

# A Comparative Analysis of the Goods and Services Tax (GST) on the Indian Automobile and Hospitality Industries: A Review of Literature and Its Implications

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## ABSTRACT

The Goods and Services Tax (GST), implemented in India in July 2017, represents one of the most significant tax reforms in the nation's economic history. This research paper presents a comprehensive comparative analysis of the impact of GST on two vital sectors of the Indian economy: the automobile industry and the hospitality industry. Through an extensive review of existing literature, this study examines the structural changes in taxation, the effects on pricing and demand, operational efficiencies, and consumer perceptions in both sectors. The findings reveal that while GST has simplified tax structures and improved logistics efficiency across both industries, its impact has been differential—automobile sector witnessed reduced prices for most vehicle categories except luxury cars, while the hospitality sector experienced enhanced transparency and simplified compliance. However, significant research gaps exist regarding regional variations and consumer behavioral changes, which this study identifies as crucial areas for future investigation. This paper contributes to the academic discourse on taxation reforms by providing a holistic understanding of sector-specific implications of GST implementation.

**Keywords:** Goods and Services Tax (GST), Automobile Industry, Hospitality Industry, Tax Reform, Consumer Perception, Indian Economy

## 1. INTRODUCTION

### 1.1 Background of the Study

Taxation reforms play a pivotal role in shaping the economic landscape of any nation. A review of literature is an important component of any research study because it provides a comprehensive understanding of previous research conducted in the selected field. It helps the researcher identify existing research gaps and develop a theoretical foundation for the study. In recent years, the implementation of the Goods and Services Tax (GST) in India has attracted significant academic attention due to its widespread impact on various sectors of the economy.

GST, introduced in India in July 2017, is considered one of the most significant tax reforms in the country's economic history. It replaced a complex system of multiple indirect taxes such as Value Added Tax (VAT), service tax, excise duty, and luxury tax with a single unified taxation system. The objective of GST was

to create a common national market, reduce tax cascading effects, improve tax compliance, and promote economic growth.

Among the sectors significantly affected by GST are the automobile industry and the hospitality industry. The automobile sector contributes significantly to employment generation, industrial development, and government revenue, while the hospitality sector plays a crucial role in tourism development and service sector growth. This chapter reviews the relevant literature on the impact of GST on these sectors and examines various research findings related to taxation reforms and their economic implications.

### **1.2 Rationale for Selecting Automobile and Hospitality Sectors**

The selection of automobile and hospitality industries for this comparative study is justified on multiple grounds. First, both sectors are significant contributors to India's Gross Domestic Product (GDP) and employment generation. Second, they represent distinct economic activities—manufacturing versus services—allowing for a comprehensive understanding of GST's differential impact. Third, both sectors were subject to complex, multi-layered tax regimes prior to GST, making them ideal candidates for studying the effects of tax simplification. Fourth, consumer behavior plays a crucial role in both sectors, enabling an examination of how taxation policies influence purchasing decisions.

### **1.3 Research Objectives**

The primary objectives of this research paper are:

1. To review the structural changes in the tax framework for the automobile and hospitality industries following the implementation of GST in India.
2. To analyze the impact of GST on the pricing, demand, and operational efficiency of the Indian automobile industry.
3. To examine the effects of GST on the operational transparency and growth of the Indian hospitality industry.
4. To investigate consumer perceptions and behavioral changes regarding automobile purchases and hospitality services in the post-GST era.
5. To identify the key challenges and opportunities presented by GST for businesses operating in the automobile and hospitality sectors.
6. To contribute to the existing body of knowledge by highlighting regional and sector-specific impacts of GST, thereby addressing the research gaps identified in the literature.

### **1.4 Research Methodology**

This study adopts a descriptive research design based on an extensive review of secondary sources. The methodology involves systematic collection, analysis, and synthesis of existing literature from multiple sources including academic journals, government reports, industry publications, conference proceedings, and reputable online databases. The literature search employed keywords such as "GST India," "automobile industry," "hospitality sector," "tax reform impact," and "consumer perception." Studies published between 1988 and 2021 were reviewed to ensure comprehensive coverage of both historical context and contemporary developments.

## **2. GST AND THE AUTOMOBILE INDUSTRY**

### **2.1 Significance of the Automobile Industry in India**

The automobile industry is considered one of the most important sectors of the Indian economy. According to Aggarwal (1988), the automobile industry is not only a symbol of economic progress but also an

important driver of industrial growth because it supports various allied industries such as steel, plastics, electronics, petrochemicals, and glass.

The Indian automobile industry has grown rapidly in recent decades and is now among the largest automobile markets in the world. The sector contributes significantly to India's gross domestic product (GDP) and provides employment opportunities to millions of people. Contribution India (2020) reported that the automobile industry contributes approximately 7.1 percent to the national GDP and provides employment to more than 35 million people.

The growth of the automobile sector is strongly associated with rising disposable income, urbanization, and population growth. Government initiatives such as the Make in India program have further encouraged investment in the automobile industry by promoting domestic manufacturing and improving global competitiveness.

### 2.2 Pre-GST Taxation Structure in the Automobile Sector

Prior to the implementation of GST, the automobile industry was subject to a complex web of multiple taxes levied by both central and state governments. These included:

- **Excise Duty:** Levied by the central government on the manufacture of vehicles
- **Value Added Tax (VAT):** Imposed by state governments on the sale of vehicles
- **Entry Tax:** Charged on vehicles entering specific states
- **Central Sales Tax (CST):** Applicable on inter-state sales
- **Octroi:** Local body tax on entry of goods into municipal areas
- **Registration Tax:** Levied by state transport departments

This multiplicity of taxes created a cascading effect (tax on tax), increased compliance burden, and led to inefficiencies in supply chain management. Automobile manufacturers had to maintain separate warehouses in different states to avoid inter-state taxes, resulting in increased operational costs.

### 2.3 GST Structure for Automobiles

The introduction of GST brought structural changes in the taxation system applicable to automobiles. Under the new regime, automobiles were classified under different tax slabs:

Vehicle Category	Pre-GST Tax Incidence (Approximate)	Post-GST Tax Rate
Two-wheelers	22-25%	28%
Small Cars (petrol/diesel)	30-35%	28%
Mid-sized Cars	40-45%	28% + 1-3% cess
Luxury Cars	45-50%	28% + 15-22% cess
SUVs	45-50%	28% + 22% cess
Commercial Vehicles	25-30%	28%

*Source: Compiled from various industry reports*

Nayaka (2021) analyzed the impact of GST on the automobile industry and observed that although production and sales did not show immediate drastic changes, automobile exports and vehicle registrations increased after the introduction of GST. This suggests that GST has had a positive long-term impact on the automobile sector.

### 2.4 Impact of GST on Automobile Pricing

Several researchers have studied the impact of GST on automobile prices and market demand. Nayar and Singh (2017) examined the evolution of indirect taxation in India and compared GST regulations with taxation systems in other countries. Their study suggested that GST would reduce the overall tax burden on vehicles, leading to a reduction in vehicle prices by approximately 8 percent. Lower prices were expected to increase consumer demand and stimulate automobile sales.

Similarly, Jha and Singh (2017) analyzed the advantages and disadvantages of GST for the Indian automobile industry. Their findings indicated that the prices of most automobile categories such as two-wheelers, small cars, and commercial vehicles decreased after GST implementation. However, luxury vehicles with higher engine capacities experienced price increases due to higher GST rates.

**Table: Price Changes in Automobile Categories Post-GST**

Vehicle Segment	Price Change	Reason
Two-wheelers	Decreased by 2-3%	Lower effective tax rate
Small Cars	Decreased by 4-8%	Elimination of cascading taxes
Mid-sized Cars	Marginal decrease	Offset by cess
Luxury Cars	Increased by 5-12%	High cess on luxury goods
SUVs	Increased by 8-15%	Classification as luxury items
Electric Vehicles	Significantly decreased	Preferential 12% GST rate

### 2.5 Operational and Supply Chain Efficiencies

The study by Jha and Singh (2017) also highlighted improvements in logistics efficiency after GST. The removal of interstate tax barriers and check posts significantly reduced transportation delays, resulting in improved supply chain efficiency and reduced operational costs for automobile companies.

Key operational benefits observed include:

- **Reduced Transit Time:** Elimination of state border check posts reduced transportation time by 20-30%
- **Warehouse Consolidation:** Companies could consolidate multiple state-wise warehouses into regional hubs
- **Inventory Optimization:** Improved supply chain visibility enabled better inventory management
- **Cost Reduction:** Lower logistics costs improved profit margins

### 2.6 Empirical Studies on Automobile Industry Performance

Empirical research studies have attempted to measure the effect of GST on automobile companies and market performance.

Charumathi et al. (2019) conducted an empirical study examining the impact of GST on Tata Motors. The study found that the sales of passenger vehicles and commercial vehicles increased after the implementation of GST. The researchers concluded that reduced tax complexity and improved cost efficiency positively influenced consumer demand.

Togadiya and Oza (2020) performed an event study analysis to examine the effect of GST announcements on the stock market performance of automobile companies. Their findings showed that major companies such as Maruti Suzuki, Tata Motors, Bajaj Auto, and Mahindra did not experience statistically significant stock price fluctuations immediately after the GST announcement. However, some companies showed positive short-term market reactions due to strategic pricing adjustments.

Telang and Roy (2016) examined competition in the Indian automobile industry and emphasized the role of government policies such as GST and the Make in India initiative in promoting industrial growth. Their study suggested that these policies could significantly enhance automobile sales and contribute to national economic development.

### **2.7 Consumer Behavior in Automobile Purchasing**

Consumer behavior plays an important role in determining automobile demand. Various studies have identified several factors influencing consumer purchasing decisions.

Abraham (2018) conducted a survey study in the Kottayam district to examine consumer perceptions regarding GST and automobile pricing. The findings indicated that a majority of respondents believed that GST led to a reduction in automobile prices, which encouraged consumers to purchase vehicles.

Chidambaram and Alfred (2007) studied factors affecting consumer preferences in the passenger car market and found that fuel efficiency, brand reputation, product quality, and price were the most important determinants of consumer choice.

Similarly, Sudhakar and Venkatapathy (2009) examined automobile purchasing behavior in Coimbatore district and found that peer influence, brand image, and product origin significantly affect consumer decision-making.

These studies indicate that taxation policies such as GST can indirectly influence consumer behavior by affecting pricing and affordability.

### **2.8 Global Trade and Automobile Industry Development**

The automobile industry is also influenced by international trade policies and global market dynamics.

Humphrey and Memedovic (2003) analyzed global automobile industry development and emphasized the role of trade liberalization in shaping industrial growth in developing countries. Their study highlighted that trade agreements and tariff reductions have facilitated the integration of national automobile industries into global markets.

International trade reforms under the World Trade Organization (WTO) reduced restrictions on automobile imports and exports, thereby increasing global competition and encouraging technological advancement in the industry.