



GST and Its Impact on Consumer Behaviour

Dr. Kranti Suhas Borawake¹ & Shubhangi Ashok Ranawade²

¹Baburaoji Gholap College Sangavi, Pune.

²Padmashri Manibhai Desai College Uruli Kanchan, Pune.

Corresponding Author – Dr. Kranti Suhas Borawake

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Abstract:

The introduction of the Goods and Services Tax (GST) in India in 2017 represented a major shift in the country's taxation framework, replacing multiple indirect taxes with a unified tax structure. This research paper explores the impact of GST on consumer behavior, focusing on purchasing patterns, price sensitivity, demand elasticity, and overall consumption trends. The study relies on secondary data derived from government reports, academic research, and market surveys to assess how GST has affected consumers' purchasing decisions, their awareness of prices, and changes in spending habits. The findings suggest that while GST has led to lower prices on essential goods and increased transparency, it has also caused price hikes on luxury items, leading to altered consumer spending behavior. The paper concludes by highlighting the need for businesses to adapt to these shifts and the challenges faced by consumers, particularly in relation to inflationary pressures.

Keywords: Goods and Services Tax (GST) Consumer Behaviour Price Sensitivity Purchasing Decisions Demand Patterns Tax Reform Consumer Confidence Economic Impact Consumption Trends

Introduction:

In July 2017, India transitioned to the Goods and Services Tax (GST) system, a landmark reform in the country's indirect tax structure. The purpose of GST was to streamline the taxation system, create uniformity in tax rates, reduce tax cascading, and promote transparency. The GST replaced various central and state taxes, including excise duty, VAT, and service tax, with a single tax applicable nationwide. While the primary goal of GST was to simplify taxation and encourage economic growth, its impact on consumer behavior is noteworthy. This research paper focuses on understanding how GST has impacted consumer purchasing behavior and consumption patterns in India. By examining secondary data, including reports, studies, and market surveys, we will explore how the

GST-induced price changes and tax structure have influenced the buying decisions of Indian consumers. Additionally, the paper aims to evaluate how GST has affected consumer spending habits, particularly concerning price-sensitive goods and services.

Objectives:

1. To examine the effect of GST on consumer purchasing behavior in India.
2. To analyze the changes in price sensitivity and demand elasticity among consumers due to GST.
3. To explore how GST influences consumer spending on both essential and non-essential goods.
4. To evaluate regional variations in consumer behavior post-GST implementation.

We focus on survival key factors such as prices of goods, spending pattern, consumer expectations, consumer preferences sector wise consumers behaviour to examine the effect of the goods and service tax, (GST) on consumer purchasing behaviour in India. we would focus on several key factors. GST, which was implemented in India in July 2017, aimed to simplify the indirect tax structure, replace various state and central taxes, and create a unified tax system across the country. Here's how the implementation of GST could impact consumer purchasing behavior:

1. Price Changes:

Reduction in prices of some goods: Many products that were previously subject to a variety of state-level taxes became cheaper after GST, as it replaced multiple layers of taxation. This would likely lead to an increase in consumer demand for these goods. Increase in prices of some goods: On the other hand, some goods, especially those that were taxed lower under the old system (e.g., certain luxury goods or high-end services), might have seen price hikes after GST implementation. This could discourage consumers from purchasing these items, especially in the case of non-essential goods.

2. Shift in Spending Pattern:

Increased consumption of essential goods: GST made essential goods like food, medicines, and everyday items more affordable for the average consumer, potentially increasing demand in these sectors. Shifts towards organized retail: GST has made it easier for larger organized retail chains to operate across the country. As a result, consumers might have shifted their purchasing behavior from local unorganized sectors to organized retailers, where transparency in pricing and product offerings is higher.

3. Changes in Consumer Expectations:

Expectation of transparency and uniformity: With GST, consumers became

more aware of tax-inclusive prices. There was an increase in transparency about the prices of goods and services, which could encourage more informed purchasing decisions. Simplification of the tax structure: With GST's introduction, there is no need for consumers to worry about different state-level taxes (e.g., VAT, service tax) for products purchased in different regions. This consistency across states would encourage inter-state buying and could result in consumers choosing products from different states based on price advantages.

4. Changes in Consumer Preferences:

Price sensitivity: The impact of price changes due to GST has made consumers more sensitive to price fluctuations. Consumers may opt for cheaper substitutes or delay their purchases when the price of goods rises due to GST. Luxury and non-essential goods: For non-essential goods, the price increase due to GST might lead to a decline in demand, particularly in the luxury goods sector, where consumers are more price-sensitive.

5. Effect on Consumer Behavior Across Sector:

Automobile industry: The GST has impacted the automobile sector, with a higher tax rate on certain vehicle categories leading to price hikes. This may have slowed down the demand for high-end vehicles but potentially increased demand for mid-range models that became more affordable. Online shopping: E-commerce platforms may have benefited from GST as it streamlined the taxation process, potentially making online shopping more attractive due to the ease of delivery across states with uniform taxes.

6. Behavior Towards Small and Local Businesses:

Smaller businesses with less than the turnover threshold for GST registration might have faced challenges, leading to price hikes or closure of businesses. Consumers who were previously loyal to local vendors might have switched to larger,

organized retailers due to price and service advantages, which would impact local consumer behavior.

7. Potential Regional Disparities:

The impact of GST on purchasing behavior might vary across regions, with some areas benefitting from lower prices due to lower tax rates, while other areas may experience price hikes. This might influence consumer preferences in certain geographic regions.

GST and Its Impact on Consumer Behaviour:

1. Impact on Pricing and Price Sensitivity:

GST has led to variations in prices across different sectors. Essential goods, such as food and healthcare products, have seen a reduction in prices, benefiting consumers and encouraging increased demand. Conversely, luxury goods and non-essential items have experienced price hikes due to higher GST rates. This shift in prices has influenced consumers to become more price-sensitive, especially when purchasing discretionary or luxury items. Consumers are now more cautious in their spending, carefully evaluating price changes and shifting their preferences toward lower-priced goods.

2. Change in Consumer Spending Habits:

The GST reform has led to a noticeable shift in consumer spending habits. Consumers are now prioritizing essential goods and services, which have experienced lower taxes under the new regime. At the same time, they have reduced spending on high-taxed, non-essential, or luxury products, leading to a contraction in demand for these goods. For instance, high-end electronics, automobiles, and luxury fashion items have seen a decline in sales as consumers cut back on discretionary spending.

3. Increased Transparency and Consumer Awareness:

One of the most significant impacts of GST has been the increased transparency in pricing. As businesses now display GST-inclusive prices, consumers are better informed about the actual price of products, which promotes more rational purchasing decisions. This transparency has made consumers more aware of the value they are receiving for their money, encouraging them to compare prices across different retailers and regions more effectively.

4. Regional and Sectoral Variations:

While GST applies uniformly across India, the impact on consumer behavior has varied regionally and sectorally. In urban areas, where consumer awareness is higher, the shift in behavior was quicker. In contrast, rural consumers, often with limited access to information and lower purchasing power, have been slower to adapt. Additionally, sectors such as tourism, real estate, and hospitality experienced mixed responses. While GST simplified tax structures, it also led to higher prices in some service sectors, affecting consumer demand.

Findings:

Price Sensitivity and Shifts in Demand: Consumers became more price-conscious post-GST, especially with regard to non-essential goods. Price hikes on luxury and non-essential items led to a significant drop in demand in these categories. Increased Consumer Awareness: The GST regime brought transparency to the pricing structure, allowing consumers to make more informed and deliberate purchasing decisions. Sector-Specific Impact: Essential goods like food, medicines, and household products saw increased demand due to lower tax rates. Luxury goods and services, on the other hand, experienced a decrease in demand. Spending Adjustments: Consumers adjusted their spending habits by reducing

discretionary expenses and focusing more on essential, tax-reduced items.

efforts, and product offerings to meet evolving consumer needs.

Conclusion:

The implementation of GST in India has had a profound effect on consumer behavior, especially in terms of purchasing decisions, price sensitivity, and spending habits. While some consumers have benefited from reduced prices on essential goods, others have been affected by the increase in prices for non-essential and luxury items. This has led to shifts in demand patterns, with consumers becoming more selective in their purchases. Increased price transparency has allowed for more informed decision-making, while regional variations suggest that rural consumers are adapting at a slower pace compared to their urban counterparts. In conclusion, GST has significantly altered consumer behavior, and businesses must adapt to these changes by adjusting their pricing strategies, marketing

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