

**Nikhil Dhaka, Vice President, Primus Partners**

**Published in** Money Control  
Aug 18, 2025 | 02:16 PM IST

## **GST on cars, two-wheelers: How are vehicles in different categories taxed? A deep dive**



**Authored by:** Varun Singh

**Read on:** [GST on cars, two-wheelers: How are vehicles in different categories taxed? A deep dive](#)

### **Article Content:**

The vehicle buyers could see [lower prices this Diwali](#), as the Union government is considering reducing the Goods and Services Tax (GST) on select cars and two-wheelers from the present 28% to 18%. The plan, which is a part of the Centre's larger tax structure rationalisation proposal, is expected to ease affordability concerns in the mass market.

Replacing multiple indirect taxes, India introduced GST in July 2017 with a unified tax structure across goods and services in four slabs – 5%, 12%, 18% and 28%. Under the new GST rationalisation proposal, the 5% and 18% slabs might be retained and the 12% and 28% slabs removed.

The move is likely to benefit small cars as well as the entry-level two-wheelers. However, the luxury models might be taxed under a new slab at 40%. Over and above GST, the government also imposes compensation cess on vehicles.

For reference, the ex-showroom price of any vehicle is inclusive of GST. A reduction in the tax will directly bring down the ex-showroom price, and thereby, the on-the-road price.

S&P Global Mobility Light Vehicle Production Forecasting Associate Director Gaurav Vangaal told *Moneycontrol* that although a GST reduction would theoretically benefit both original equipment manufacturers (OEMs) and buyers by lowering end-consumer prices and potentially boosting demand, the auto industry's experience over the past decade suggests caution.

"The sector has consistently been treated as a revenue-generating cash cow, and early signals point to offsetting measures, such as increased cess on small cars and vehicles over 4 metres in length, that could dilute the net benefit. Without clear implementation details, OEMs may struggle to recalibrate product strategies, and buyers may delay purchases awaiting clarity, leading to short-term sales disruption," he added.

Primus Partners Vice President Nikhil Dhaka said that the proposed GST cut on cars and two-wheelers can reset the affordability equation, with the move translating into savings of Rs 20,000 to Rs 25,000 on entry-level models.

Analysts at HSBC Global Investment Research said that GST reduction would negatively impact government revenues in the near term but drive up auto demand and hence job creation in India. While the passenger vehicle segment generates USD 14-15 billion in GST collection, the two-wheeler segment does USD 5 billion, they said.

Among the carmakers, Maruti Suzuki India is expected to be the major beneficiary of the GST structure overhaul as it has the largest portfolio of small cars, ranging from the Alto K10 to Celerio, WagonR, Swift, Baleno and Dzire. Hyundai Motor India and Tata Motors will also gain as both offer several sub-4 metre models.

When it comes to two-wheeler manufacturers, Hero MotoCorp, Honda Motorcycle & Scooter India, TVS Motor Company and Bajaj Auto stand to gain the most as they have a strong portfolio of commuter and executive commuter models.

Let us have a close look at the GST rates and compensation cess on different categories of vehicles in India.

### **Electric and Hydrogen Vehicles**

Battery-powered vehicles are subject to 5% GST, with no additional cess. For hydrogen fuel-cell models, the applicable GST is 12%, again without any cess. This places their total tax incidence at 5% and 12%, respectively.

### **Three-Wheelers**

All three-wheelers, regardless of fuel type, fall under 28% GST. As there is no cess on this category, the final rate remains 28%.

### **Two-Wheelers**

The two-wheelers with an engine capacity of up to 350cc are taxed at 28%, with no cess. Those above 350cc attract 28% GST plus a 3% cess, making the total levy 31%.

### **Passenger Cars (Non-Hybrid)**

This section with entry-level models is very important. While petrol, CNG and LPG cars up to 4 metres and 1,200cc engine capacity draw 28% GST plus 1% cess, leading to 29% total tax, diesel cars up to 4 metres with engines up to 1,500cc are charged 28% GST and 3% cess, totalling 31%. This category will benefit the most from the GST cut.

Now, cars with engines up to 1,500cc (irrespective of length) face 28% GST plus 17% cess, taking the rate to 45%. However, those with engines above 1,500cc are levied 28% GST plus 20% cess, which results in 48% total tax.

For SUVs exceeding 4 metres, with engines above 1,500cc and ground clearance of more than 170mm, GST is 28% and cess is 22%, resulting in a total tax of up to 50%.

### **Hybrid Cars**

For hybrids up to 4 metres in length and 1,200cc (petrol) or 1,500cc (diesel), there is 28% GST with no cess. Larger hybrids fall under 28% GST and 15% cess.

### **Public Transport and Commercial Vehicles**

The passenger vehicles with 10 to 13 seats are charged 28% GST plus 15% cess. Those with more than 13 seats and all commercial goods vehicles are taxed at 28%, with no cess applicable.

S&P Global Mobility's Vangaal said that entry-level models could see a demand uptick if the GST cut is

passed through without additional levies. "However, the lack of immediate government clarification, especially regarding small cars, poses a significant risk. In the absence of clear guidance, consumer uncertainty may persist, causing deferred purchases and a potential dip in sales over the next few months," he added.

"A GST cut is likely to benefit entry-level cars and two-wheelers the most, since these segments have been hit hardest by affordability issues. Lower taxes ease that pressure and could spark a rebound in first-time purchases, particularly among younger buyers and rural households," said Primus Partners' Dhaka, adding that past trends show that such tax reliefs can quickly lift demand.