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India Considers Lowering GST on Cars, SUVs, and Two-Wheelers

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The Indian government is considering reducing the Goods and Services Tax (GST) on cars, SUVs, and two-wheelers to stimulate consumer demand and support the automotive industry, according to officials and industry sources.

Industry bodies, including the Society of Indian Automobile Manufacturers (SIAM) and the Federation of Automobile Dealers Associations (FADA), have urged the government to lower GST rates on passenger vehicles and two-wheelers. Currently, cars and SUVs attract a 28% GST, while two-wheelers are taxed at the same rate. Representatives from both organizations argue that a reduction in GST would make vehicles more affordable, potentially boosting sales and helping the sector recover from the slowdown it has experienced over recent months.

Union Minister Nitin Gadkari has suggested that state finance ministers consider reducing GST on flex-fuel vehicles to 12% during the forthcoming GST Council meeting. The minister emphasised the dual benefits of promoting biofuels while reducing reliance on imported fossil fuels. Gadkari also highlighted that aligning taxation with environmental goals could accelerate the adoption of cleaner and more sustainable mobility options.

The GST Council, which consists of representatives from all Indian states and union territories, is responsible for setting and revising GST rates. While the Council has previously reduced taxes on select goods to stimulate consumption, changes to GST on automobiles require consensus among all members. Analysts suggest that any reduction could take effect in the months following approval, depending on the Council's deliberations and state-level agreements.

Industry stakeholders welcomed the proposal, describing it as a positive step toward reviving vehicle sales. They note that a reduction in GST could directly lower vehicle prices, making it easier for middle-class buyers to consider new purchases. In addition, the move could have a ripple effect across ancillary sectors, including auto parts manufacturing, logistics, and retail services, contributing to broader economic growth.

However, experts caution that while lowering GST rates may offer short-term relief to buyers and manufacturers, it will not resolve underlying structural challenges in the sector. Issues such as rising input costs, supply chain constraints, and evolving consumer preferences remain critical. Long-term recovery will require complementary measures, including incentives for electric and hybrid vehicles, investment in domestic manufacturing, and infrastructure development for mobility solutions.

The government's consideration of GST adjustments comes at a time when the Indian automotive market is seeking stimulus to sustain growth and maintain employment levels across the sector. Policymakers are expected to weigh the potential revenue impact against the benefits of enhanced consumer demand. Observers also note that any reduction in GST could improve India's competitiveness in the region, particularly in comparison to neighbouring markets with lower vehicle taxes.

In conclusion, the potential reduction of GST on cars, SUVs, and two-wheelers reflects a proactive policy approach to supporting India's automotive industry. By lowering the tax burden, the government aims to increase vehicle affordability, stimulate sales, and promote sustainable transportation. The final decision by the GST Council will be closely watched by manufacturers, dealers, and consumers alike, as it could shape the market trajectory for the remainder of 2025 and beyond.