

The Impact/Effects of GST on Consumer Behaviour

Khushi Singh, Kiran Paul R, Kiran Kumar, Prof. Shakila. A

School of Economics and Commerce, CMR University, Bengaluru, Karnataka

Abstract: *The purpose of this study is to examine the impact of Goods and Services Tax (GST) on consumer behaviour. Goods and Services Tax (GST) is a core tax reform embraced by several nations around the world, redefining the landscape of taxation and significantly affecting consumer behaviour. GST, being a consumption tax, has broad ramification for consumer decision making and market trends. One of its primary effects is increased price consciousness among consumer. The clarity it provides, by showing the tax component in the end price, makes consumers more judicious shoppers. They carefully compare prices and opt for products or services with higher value of money. Consumers show a change in consumption patterns under GST. The structure of the tax rate determines how these preferences like necessary items at lower rates of GST are likely to see heightened demand, while higher rates of luxury or nonessential goods may discourage consumption of such items or encourage individual to seek alternative. Such behaviour changes heavily influence industries and markets. Furthermore, GST encourages the use of digital payments, inspired by the business need to have proper records of transaction and consumers quest for advantages such as input tax credits. This digitization helps to formalize the economy by minimizing cash transactions and increasing transparency. The effects of GST reach beyond prices and modes of payments. It effects consumers choice in favour of firms that comply with GST regulations, making the business environment more compliant and formalized. In addition, initiate cross-border shopping as consumers look for lower tax rates in adjacent regions, which could impact local business and government revenues. The study concludes that, GST is a revolutionary tax system with substantial impacts on consumers behaviour. It creates price sensitivity, alters patterns of consumption, facilitates digital payments and stimulates a preference for compliant enterprises. Nonetheless, it also presents challenges in terms of complexity and equity. It is crucial for policymakers, businesses, and consumers to understand these dynamics as they navigate the changing landscape of taxation and consumption.*

Keywords: Goods and Services tax (GST), Effects, Consumer behaviour etc

I. INTRODUCTION

1.1 Background and History

The Goods and Services Tax (GST) introduced in India on July 1, 2017, is considered to be one of the most revolutionary tax reforms ever in the history of the nation. It superseded a complex system of indirect taxes like VAT, service tax, excise duty, and sales tax that differed from state to state and resulted in inefficiencies and cascading of tax (tax on tax). The objectives of GST was to establish a “one nation, one tax” regime that fosters transparency, uniformity, and ease of doing business.

1.2 Definitions and Key Terms

- Goods and Services Tax (GST): A broad-based, multi-stage, destinations-based indirect tax charged on each value addition in the supply chain.
- Input Tax Credit (ITC): A system that enables businesses to credit taxes paid on acquisitions utilized in the manufactured of goods or services.
- CGST/SGST/IGST: Central, State, and Integrated GST charged depending on the intra-state or inter-state transactions.



1.3 Impact on Consumers

With the introduction of GST, consumer now have a uniform tax regime, which has its pros and cons. While it has cut down the incidence of stealth taxes and increased transparency in pricing, it has also resulted in price volatility, particularly in industries such as FMCG, electronics, and high-end products. Consumers have turned price-conscious and prudent in spending, frequently altering brand loyalty based on post-GST price.

1.4 Research Gap

Although a number of studies have examined the economic the businesses effects of GST, there is very little research that is specifically aimed at its psychological and behavioural influence on consumers in various income groups and sectors. There is a dearth of empirical evidence that investigate how consumers choice, expenditure behaviour, and perceptions have been affected since the introduce of GST.

1.5 Research Objectives

- To study the effects of GST on consumers purchasing behaviour, such as changes in expenditure patterns, price sensitivity, and brand loyalty.
- To study the correlation between consumer demographic variables (age, gender, income, and occupation) and their attitude towards GST.
- To measure the awareness and knowledge of GST among consumers, and how it effects their buying behaviour.
- To recognize the problems and advantages consumers face after GST was implemented, specifically in necessary compared to luxury commodities.
- To see how GST influence consumer choice between different products types, such as FMCG, electronics, and services.
- To make recommendations for policymakers and business firms from the consumers feedback in order to enhance GST implementation and consumers satisfaction.

II. RESEARCH METHODOLOGY

This study is based on secondary sources of data such as articles, books, journals, research papers, websites and other sources.

2.1 GST Structure and Mechanism

The GST mechanism normally has three main components:

- Central GST (CGST): This refers to the central government portion of GST collected. It is imposed on intra-state supplies, i.e., those transactions that take place within the limits of one state or union territory.
- State GST(SGST): SGST is charged by the government on inter-state supplies. The proceeds from SGST accrue to the concerned state government.
- Integrated GST(IGST): IGST is to be levied on inter-state, wherein goods or services flow from one state to another. The tax revenue obtained as a result of IGST is divided between the central and state governments.

2.2 Impact of GST on Consumers Behaviour

There are some significant impacts of GST on consumer behaviour. They can be both short-term and long-term and vary depending on many factors such as the rate structure of GST, consumer attitudes, and the state of the economy. A more detailed look at the impact of GST on consumer behaviour follows:

1. Price Sensitivity

GST has a direct relation to prices. It substitutes the erstwhile complex tax regime with a single, transparent tax. Therefore, the consumers are able to notice the entire tax content incorporated in the final price of goods and services.



This makes the consumers price-sensitive. The consumers become well aware of the tax burden and are more prone to compare prices while deciding on a purchase. This price-sensitivity behaviour will cause consumers to opt for products or services with improved value for money.

Change in Consumption Patterns

The structure of GST rates may have an effect on consumer preferences and consumption patterns. Consumers may cut back on consumption of products and services charged with a higher rate of GST, provided alternatives with a lower rate are available. The change in consumption patterns can contribute substantially to sectors such as different industries. For instance, customers can choose smaller, more economical vehicles if the GST on larger vehicles is charged at a higher rate.

Savings Rate Increase

GST will trigger increased savings among some consumers. With increased transparency in taxation, there is a possibility of consumers becoming more aware of their expenses and choosing to reduce discretionary spending. This could result in increased savings rates that can have wider implications for economic stability and investment.

Preferential Buying

Consumers might prefer to purchase from firms that issue clear and transparent bills and have a reputation for complying with GST laws. Such preference for compliant firms can result in more business for the rule-compliant firms and a reduction in the informal or unorganized sector. Consumers might be more likely to favor companies generating government revenue and economic formalization

Effect on Luxury Products

Luxury products usually draw more favourable GST rates because they are termed nonessential or non-essential goods. The taxes on luxury items at higher tax rates might deter some consumers against buying them or may in still in others the desire for cheaper alternatives. As a result, the luxury products market is likely to witness a shift in demand downward.

Digital Payments

Implementation of GST tends to promote the use of digital payments. In order to claim input tax credits, companies must keep records of transactions in a transparent manner, something that is more easily done via digital payment systems. Consumers might also switch over to digital transactions, both because of convenience and in order to take advantage of incentives like input tax credits. This can lead to the formalization of the economy and decrease cash transactions.

Discount and Promotion Demand

Due to consumers' heightened price sensitivity, firms can become more aggressive in providing discounts, promotions, and sales. Consumers, knowing that there is a tax element in prices, will actively hunt for such bargains to save on their total costs. This can cause alterations in pricing models and marketing strategies for companies.

CASE STUDY

India:

India rolled out the Goods and Services Tax (GST) in July, 2017, in place of a confusing and fragmented indirect tax regime. The Indian GST system comprises several tax rates, with four main slabs of 5%, 12%, 18%, and 28%, along with low rates for essential commodities and a special rate for gold. Below are some prominent impacts of GST on Indian consumer behavior:

1. Price Sensitivity and Transparency: GST introduced higher transparency of tax calculation and collection. Consumers in India also became more price-sensitive since they could visibly see GST component prominently marked on bills. This resulted in higher price comparisons and preference for lower GST-rated products and services.
2. Consumptions Pattern Shift: Certain consumers made a shift in consumptions patterns to avail benefits of lower GST rates on essential goods. For instances, there was a move towards packages and branded foods that tended to qualify for lower GST rates than loose foods. Furthermore, consumers also started taking into consideration the rate while making decisions like purchasing a car or buying electronics.



3. Digital Payments: GST promoted the use of digital payment modes. In order to claim input tax credits, company were required to keep digital records, making digital payments more common. Customers also started using digital payments due to convenience and in order to benefit from possible discounts or cashbacks.

4. Small Businesses and Informal Sector: Small companies struggled in the initial days of adjusting to GST compliance needs, which impacted competitiveness and pricing. Nonetheless, with time most companies went to GST registration to stay in business and cater to a larger customer base.

III. CHALLENGES AND CONSIDERATIONS

Although GST presents various benefits, it also creates challenges and considerations for consumers as well as policymakers:

1. Administrative Capacity: Governments need to possess administrative capacity to execute and administer GST in an effective manner. This encompasses training tax authorities, establishing strong IT infrastructure, and informing businesses and consumers of the new taxation system.

2. Complex Rate Structures: In certain nations, GST consists of various tax rates for different commodities services, which are able to generate complexity and various among consumers and business. Governments have to find a balance between revenue generations and administrative ease.

3. Compliance burden: Firms, particularly small and medium-sized firms (SMEs), might find the compliance requirements of GST troublesome at first.

Impact on Vulnerable Populations: GST is likely to have a disproportionate impact on lower income and vulnerable populations if goods and service that are vital are taxed at a higher rate. Government tends to deal with this by zero-rating or exempting some products.

4. Inflation Pressures: GST can result in short-term inflationary pressure because businesses will transfer increased tax cost to consumers. Governments need to manage inflation cautiously to shield consumer purchasing power

5. Tax Evasion: Although GST is intended to minimize tax evasion, it nonetheless needs to have effective enforcement and monitoring systems to guarantee compliance. Tax evasions continues to be an issues in some jurisdictions.

IV. CONCLUSION

Goods and Services Tax (GST) is a notable tax reform that has been enacted in most countries with different levels of success. Consumer behaviour is affected by GST in a complex and complicated manner, depending on factors such as the structure of GST rates, consumer tastes, and economic times. GST can make consumers highly price-conscious, changes consumption pattern, promote digital payments and ensure transparency in the tax regime. At the same time, it raises some challenges like complexity, compliance requirements and inflationary pressure in the short term. The overall impact of GST on the economy in the long run can be huge in the form of stability of revenues, formalization of the economy, and economy growth. Government should plan to derive the maximum advantage and the minimum drawback design and implement GST systems, with considerations of the specific conditions of their countries and populations. Furthermore, consumer education and support for small businesses are important factors in ensuring a smooth transition of GST and its sustained success in the long term.

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