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A Comprehensive Analysis of Corporate Tax Norms in the Indian Automobile Manufacturing Sector

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ABSTRACT

This research dives deep into the intricacies of corporate tax policy for India's auto industry. It examines how regulations, economic forces, and industry specifics all play a role in shaping tax structures. Through a multifaceted approach, the study sheds light on how these tax norms are formed and adapted within the dynamic auto sector. This analysis aims to identify areas for improvement in the current tax structure, evaluate existing incentives, and ultimately provide policymakers with insights to create a robust and globally competitive Indian auto industry. Stakeholders, policymakers, tax professionals, and anyone interested in the link between taxation and industrial growth in the automotive sector will all find value in this comprehensive analysis. By employing qualitative methodologies, this study seeks to provide a comprehensive understanding of how corporate tax norms are generated and adapted within the dynamic landscape of India's automotive sector.

Keywords: *Corporate tax norms; Automobile manufacturing; India; Corporate tax regulatory frameworks; Economic dynamics; Corporate taxation structure.*

1.0 Introduction

India has one of the biggest automotive industries globally, producing a substantial amount of passenger cars, two-wheelers, and commercial vehicles. Due to factors including growing urbanisation, rising disposable income, and growing demand for mobility solutions, the sector has enormous growth potential.

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The Indian automobile industry's growth is driven by strong government support, infrastructure, and enabling factors, making it a key economic driver and global value chain participant (Miglani, 2019). However, the industry's performance hinges on a conducive business environment, with a well-structured tax system playing a critical role.

1.1 Background of study

A critical factor influencing the growth of India's vital automobile manufacturing sector, which contributes significantly to employment, infrastructure, and technology, is its corporate tax framework. India's corporate sector is highly taxed, but its tax system allows many companies to manage their tax function to pay little or no taxes on their incomes (Gupta, 1981).This analysis comprehensively examines the current tax structure, including rates, deductions, and industry-specific incentives, to assess their impact on investment decisions, research & development, production costs, competitiveness, and vehicle pricing. By evaluating the interplay between taxes and the sector, this analysis aims to identify areas for improvement, assess existing incentives, and provide insights for policymakers to create a tax policy that fosters a robust and globally competitive Indian automobile industry, benefiting stakeholders, policymakers, tax professionals, and anyone interested in the relationship between taxation and industrial growth.

1.2 Research objective

- To assess the process, considerations and competitiveness of Corporate tax norms in India.
- To evaluate the impact of current corporate taxation structure on the Automobile manufacturing sector in India.
- To formulate recommendations for a tax policy that fosters a robust and globally competitive automobile industry in India.

2.0 Literature Review

The existing literature provides a valuable foundation for understanding the complexities of corporate tax norms in India. By building on this knowledge base and exploring emerging areas of research, policymakers can create a tax framework that optimizes revenue generation, fosters economic growth, and positions India as a globally competitive investment destination.

Das (2022) investigates the complexities of India's tax structure. The author argues that despite a clear division of tax authority between union and state governments

under federal system, the system suffers from a multitude of tax types, leading to inefficiency. This complexity is further compounded by cumbersome compliance regulations and weaknesses in tax administration. The research examines the historical evolution of India's tax system across various periods, including pre-independence and recent reforms. Mr. Das references Bird (1983) to highlight how fiscal crises can act as a catalyst for tax reform. However, the author argues that such reforms are often reactive and focus on short-term revenue generation rather than long-term systemic improvements.

Titarchuk (2022) examines the importance of sound institutional foundations for government tax policy, especially during difficult times. The article explores core principles for effective tax design and argues for utilizing international experience. This includes trends like digitalized tax administration, stricter controls on non-resident and corporate income, and measures to combat tax avoidance and increase transparency. The research also explores tax incentives for research and development, emphasizing tax stability during extraordinary events. In post-war recovery, Titarchuk argues that tax policy should focus on stimulating employment, particularly for young people, to achieve sustainable development goals. The article further highlights the need to address informal economies and promote tax compliance. It explores ways to improve the financial strength of local communities through more efficient local taxes and fees, proposing stronger property taxes as one approach. Finally, Titarchuk emphasizes the importance of a tax risk management system to optimize costs and ensure the overall effectiveness of the tax system.

Hentschel (2021) establishes a foundation for effective international corporate taxation by outlining six key principles: equity, neutrality, efficiency, certainty and simplicity, effectiveness and fairness, and flexibility. These principles serve as a theoretical framework for evaluating proposed reforms, particularly those focused on the permanent establishment (PE) concept and the arm's length principle. The article goes on to explain how each principle specifically contributes to analyzing and improving international corporate tax regulations.

Il'yasov (2021) proposes a conceptual framework for corporate tax policy, aiming to create a unified theoretical foundation for future research. This framework would allow for integrating various micro-level tax policy instruments. The paper delves into tax policy development from the perspective of individual companies, analyzing the effectiveness of different tax policies on these entities and considering the impact of the corporate tax burden on their behavior.

Sankarganesh & Shanmugam (2021) examined the relationship between corporate income tax structure and investment pattern in Indian manufacturing firms from 2005 to 2019. Their research identified a negative correlation, suggesting that higher taxes led to

decreased investment. This effect was particularly strong for private firms and during economic downturns. Interestingly, the impact of taxes on Indian firms appeared weaker compared to other countries. Based on these findings, the study calls for tax policies that incentivize investment in Indian manufacturing.

Kaur & Rani (2021) investigate the growth of corporate tax in India, highlighting its significance as the largest contributor to the government's direct tax revenue. The study analyzes trends over an 18-year period (2001-2018) using data from official sources. The rise in corporate tax income, the size of the corporate tax base (the total number of taxpayers), and the correlation between corporate tax and GDP in India are all examined by the researcher. Additionally, they examine corporate tax buoyancy, a metric that gauges how sensitive corporation tax income is to variations in GDP. This study offers insightful information about the dynamics of business taxation in India.

Lamantia & Pezzino (2021) challenge traditional views on tax compliance by introducing social norms into an evolutionary model. They contend that social connections and the potential consequences of being caught have an impact on tax decisions in addition to fines and audit risks. According to their research, social norms have a big influence on people's long-term tax behaviour. As a result, changes that encourage societal awareness and information sharing about tax requirements should be given top priority by politicians as they may produce better outcomes than pricy conventional auditing techniques. The writers also stress the importance of properly customising sound fiscal and auditing policies to the unique social and economic circumstances of each nation. This approach suggests that fostering a culture of tax compliance through social norms can be a more sustainable and successful strategy than solely relying on punitive measures.

This introduction to tax policy theory by Christians (2018) dives into the concept of taxation, looking beyond the technical and legal aspects to explore its political, social, and cultural dimensions. It argues that tax policy reflects a society's core values, and examines why we tax (focusing on state-building, management, and expansion) and how we should tax (considering principles of fairness, efficiency, and administrative practicality). Ultimately, it aims to provide a framework for analyzing current practices and considering their potential for improvement.

Agarwal & Chakraborty (2018) challenge the traditional view of corporate tax incidence in India. Using a general equilibrium framework and analyzing data from publicly traded companies (2000-2015), they found that capital, rather than labor, bears a larger share of the corporate income tax burden. This contradicts the Harberger hypothesis, which suggests corporations can fully transfer this tax to workers via lower wages. Their findings align with existing research on the incidence of corporate tax in India,

highlighting a unique dynamic where capital owners shoulder a significant portion of the tax burden.

Nainwal (2015) examines the evolution and current complexities of India's tax system. The book traces significant structural changes since independence, highlighting its role in mobilizing resources for government functions and achieving socio-economic goals. Despite its success, the system has grappled with a heavy reliance on indirect taxes and widespread tax evasion. Since 1991, reforms have focused on simplifying both direct and indirect taxes, while lowering tax rates and reducing exemptions. This shift towards international practices aims to improve efficiency and encourage voluntary compliance. The ultimate goal is a fully integrated Goods and Services Tax (GST) for a more streamlined indirect tax structure.

The study by Reddy & George (2013) examines corporate taxes in India. They highlight that corporate taxes are the biggest contributor to direct taxes, which in turn make up over half of India's total tax revenue since the year 2007. The authors track the historical development of corporate tax structure and analyse its growth trends. Their data shows a significant rise in the proportion of corporate income tax to GDP (Gross Domestic Product), indicating that corporate tax collection has grown faster than the economy itself. This growth is attributed to the increasing importance of the corporate sector and the relative ease of administering corporate tax compared to other forms of direct tax. Despite criticisms, the study concludes that corporate tax has become a critical source of revenue for the Indian government.

The research by Suresh & Khan (2011) investigates corporate income tax in India following economic reforms. They argue that corporate income tax is a crucial source of government revenue, and its contribution has grown significantly in recent years. The study finds that corporate income tax collection grew considerably after India's economic liberalization, and this tax revenue is responsive to economic growth and inflation. Interestingly, there seems to be an inverse relationship between corporate income tax collection and broad money supply.

Nurnberg (2009) tackles the debate around how corporate income tax should be categorized. Is it an expense, a loss, simply distributed income, or something else entirely? This disagreement stems from differing views on how companies are accounted for. Despite pronouncements calling it an expense, the controversy persists, and financial reports don't classify it as such. The paper argues that under a specific accounting theory (fused entity theory), corporate income tax is indeed an expense, albeit with unique characteristics. The author delves deeper into the conceptual nature of corporate income tax in the rest of the paper.

The research by Wenzel (2004) focuses on how social norms influence tax compliance. While previous studies explored the impact of individual ethics, the findings on social norms (how taxpayers perceive others' ethics) have been mixed. Wenzel proposes a more nuanced approach based on self-categorization theory. This theory suggests that social norms only influence behavior if taxpayers identify with the group those norms come from. The study uses data from a survey in Australia to test this theory. The findings support the idea that social norms only matter when taxpayers feel connected to the group promoting those norms.

Lewis (1984) analyzes tax policy in developing economies. The book focuses on open economies, emphasizing the real cost of subsidizing industries through tax breaks. It explores various tax types used in developing countries and equips readers with problem-solving skills through practice exercises included throughout the book. The book targets courses in development economics.

Alt (1983) argues that traditional explanations for how tax structures evolve are incomplete. While efficiency and special interests play a role, the author argues that the administrative and compliance costs of different taxes are a key factor. This framework can be used to understand long-term trends in taxation, such as the increase in government revenue and the shift towards direct taxes. It can also be applied to analyze how political decisions and uncertainties about who ultimately bears the burden of taxes influence tax structures. The author concludes that considering both economic and political factors is essential for improving our understanding of tax systems.

Vaid (1972) examines India's tax policy through the lens of the country's constitution. The author argues that Indian tax policy is designed to achieve the social and economic goals outlined in the constitution, such as justice, equality, and reducing wealth concentration. The Directive Principles of State Policy emphasize the government's responsibility to promote social welfare and prevent excessive wealth accumulation. Vaid suggests that tax policy serves as a tool to achieve these objectives.

2.1 Research gaps

Several areas within the explored topic of corporate tax norms and the Indian automobile sector remain open for further investigation. Here's a breakdown of these potential research gaps:

- Existing research overlooks historical tax policy in India's auto sector, hindering a complete understanding of current tax structures and their effects.
- Despite compliance hurdles, a study of successful tax strategies in Indian auto firms could enhance overall compliance and potentially simplify regulations.

- A closer look is needed to determine if R&D tax incentives in India's auto industry truly drive innovation and enhance competitiveness.
- While stability in tax policy is recognized, a deeper understanding is needed on how it impacts long-term investments, economic growth, and the Indian auto industry's sustainability, which would inform future tax reforms.

3.0 Research Methodology

Using secondary data, this study uses a mixed-methods technique to perform a thorough examination of corporation tax laws in the Indian auto industry. The study design integrates both qualitative and quantitative components to offer a comprehensive perspective of the tax environment. The main process of data gathering methods is the extraction of pertinent data from publically accessible sources, including industry publications, government reports, and scholarly literatures. Descriptive analysis and thematic analysis are two methods of data analysis that are used to look at the sector's corporate taxation regulations, trends, and patterns. The study attempts to provide detailed insights into the intricacies of corporate tax laws and their effects on the Indian auto sector through the use of this analytical framework.

4.0 Analysis and Discussion

4.1 Corporate tax norms in the Indian automobile manufacturing sector

Corporate taxation significantly influences the dynamics of every industry, including the Indian automobile manufacturing sector, which stands as a major pillar of the nation's economy. Corporation tax in India has grown significantly as a key source of revenue due to the increasing significance of the corporate sector and its impersonal nature (Reddy & George, 2013).Operating within a dynamic regulatory framework shaped by national tax laws, governmental policies, and global economic trends, the sector's stakeholders must grasp the corporate tax norms governing it, including manufacturers, investors, policymakers, and tax authorities. This introduction paves the way for an in-depth exploration of corporate tax norms in the Indian automobile manufacturing sector, covering its overview, significance, and growth trajectory. Furthermore, it will scrutinize the regulatory environment concerning corporate taxation, followed by an examination of prevalent taxation practices through case studies of leading automobile companies. Through this analysis, insights into strategic tax planning and compliance challenges will be provided, aiming to empower stakeholders with the requisite knowledge to navigate tax complexities effectively, optimize tax liabilities, and foster sustainable growth and competitiveness within this crucial industry.

4.1.1 Overview of the automobile manufacturing industry

With a substantial impact on employment and the GDP of the nation, the vehicle manufacturing sector in India is among the biggest in the world. Since the liberalisation of policies in 1991, the Indian automobile sector has grown significantly and now contributes significantly to the country's GDP. The Society of Indian vehicle Manufacturers (SIAM) https://www.siam.in/ states that the country's economy benefits greatly from the vehicle sector in India. In 2022–2023, the sector employed over 40 million people both directly and indirectly and added more than 7.7% to the GDP. It includes a wide range of operations, such as the production of automobile components and two- and three-wheelers as well as passenger and commercial vehicles.

The sector is characterized by both domestic and multinational companies operating across various segments, each competing in a dynamic and evolving market. Key players include Tata Motors, Maruti Suzuki, Mahindra & Mahindra, Hyundai, and Honda, among others. The industry's growth is driven by factors such as rising disposable incomes, urbanization, infrastructure development, and government initiatives to promote manufacturing and innovation. The Indian automobile industry has a promising future, with liberalization and removal of restrictive trade policies leading to increased exports and improved domestic consumption (Kanchan, 2016).

The Indian automobile market is dominated by two-wheelers, which account for 76% of the market share, while passenger cars hold a 17.4% share. Small and midsized automobiles account for the majority of passenger car sales. In 2022–2023 the total number of autos exported was 47,61,487, with two-wheelers making up around 77% of the total. According to a report by investindia.com (2024), during the period of April 2021 to March 2022, there was a positive growth of 42.9% in passenger vehicle exports, commercial vehicle exports, three-wheeler exports, and two-wheeler exports. The passenger vehicle exports increased from 404,397 to 577,875 units, while the commercial vehicle exports increased from 50,334 to 92,297 units (Data Source: https://www.siam.in).

4.1.2 Regulatory environment for corporate taxation for Indian automobile sector

India's corporate tax framework for the automobile industry is a complex web. The foundation lies in the Income Tax Act of 1961, which outlines how companies are taxed. Annual adjustments to rates and exemptions occur through the Finance Act. The Central Board of Direct Taxes (CBDT) under the Ministry of Finance oversees administration and issues detailed guidelines. Specific regulations within the auto sector govern depreciation allowances, R&D tax breaks, and transfer pricing for related-party transactions. Further complicating matters, the 2017 Goods and Services Tax (GST)

streamlined various taxes into one system, significantly impacting tax planning and compliance for automakers.

State governments further influence corporate taxation through levies such as entry taxes and local body taxes, adding complexity for companies operating across multiple states. Given the dynamic nature of tax regulations driven by economic priorities and administrative reforms, companies in the Indian automobile manufacturing sector must remain vigilant, engaging in proactive tax planning and compliance efforts. Collaborating with tax advisors, compliance experts, and industry associations becomes paramount in navigating the regulatory intricacies and mitigating tax-related risks effectively. The effective corporate tax rate in India negatively impacts investment decisions, with higher impact on private firms and during pre-economic crises, and increasing with age and size of firms (Sankarganesh & Shanmugam, 2021). Let's have a discussion on the taxation structure and effective tax rates applicable to the corporates working under the Automobile sector in India, as under;

4.2 Designing India's corporate tax framework

India's corporate tax system is a vital tool for economic growth and government revenue. Crafting this system requires a delicate balance. Framing a corporate tax structure in India is a complex process that requires careful consideration of various factors. Here's a simplified breakdown of the procedure and key considerations.

4.2.1 Process to building a balanced tax system

- *Understanding the objective:* Building a strong corporate tax structure in India requires careful planning. This involves defining clear objectives. Are the goals to boost specific industries, increase government revenue, or strike a balance between the two?
- *Tax rate setting:* Once the goals are set, tax rates come into play. This includes determining the base corporate tax rate and potentially creating slabs with varying rates for different company sizes or sectors. Here, factors like international competitiveness and attracting foreign investment need to be considered.
- *Deductions and exemptions:* The structure also needs to account for deductions and exemptions. This involves identifying allowable deductions for business expenses, like depreciation, and potential exemptions for specific industries or income types. The key here is to balance tax revenue generation with promoting desirable business activities.

- *Surcharges and cesses:* Additional charges may also be part of the structure. This could include surcharges on higher profits and cess earmarked for specific purposes.
- *Implementation and review:* Finally, the structure needs to be clearly defined through legislation and official notifications. Regular reviews and updates based on economic conditions and achievement of set goals are crucial for maintaining an effective system.

4.2.2 Key considerations for India's corporate tax framework

Beyond the procedural steps, several key considerations are essential for shaping India's corporate tax landscape. The structure should incentivize business growth and investment, while maintaining competitiveness in the global market. This ensures a healthy balance between economic growth and fiscal responsibility, allowing the government to collect sufficient revenue to fund public services.

Another important aspect is the ease of doing business. A complex tax structure can discourage investment. Therefore, aiming for simplicity and clarity is critical. Additionally, India's tax system needs to be aligned with international practices and relevant double taxation treaties to avoid unnecessary burdens on businesses operating across borders.

Finally, the structure should cater to the needs of specific sectors. Targeted tax breaks or deductions might be necessary to promote development in crucial areas like infrastructure and renewable energy. Lastly, the tax administration system should be efficient with minimal loopholes to ensure smooth tax collection.

4.2.3 Impact of corporate tax norms on Indian automobile sector

India's corporate tax structure offers a mixed bag for the auto industry. Reduced tax rates can boost production and attract foreign investment, but the focus on production might neglect crucial areas like R&D, hindering long-term competitiveness. Corporate tax in India's manufacturing sector significantly reduces wages and profit, with capital owners bearing 96.3% of the tax burden and labor bearing only 3.7%, affecting both wages and profits (Karuppiah & Shanmugam, 2022). GST implementation has led to a significant increase in automobile registrations and exports, but no significant changes in production, sales, or FDI inflows (Nayaka, 2021).

Automation could negate job creation benefits from increased production. Key considerations moving forward include: designing tax breaks to incentivize R&D and attract innovative players, and combining tax breaks with investments in infrastructure

development and workforce skilling for future technologies. This holistic approach can create a robust auto industry ecosystem that fuels growth and innovation.

4.2.4 A comparative analysis: India’s corporate tax vs. the global landscape

The effectiveness of a corporate tax structure depends heavily on how it stacks up against global trends. Here’s a deep dive into how India’s framework compares to the international landscape.

- *Tax rates:* India boasts a competitive base corporate tax rate compared to developed nations. This is a major draw for businesses. However, the advantage is lessened by additional surcharges and cesses that push the effective tax rate closer to the global average. On the other hand, the global landscape itself is quite diverse. Developed economies tend to have higher base rates to generate revenue, while developing economies like India use lower rates to attract investment.
- *Deductions and exemptions:* India offers various deductions for business expenses and exemptions for specific industries or startups. This can be beneficial for targeted sectors, but it also adds complexity to the tax code. Globally, the approach to deductions and exemptions varies. Some countries offer broader deductions to incentivize overall business activity, while others target specific sectors or activities to encourage desired economic development.
- *Ease of doing business:* While India has made progress in simplifying the tax code, it’s still perceived as more complex compared to some developed economies. This can be a hurdle for businesses navigating the system. Globally, countries with simpler and more transparent tax structures are generally considered more business-friendly, attracting investment and fostering economic activity.

4.3 Corporate tax structure

A corporate is an organisation with a distinct legal identity from its stockholders. As per the provisions of the Income-tax Act, 1961 both domestic and international businesses are required to pay corporate taxes. A foreign corporation is only taxed on income gained within India, that is, income accumulated or received within India, but a local company is taxed on its universal income.

The following categories of companies can be used to calculate taxes under the Income Tax Act:

- *Domestic company:* A domestic company in India encompasses two categories: those registered under the Companies Act, 2013 of India and foreign companies with

complete control and management based within India. This classification applies to both private and public companies.

- *Foreign company:* In contrast to a domestic company, a foreign company refers to an entity not registered under the Companies Act, 2013 of India. Crucially, its control and management must be situated outside of India. This distinction applies regardless of whether the company is private or public.

4.3.1 The rates of income tax applicable to company for FY 2023-24 (AY 2024-25)

For domestic company: Income-tax rates applicable in case of domestic companies are given in Table 1.

Table 1: Income Tax Rates Applicable in Case of Domestic Companies

Turnover Criteria	Tax Rates
If the total revenue or turnover for the preceding financial year 2021–22 does not exceeds Rs. 400 crore.	25%
Any other domestic company	30%

Source: www.incometax.gov.in

Surcharge: The amount of income-tax shall be increased by an amount of surcharge at the specified rate of such tax (Table 2). Provided, the surcharge shall be subject to marginal relief.

Table 2: Surcharge

Income Range	Rs. 1 Crore to Rs.10 Crore	Above Rs. 10 Crore
Rate of Sucharge	7%	12%

Source: www.incometax.gov.in

Health and Education Cess: The health and education cess, which is computed at the rate of 4% of the applicable income tax and surcharge, would further raise the amount of income tax and the applicable surcharge.

Special rates tax applicable to a domestic company: In addition to the above, some special Income-tax rates applicable in case of domestic companies are given in Table 3.

Surcharge: Regardless of the total amount of income, a firm that chooses to be taxable under Section 115BAA or Section 115BAB will be subject to a flat 10% surcharge.

Table 3: Special Rates Tax Applicable to a Domestic Company

Domestic Company	Rate of Tax
Where the Company opted for section 115BA	25%
Where the Company opted for Section 115BAA	22%
Where the Company opted for Section 115BAB	15%

Source: www.incometax.gov.in

Health and education cess: The health and education cess, which is computed at the rate of 4% of the applicable income tax and surcharge, would further raise the amount of income tax and the applicable surcharge.

MAT: Every domestic company who has opted for special corporate taxation regime under Section 115BAA & 115BAB is exempted from provision of MAT. However, no exemption is available in case where section 115BA has been opted for.

In such case, the provisions of Minimum Alternate Tax (MAT) applies, and the tax payable cannot be less than 15% (+HEC) of "Book profit" computed as per section 115JB. However, MAT (Minimum Alternate Tax) is levied at the rate of 9% (plus surcharge and cess as applicable) in case of a company, being a unit of an International Financial Services Centre and deriving its income solely in convertible foreign exchange.

Foreign Company: The income tax rates applicable for foreign companies are given in Table 4.

Table 4: Income Tax Rates for Foreign Companies

Nature of Income	Rates of Tax
Fees for providing technical services in accordance with an agreement made after February 29, 1964 but before April 1, 1976, where said agreement has, in either case, been approved by the Central Government, or royalties received from the government or an Indian concern in accordance with an agreement made with the Indian concern after March 31, 1961, but before April 1, 1976	**50%**
Any other income	**40%**

Source: www.incometax.gov.in

Surcharge: The amount of income-tax shall be added by a surcharge at the specified rate percentage of such income tax (Table 5).

Table 5: Surcharge

Income Range	Rs. 1 Crore to Rs.10 Crore	Above Rs. 10 Crore
Rate of Surcharge	2%	5%

Source: www.incometax.gov.in

However, the surcharge shall be subject to marginal relief.

Amount of health and education cess: The amount of income-tax and the applicable surcharge, shall be further added by health and education cess calculated at the rate of 4 percent of such income-tax and surcharge amount.

4.3.2 Indirect taxes

- *Goods and Services Tax (GST):* The implementation of GST has brought about a significant shift in the indirect taxation structure for the automobile industry. GST, a comprehensive tax on the supply of goods and services, is levied at various rates on different segments of the automotive sector (Table 6).

Table 6: GST Rates for Automobiles

Vehicle Type	GST Rate
Passenger Vehicles	28
Commercial Vehicles	12% to 28%
Three Wheelers	28%
Two Wheelers	28% for engine capacity less than 350 cc, 31% for engine capacity more than 350 cc
Electric Vehicle	5%

Source: www. https://cbic-gst.gov.in/gst-goods-services-rates.html

Table 7: Rates of Customs Duty Applicable to Automobile Sector

Criteria / Applicability	Rate of Import Duty (%)
Import of Used Cars	125
Cars and CBUs whose CIF value is more than $ 40,000 or Petrol Engine > 3000 CC or Diesel engine > 2500 CC.	100
Cars and CBUs whose CIF value is less than $ 40,000 and Petrol Engine < 3000 CC and Diesel engine < 2500 CC.	70
For the Two-wheeler CBUs	50
For the Commercial Vehicle CBUs (Trucks & Buses)	40
For CKD containing engine or gearbox or transmission mechanism in pre-assembled form but not mounted on a chassis or a body assembly (Passenger Vehicles)	35
For the CKD containing engine or gearbox or transmission mechanism in pre-assembled form but not mounted on a chassis or a body assembly (Two-wheelers)	25
For the CKD containing engine or gearbox or transmission mechanism in pre-assembled form but not mounted on a chassis or a body assembly (Commercial Vehicles)	25
For the CKD containing engine, gearbox and transmission mechanism not in a pre-assembled condition	15

Source: https://www.cbic.gov.in/entities/customs

- *Customs Duty:* Customs duty is imposed on the import of vehicles and automotive components. The rates are applicable according to the government policies and trade agreements. Table 7 shows the import duty applicable to imports in automobile sector in India;

4.3.3 The impact of corporate structure on Indian automobile sector

India's current corporate tax structure presents a double-edged sword for the auto manufacturing sector. While reduced tax rates can incentivize increased production and attract foreign investment, as reported by ICRA Limited, a credit rating agency [Source: Auto industry to benefit from corporate tax revision: ICRA - The Economic Times], the focus on production might neglect crucial areas like R&D. This could hinder long-term competitiveness in a rapidly innovating global market. Additionally, automation trends threaten to negate potential job creation from increased production. The effectiveness of specific incentive schemes like MSIPS is also under scrutiny due to their limited reach for new entrants and disruptive technologies. Higher income and lower tax on petrol and diesel negatively impact car sales in India, suggesting a need for regional orientation in government policy to revive the industry (Bhattacharyya *et al.*, 2021). To maximize positive impact, policymakers should consider targeted incentives for R&D, attracting innovative players, and workforce skilling. A holistic approach combining tax breaks with infrastructure development and skill development is crucial for building a robust auto industry ecosystem. By addressing these challenges and adopting a more strategic approach, India's corporate tax structure can become a stronger driver of growth and innovation in the auto manufacturing sector.

5.0 Key Findings on India's Auto Industry Tax Norms & Structure

My analysis of India's auto industry tax structure reveals a system with both positive and negative aspects. Here's a breakdown of the key findings:

- *Double-edged sword:* The current tax structure offers a set of incentives that act like a double-edged sword. On the positive side, reduced tax rates and exemptions provide a boost to production and foreign investment. This can lead to increased output from automakers, potentially making Indian-made vehicles more competitive in the global market. Additionally, these tax breaks can entice foreign companies to set up manufacturing facilities in India, bringing in valuable investment and technology transfer.

  However, the focus on production comes at a cost. The current structure might neglect critical areas like research and development (R&D). Without sufficient

investment in R&D, Indian automakers might struggle to develop new technologies and innovative vehicle designs. This could hinder their long-term competitiveness in the rapidly evolving global market, where cutting-edge technology is a key differentiator.

- *Focus shift needed:* Our analysis suggests that the current tax structure might be overemphasizing production. While increased production can have short-term benefits, a long-term focus solely on this aspect presents a significant risk. The global auto industry is constantly innovating, with new technologies like electric vehicles and autonomous driving gaining traction. If Indian automakers don't invest in R&D to keep pace with these advancements, they risk falling behind global competitors.
- *Automation threat:* Another concern highlighted by our study is the potential threat of automation. Increased production often leads to discussions about job creation. While some new jobs might be created in the short term, automation trends pose a significant challenge. Many manufacturing tasks can be automated, potentially negating any job creation benefits from increased production. The tax structure should consider measures to address this challenge, perhaps by encouraging investments in skilling the workforce for future technologies within the auto industry.

6.0 Fostering a Competitive Indian Auto Industry: Tax Policy Recommendations

The current tax policy for India's auto industry offers a double-edged sword. While reduced rates and exemptions encourage production and foreign investment, concerns linger. These include a limited impact on research and development (R&D), an unskilled workforce for future technologies, and the effectiveness of specific schemes like MSIPS. To address these issues and create a robust, globally competitive auto sector, several recommendations are worth considering.

- *Targeted incentives:* A shift in focus is needed, moving from just production to R&D spending. Tax breaks specifically designed to encourage research and development of new technologies, particularly for electric and alternative fuel vehicles, would be a significant step. Additionally, redesigning tax breaks to attract new players with disruptive technologies, rather than solely benefiting established players, could foster innovation.
- *A holistic approach:* Tax breaks alone won't build a robust ecosystem. Combining them with direct subsidies and infrastructure development is crucial. Investing in skill development programs is equally important to create a workforce equipped for future technologies like electric vehicles and automation.

- *Long-term vision:* Streamlining the tax code for ease of doing business will attract foreign investment. Additionally, implementing a stable and predictable tax regime will encourage long-term planning by manufacturers. Finally, considering the environmental impact by offering additional benefits for production of cleaner vehicles aligns with global trends.
- *Continuous evaluation:* Regularly monitoring the effectiveness of existing schemes like FAME-II and adjusting them as needed is essential. Conducting studies to assess the impact of tax incentives on R&D, job creation, and overall industry growth will provide valuable data for future policy decisions.
- *Global benchmarking:* Analyzing successful tax policies for the auto industry in leading automobile manufacturing countries can offer valuable insights. By adapting best practices from these countries to the Indian context, while considering factors like infrastructure and workforce development, India can create a tax policy that fosters innovation, attracts investment, and propels the auto industry towards global competitiveness.

By implementing these recommendations, India can craft a tax policy that fosters innovation, attracts investment, and positions the auto industry for global success.

7.0 Conclusions

India's auto industry tax system has both advantages and disadvantages. While lower tax rates and exemptions encourage manufacturing and attract foreign investment, a focus solely on production might neglect crucial areas like research and development (R&D). This could hurt India's ability to compete in the global market, which is constantly innovating. Additionally, automation could eliminate any new jobs created by increased production.

To address these challenges and make India's auto industry a global leader, a revised tax policy is needed. This policy should focus on giving tax breaks to companies that invest in developing new technologies and attract innovative new businesses to the industry. Additionally, a well-rounded approach that combines tax breaks with investments in infrastructure and training workers for future technologies like electric vehicles is essential. By constantly monitoring how well existing programs work and learning from successful tax policies in other leading auto-manufacturing countries, India can create a strong tax system that fuels innovation, attracts investment, and positions the auto industry for global success. This will ensure that the Indian auto industry evolves from a manufacturing giant to a leader in cutting-edge automotive technology.

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