile sector, moving from a revenue-extractive model to a growth-enabling framework. By formally decoupling mass mobility from luxury taxation, the government has addressed a long-standing structural flaw of the 2017 regime. For nearly a decade, the indiscriminate 28% bracket (plus cess) on sub-4-meter vehicles artificially inflated the cost of ownership, depressing the price elasticity of demand for India's price-sensitive middle class. The correction to a 18% standard rate for mass-market models effectively acknowledges that a personal vehicle in post-pandemic India is a utility, not a luxury. This philosophical shift has had an immediate multiplier effect; by surrendering a portion of the tax margin per unit, the exchequer has catalyzed a volume expansion that is projected to offset the rate cut within three fiscal quarters.

4.1 Outlook and Industry Projections

The market response to GST 2.0 has extended beyond immediate price corrections into sustained volume expansion. Continuing with this upsurge, key players such as Maruti Suzuki, Mahindra & Mahindra, and Toyota Kirloskar Motor have reported robust growth figures exceeding 20% Year-on-Year (YoY). Industry consensus suggests this momentum is structural; Partho Banerjee, Head of Sales & Marketing at Maruti Suzuki, projects that the tailwind of these reforms will continue to play out in 2026. Supported by this policy stability, the sector is anticipated to clock a growth of 6% to 7%, marking a return to healthy, long-term expansion.

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