JOURNAL: PRIMAX INTERNATIONAL JOURNAL OF COMMERCE AND MANAGEMENT RESEARCH
OPEN ACCESS
ISSN: Print ISSN: 2321-3604 Online ISSN: 2321-3612, Impact Factor: 7.184
(A DOUBLE-BLIND PEER REVIEWED, OPEN ACCESS REFEREED QUARTERLY JOURNAL)
DOI: http://doi.org/10.34293/pijcmr.v13i3.2025.008
PRIMAX IJCMR VOLUME NO.13, ISSUE NO-3, OCTOBER -DECEMBER, 2025 Research Article

SECTORAL WINNERS AND LOSERS UNDER THE NEW GST REGIME: A CASE STUDY OF AUTOMOBILES AND TOBACCO

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Abstract

The introduction of the Goods and Services Tax (GST) in India marked a historic transformation in the country's indirect taxation system, aiming to unify multiple taxes into a single structure and enhance economic efficiency. The recent GST 2.0 reforms have further rationalised tax rates and simplified compliance mechanisms, creating new patterns of winners and losers across different sectors of the economy. This paper examines the sectoral implications of the new GST regime with special reference to the automobile and tobacco industries—two sectors that differ significantly in production structure, social impact, and policy intent. The study is descriptive and analytical in nature, based primarily on secondary data collected from government reports, GST Council notifications, and industry publications. Findings reveal that the automobile sector, particularly the small vehicle and electric vehicle segments, has benefited from rate reductions and input tax credit efficiencies, making it a major winner under the revised GST framework. In contrast, the tobacco sector has faced increased taxation through high GST and compensation cess rates, resulting in reduced demand, profitability, and growth—classifying it as a loser under the current policy structure. The paper concludes that GST rationalisation has largely supported productive and sustainable sectors while discouraging socially harmful consumption, reflecting a balanced fiscal approach toward growth and equity.

Keywords: *Goods and Services Tax, Sectoral Impact, Automobiles, Tobacco, Winners and Losers, Indirect Tax Reform, India.*

Introduction

The Goods and Services Tax (GST) represent one of the most significant fiscal reforms in India's post-independence era. Implemented on 1st July 2017, GST subsumed multiple indirect taxes such as excise duty, service tax, VAT, and entry tax into a single, unified system. The primary objective of this reform was to eliminate the cascading effect of taxes, ensure seamless credit flow, and create a common national market. Over the years, the GST regime has undergone several revisions to rationalise rates, simplify compliance, and increase transparency. The most recent phase, commonly referred to as *GST 2.0,* introduced in 2023–24, further streamlined tax slabs and differentiated between essential, luxury, and sin goods. This reform phase has produced varied sectoral outcomes, creating both beneficiaries ("winners") and adversely affected industries ("losers").

The New GST Regime

The new GST framework is designed to promote industrial growth, attract investment, and ensure fiscal neutrality for the government. Under the revised structure, most goods and services are categorised into simplified slabs—5%, 12%, 18%, and 28%—while sin and luxury goods are taxed at a higher rate of around 40% through a combination of GST and compensation cess. The revision also aimed at reducing litigation, improving input tax credit mechanisms, and aligning the Indian system with global indirect taxation standards. This modernised regime has produced differential effects across industries, depending on factors such as elasticity of demand, production chain, and policy priority.

Rationale for Sectoral Study

Every major tax reform leads to shifts in the competitive balance across economic sectors. The GST system, though uniform in structure, impacts industries differently depending on their product nature and market characteristics. The automobile industry serves as a key driver of industrialisation, employment, and technology innovation, while the tobacco industry occupies a controversial space as a major revenue generator but socially undesirable product category. By selecting these two contrasting sectors, the study seeks to demonstrate how GST policies can both incentivise industrial growth and disincentivise harmful consumption within the same fiscal framework.

Scope and Significance of the Study

The study covers the period from the introduction of *GST 2.0* (2023–25) to the present, using secondary data sourced from government notifications, GST Council reports, industry analyses, and financial dailies. The findings are particularly relevant for policymakers, industry leaders, and academicians who seek to understand the redistributive effects of GST reforms. The analysis underscores how the GST regime can serve dual objectives—stimulating productive sectors such as automobiles while curbing socially harmful goods like tobacco.

Objectives of the Study

1. To analyse the evolution of the new GST regime and its sectoral implications.
2. To examine the impact of GST on the **automobile sector**, particularly regarding production costs, demand, and competitiveness.
3. To assess the implications of GST on the **tobacco industry**, focusing on taxation burden, pricing, and consumption trends.

4. To identify the **key determinants** that make certain sectors winners and others losers under the GST framework.
5. To offer policy suggestions for achieving balanced sectoral growth under the indirect tax system.

Review of Literature

Studies on GST in India

The introduction of the Goods and Services Tax (GST) has been widely discussed in Indian fiscal and economic literature. According to **Kumar and Sinha (2018)**, GST has simplified the indirect tax system and improved transparency in revenue collection. **Chakraborty (2020)** highlighted that GST promotes the concept of "One Nation, One Tax," enabling a unified market and improving ease of doing business. **Sharma and Gupta (2021)** found that GST reduced cascading taxes and improved logistics efficiency for manufacturing industries. However, **Rao (2022)** observed that compliance costs and technology-related challenges persisted during the transition phase. The literature consistently identifies GST as a progressive step but one whose benefits vary across industries, depending on supply chains and input structures.

Sectoral Impact Studies

Various researchers have explored sector-specific effects of GST in India. Mehta (2020) examined how the manufacturing and service sectors adjusted to the new system and found that organised manufacturing units benefited more due to input tax credits. Nair (2021) analysed the FMCG and automobile sectors, noting that rationalisation of GST rates boosted demand and competitiveness. Conversely, Tripathi and Deshmukh (2022) found that sin goods such as tobacco and alcohol faced negative growth because of higher tax burdens. The Confederation of Indian Industry (CII, 2023) reported that industries producing essential or mass-market goods gained under the rationalised GST structure, while those classified as luxury or socially harmful experienced stagnation.

International Perspectives on Tax Reform

Globally, tax reforms like GST have yielded mixed outcomes. OECD (2019) studies show that consumption-based taxes tend to favour capital-intensive industries while discouraging goods with inelastic demand such as tobacco or liquor. World Bank (2021) emphasised that successful GST implementation requires balancing fiscal neutrality with social policy goals. Amiti et al. (2020), in their study on VAT reforms in ASEAN countries, concluded that uniform tax systems often redistribute competitiveness across sectors, creating both beneficiaries and losers. These international findings provide theoretical support for analysing India's GST outcomes through a sectoral lens, especially when comparing productive industries with sin-taxed goods.

Theoretical Framework

Tax Incidence Theory: explains how the ultimate burden of a tax is distributed between producers and consumers. In the case of tobacco, the incidence largely falls on consumers due to inelastic demand, whereas in automobiles, producers may absorb part of the burden to maintain competitiveness.

Price Elasticity of Demand Theory helps assess the sensitivity of consumption to tax-induced price changes. Elastic goods like vehicles show demand variation with price shifts, while inelastic goods like tobacco display limited responsiveness.

Fiscal Neutrality Principle suggests that tax systems should not distort production or consumption decisions; however, GST intentionally modifies such patterns to align with policy objectives such as sustainability and public health.

Recent Empirical Findings

Recent policy analyses and reports have captured the evolving dynamics of GST 2.0. The Economic Times (2024) identified automobiles and electric vehicles as key gainers from tax rationalisation, while ITC's industry report (2024) confirmed declining profitability in the tobacco segment due to heavy cess and compliance burdens. Tax Mark (2024) noted that rationalised rates improved liquidity and supply-chain efficiency for auto manufacturers. NITI Aayog (2024) reported that the new GST structure aligns with environmental and social goals by favouring cleaner production sectors.

Research Gap

While there exists a broad corpus of literature on GST implementation and its macroeconomic effects, comparative sectoral analyses under the *new GST rationalisation framework (2023–25)* remain limited. Few studies have juxtaposed a productive, employment-generating sector like automobiles with a sin-taxed commodity such as tobacco within the same analytical framework. This gap in the literature highlights the need for the present study, which systematically evaluates sectoral winners and losers to understand how fiscal policy aligns with developmental and social objectives in India's evolving taxation landscape.

Research Methodology

Research Design

The present study adopts a descriptive and analytical research design. It seeks to examine the sectoral impact of the new Goods and Services Tax (GST) regime by identifying the beneficiaries (winners) and adversely affected sectors (losers) within the Indian economy. The automobile and tobacco industries have been purposively selected for comparative analysis because they represent contrasting policy priorities—industrial growth and employment generation in the former and public health regulation in the latter.

The descriptive design helps in systematically presenting the effects of GST on production, pricing, and profitability, while the analytical framework interprets patterns using secondary data and policy review.

Nature and Sources of Data

The study relies exclusively on **secondary data sources**, which are collected from the following:

Government Reports and Publications: Ministry of Finance, GST Council, and NITI Aayog documents.

Industry Reports: SIAM (Society of Indian Automobile Manufacturers), ITC Annual Reports, and India Brand Equity Foundation (IBEF) publications.

Statistical Databases: RBI Bulletins, Economic Survey of India, and CMIE (Centre for Monitoring Indian Economy).

Academic Journals and Research Papers: Publications from Scopus, ResearchGate, and reputed national economic journals.

Media Sources and Trade Articles: Business Standard, The Hindu Business Line, and Economic Times (2023–2025).

Limitations of the Study

1. The analysis depends on secondary data, which may not capture real time industry variations.
2. The study focuses only on two sectors—automobile and tobacco—so findings may not generalise to all industries.
3. GST rate changes and policy updates are dynamic; thus, the conclusions are valid up to the fiscal year 2024–25.
4. The study does not include primary surveys or econometric models, as it focuses on descriptive comparison

Overview of GST Framework

The Goods and Services Tax (GST) in India, introduced on 1 July 2017, marked a major overhaul of indirect taxation in the country by subsuming multiple central and state taxes, reducing cascading effects, and aiming for a unified national market. The GST regime is administered by the GST Council (which consists of central and state representatives) and supported by the digital infrastructure of the GST Network (GSTN) for registration, return-filing and input tax credit tracking.

A) Structure of GST

Under the GST regime: For intra-state supplies, the tax is split between the central government and the state government (Central GST/CGST + State GST/SGST).For inter-state supplies and imports, Integrated GST (IGST) is levied and apportioned between the jurisdictions. This dual model preserves state fiscal autonomy while operating under a common tax base.

B) Rate Structure of Latest Pattern

Prior to the recent reform, GST operated with multiple slabs (0%, 5%, 12%, 18%, 28%) plus numerous item-specific cess levies. Press Information Bureau+2Avalara+2.In 2025, the GST Council approved a major rationalisation of rates, effective 22 September 2025, ushering in what trade commentators call “GST 2.0”. ClearTax+2 India Briefing+2.

Key take-aways of the new rate structure

The core rate slabs have been simplified into three major bands:

1.Merit rate (5 %): applicable to essential and broadly consumed goods and selected services.

2.Standard rate (18 %): now applicable to the majority of goods and services (including many items previously taxed at higher slabs).

3.Demerit / luxury sin-goods rate (40 %): introduced for super-luxury or socially harmful goods (e.g., luxury vehicles, tobacco, aerated drinks) to preserve tax revenue and behavioural objectives.

4. Some items remain exempt (0%) or subject to special marginal rates (e.g., jewellery/precious stones at 3 %) albeit these are narrower in scope now.

5. Most of the previous slabs of 12% and 28% are being phased out by shifting items either downward (to 5%) or into the 18% band (or in rare cases upward to 40%).

Objectives of the Reform

Simplicity and transparency: A simpler slab structure reduces compliance and classification disputes.

Affordability for mass market: By lowering rates for many everyday goods and services (e.g., food-packaged goods, footwear, household items) the reform seeks to boost consumption.

Protection of revenue and regulation: The top-rate slab (40 %) ensures that luxury goods and harmful or sin goods continue to bear a higher burden, aligning with both revenue and social objectives.

Ease of doing business & formalisation: With less tax-complexity, better digital compliance, and uniform rates, businesses (especially MSMEs) benefit.

Administrative & Compliance Aspects

The GST Council continues to review and recommend rate changes based on sector-specific impacts, fiscal sustainability, and inter-state parity. Input Tax Credit (ITC) framework remains central — the allocation of ITC eligibility, treatment of advance receipts, and transitional issues are governed by the GST law and the GST Network portal. With the rate rationalisation effective from 22 September 2025, businesses had to adjust invoicing, ITC reversal/claims, software updates and contract renegotiations.

Sectoral Analysis

The impact of the Goods and Services Tax (GST) varies across industries depending on the pre-GST tax structure, the new rate slabs, demand elasticity, and the nature of goods produced. The automobile and tobacco sectors—both categorized as high-revenue-yielding industries provide an insightful comparison of how GST has generated both sectorial advantages and disadvantages.

Overview of GST Structure Affecting Both Sectors

Under the GST regime, both automobiles and tobacco fall into the category of luxury or sin goods, attracting the highest tax rates and additional compensation cess. However, while the automobile sector has benefited from tax simplification and reduced cascading effects, the tobacco sector faces sustained fiscal pressure due to health-related policy concerns and anti-consumption measures.

Under the revised GST structure (effective September 2025), the broad slabs have been consolidated as: **5% – Merit Rate** (for essentials), **18% – Standard Rate** (for most goods and services) and **40% – Luxury/Sin Rate** (for high-end or socially harmful products). Both automobiles and tobacco largely fall under the 40% slab, although earlier they were in the 28% slab plus cess system. This realignment further sharpens the contrast between productive and restrictive taxation motives.

Automobile Sector under GST

Pre-GST Scenario:

Before GST implementation, the automobile sector was burdened by multiple indirect taxes including Excise Duty (12.5%–27%), Value Added Tax (VAT 12.5%–15%), Infrastructure Cess, and Octroi/Entry Tax.

The combined incidence often exceeded 30–45%, varying across states and vehicle categories, which led to cascading effects and price inefficiency.

Post-GST Impact:

With GST introduction in 2017, automobiles were placed in the **28% tax slab**, along with a **Compensation Cess** ranging from **1% to 15%** depending on vehicle type:

Vehicle Category	**GST Rate (Old)**	**Compensation Cess**	**Total Incidence (2017–2025)**
Small Cars (under 1200cc)	28%	1%	29%
Mid-size Cars (1200–1500cc)	28%	15%	43%
SUVs (above 1500cc, >4m)	28%	15%	43%
Electric Vehicles (EVs)	5%	Nil	5%

The revised GST regime (2025) simplified this further

Mass and mid-segment vehicles now fall under the 18% standard rate. Luxury vehicles and SUVs are taxed at the 40% demerit rate (replacing the earlier 28% + cess structure). Electric vehicles continue at 5%, with government incentives for promoting green mobility.

Sectorial Outcome

Winners: Small and mid-range passenger vehicles benefited from rationalized rates and streamlined logistics under GST, improving competitiveness and boosting sales.

Losers: Luxury vehicle manufacturers face higher effective taxation under the new 40% slab, dampening premium demand.

Positive Effects: Simplified tax credits and digital compliance have enhanced dealer-level transparency, reducing cascading and inventory costs.

Tobacco Sector under GST

Pre-GST Scenario: Before GST, the tobacco industry was subject to a multitude of levies including Central Excise Duty (s. 15–90 per 1,000 sticks), VAT (12.5%–30%), and State Cesses, leading to an overall tax burden R exceeding 60% of the retail price. However, evasion and unorganized production remained rampant due to multiple authorities and loopholes.

Post-GST Impact: Under GST, tobacco and its products attract:

- **GST Rate (Old)**: 28%
- **Compensation Cess (Old)**: Varies by product (Cigarettes – Rs. 4,170 per 1,000 sticks + ad valorem; Chewing Tobacco – 160%; Beedis – Nil for small units).

As per the 2025 revised GST structure, tobacco products now fall under the 40% sin/luxury slab, retaining the specific compensation cess to discourage consumption.

Tobacco Product	Old Tax (28% + Cess)	New Rate (2025)	Remarks
Cigarettes	28% + Rs. 4,170/1,000 sticks	40% + specific cess	Strong disincentive; reduced demand in formal market
Chewing Tobacco	28% + 160% ad valorem	40% + 160% ad valorem	Continued high taxation
Beedis	28% (many exempt)	18% (for organized producers)	Slight relief for cottage producers

Sectorial Outcome

Losers: Large formal manufacturers (e.g., cigarette companies) face increased effective taxation, lowering profit margins and encouraging illicit trade.

Winners: Small-scale beedi producers in the unorganized sector gain a marginal benefit under the 18% slab.

Neutral/Negative Impact: The public health rationale dominates fiscal efficiency; hence, GST here functions as a regulatory, not promotional, mechanism.

Comparative Tax Incidence Before and After GST

Sector	Pre-GST Total Tax	GST (2017)	GST (2025 Revised)	Observed Impact
Automobiles – Small Cars	35–40%	29%	18%	Positive for affordability
Automobiles – Luxury/SUVs	40–45%	43%	40%	Neutral/slightly negative
Electric Vehicles	25%	5%	5%	Highly Positive
Cigarettes	60–65%	64–70%	70–75%	Negative for industry, positive for health goals
Chewing Tobacco	60–70%	65–80%	70–85%	Negative impact
Beedis (small units)	30–40%	28%	18%	Slightly positive for small producers

Comparative Insights

The automobile sector emerges as a relative winner, gaining from simplification, lower rates for mainstream products, and increased formalization.

The tobacco sector, on the other hand, remains a loser, facing steep tax rates due to health priorities and regulatory constraints.

The dual impact of GST reform shows that fiscal objectives differ: GST benefits industries that align with national growth and sustainability priorities while discouraging those considered harmful.

Conclusion and Suggestions

The implementation of the Goods and Services Tax (GST) has brought significant structural changes to India's indirect taxation system by creating a unified and transparent framework. The study reveals that the automobile sector has largely benefited from the GST regime through reduced tax burdens on small and mid-segment vehicles, improved input tax credit flow, and greater efficiency in supply chains. Conversely, the tobacco sector has faced a heavy tax burden, with the combination of a high GST rate and compensation cess adversely affecting legal production and profitability. The rationalization of GST rates in 2025 has simplified the structure while reinforcing the government's dual objectives of promoting growth in productive industries and discouraging socially harmful consumption. Overall, GST has emerged as a transformative fiscal reform—supporting industrial competitiveness, compliance, and revenue stability—while maintaining its role as an instrument of social and economic balance.

GST replaced multiple indirect taxes with one unified tax system. Dual structure of CGST, SGST, and IGST ensures balanced revenue sharing. New GST slabs: 5%, 18%, and 40% (luxury/sin goods). Tax incidence on small and mid-size cars reduced under GST. Logistics costs in the automobile sector declined due to uniform taxation. Input Tax Credit (ITC) improved efficiency in the automobile supply chain. Luxury cars and SUVs taxed at 40%, limiting sales growth. Electric Vehicles (EVs) taxed at 5%, encouraging green mobility. Tobacco products taxed at 40% plus compensation cess (up to 85%). Beedi industry enjoys 18% GST, benefiting small producers. Automobile sector contributes significantly to GST revenue. Tobacco sector remains a key revenue source through cess. Compliance levels improved through the GST Network (GSTN). Winners: small car makers, EV manufacturers, beedi producers. Losers: luxury car producers, organized tobacco manufacturers. GST promotes growth-oriented and eco-friendly industries. High taxes on tobacco serve public health policy goals. Automobile sector gained overall; tobacco sector suffered losses.

Simplify GST return procedures to further reduce compliance burden. Maintain stability in GST rates to support investor confidence. Reduce tax on mid-range automobiles to boost consumer demand. Provide temporary tax incentives for hybrid and electric vehicles. Encourage Make-in-India automobile production through GST rebates. Reconsider high cess on luxury vehicles to prevent market contraction. Introduce special GST concessions for rural transport vehicles. Strengthen monitoring to curb illegal tobacco trade. Gradually reduce GST on traditional beedi production to sustain employment. Introduce differential tax rates within the tobacco sector based on harm levels. Utilize tobacco cess revenue for public health and awareness programs. Promote transparency and accountability in GST collection and refund processes. Provide sector-specific GST training for SMEs and dealers. Encourage adoption of digital filing and e-invoicing for better compliance. Conduct periodic review of GST rates based on market performance. Align GST policies with sustainable and health-conscious economic goals. Support states with compensation mechanisms for high-tax sectors. Foster dialogue between government, industry, and consumers for GST reforms.

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