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Impact of GST on Household Expenditure in Madhya Pradesh

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Abstract

This study examines the multifaceted impact of the Goods and Services Tax (GST) on household expenditure in Madhya Pradesh through a primary, survey-based approach. Utilizing a structured questionnaire administered to a diverse sample of households across various income levels and geographical regions, this paper analyzes changes in consumer spending patterns before and after the implementation of GST. The findings reveal a significant, positive effect on household budgets due to the recent rationalization of GST rates, particularly on essential goods, personal care products, and consumer durables. While the reforms have made a wide range of products more affordable, the analysis also highlights the subtly regressive nature of the GST, where the tax burden on lower-income groups remains disproportionately high relative to their consumption. The study concludes that while GST has successfully streamlined the tax structure and stimulated domestic consumption, there is a continued need for targeted policy interventions to further enhance the system's progressivity and ensure a more equitable distribution of the tax burden across all segments of the population.

The introduction of the Goods and Services Tax (GST) in India has significantly impacted household expenditure, primarily by altering the prices of a wide range of goods and services. A survey-based paper on this topic would investigate how the GST regime, particularly recent rationalization efforts, has affected consumer spending, focusing on different income groups and product categories.

Keywords; GST, Consumer spending, household budget.

INTRODUCTION

India's GST, implemented in 2017, aimed to create a unified national market by subsuming multiple central and state taxes. Initially, it had a four-tier structure (5%, 12%, 18%, and 28%). While some essential goods were kept in the lower brackets, the system's complexity and high rates on certain goods and services led to concerns about their impact on household budgets. Recent GST rationalization measures, however, have simplified the structure to primarily two slabs (5% and 18%) to lower the tax burden on everyday essentials and consumer durables, thereby boosting consumption.

REVIEW OF LITERATURE

The impact of Goods and Services Tax (GST) on household expenditure in India has been a subject of considerable analysis, with various studies highlighting its multifaceted effects. According to a qualitative assessment, the absence of detailed household expenditure data initially posed challenges in quantifying the precise impact, but it remains evident that GST influences living costs through multiple channels [1].

One specific area affected by GST is the cost of household items, particularly essential food products. For instance, refined cooking oil, a staple in Indian households, experienced a notable reduction in tax rates post-GST implementation, decreasing from as high as Rs. 22–23 before GST to lower levels afterward [2]. This change suggests a potential decrease in the expenditure on such essential items, thereby affecting household budgets.

Further, the distributional impact of GST has been examined across rural and urban sectors using data from the NSSO's Household Consumption Expenditure Survey of 2022-23. These analyses reveal that GST's effects are not uniform; instead, they vary across different income groups and geographic areas. The survey-based assessments indicate that the distributional impact is significant enough to influence household expenditure patterns distinctly in rural versus urban settings [3].

The overall influence of GST on household budgets extends beyond specific items to broader economic implications. It has been noted that GST's implementation has had a substantial impact on the Indian economy, which in turn affects household expenditure. Changes in tax structures and the resultant price adjustments contribute to shifts in household spending behavior [4].

Additionally, structural trends, including the long-term effects of COVID-19, introduce further uncertainty regarding household spending patterns and GST revenue. The pandemic has altered consumption behaviors, which may influence how GST impacts household expenditure in the future [5].

Recent disclosures from the India Household Consumption Expenditure Survey conducted between August 2022 and July 2023 provide updated insights into consumption patterns post-GST implementation. Although detailed data remains limited, initial findings suggest that GST has played a role in shaping household expenditure, with variations observed across different segments [6].

In summary, existing analyses underscore that GST has a significant, albeit complex, impact on household expenditure in India. It influences the cost of essential goods, alters consumption patterns across different socio-economic groups, and contributes to broader economic shifts that collectively shape household budget [9].

OBJECTIVE

To study the multifaceted impact of the Goods and Services Tax (GST) on household expenditure in Madhya Pradesh through a primary, survey-based approach

RESEARCH METHODOLOGY

Primary Data: Used a structured questionnaire to collect primary data from a diverse sample of Indian households. The survey design should be comprehensive, covering various aspects of household spending before and after GST implementation.

Secondary Data: Data Collected from Various journals, Research paper, Government Website, Books

Survey Questionnaire Design:

The questionnaire includes both quantitative and qualitative questions to get a holistic view.

Respondent Demographics: Income level, household size, location (urban/rural), and profession.

Awareness and Perception: Questions about the respondent's understanding of GST and their general perception of its effects.

Expenditure on Specific Categories: Questions on changes in monthly spending on different product categories, such as:

Essential Goods: Food items (packaged foods, dairy), personal care products (shampoo, toothpaste), and household items (soaps).

Consumer Durables: Televisions, refrigerators, air conditioners.

Services: Healthcare, insurance, entertainment, and personal services (salon, gym).

The survey is conducted across different geographical regions and income strata to ensure the findings are representative of the diverse Indian population.

- **Sample Size:** 1000 House hold
- **Study Area:** Madhya Pradesh
- **Sampling Method:** Convenience Sampling is used in this research paper

ANALYSIS

Section A: Respondent Profile.

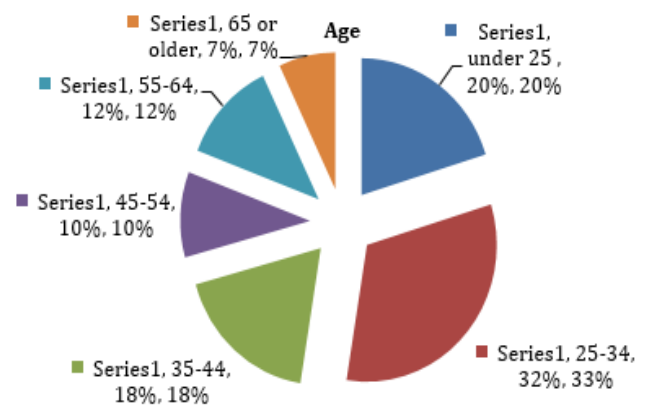


Figure 1 Age

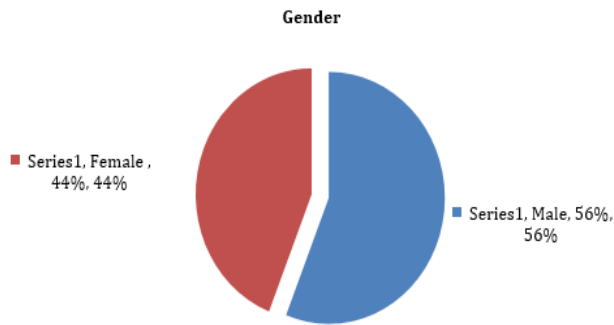


Figure 2 Gender

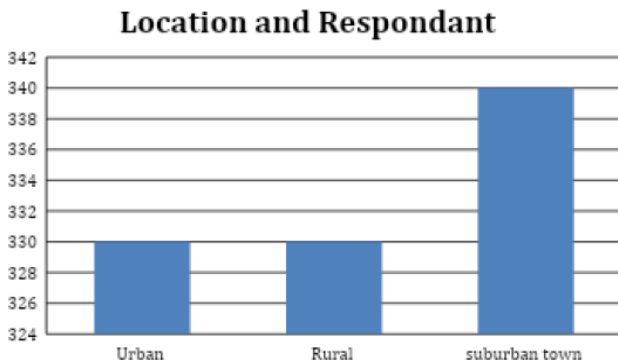


Figure 3 Location

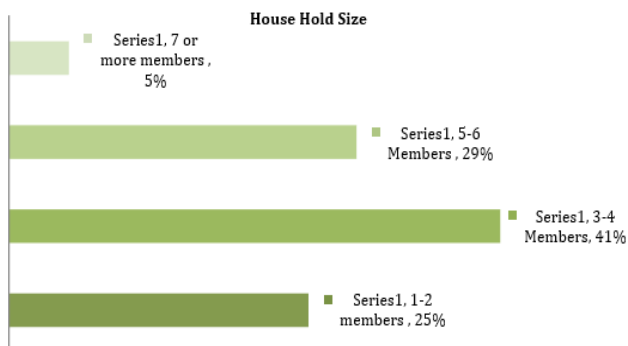


Figure 4 Household Size

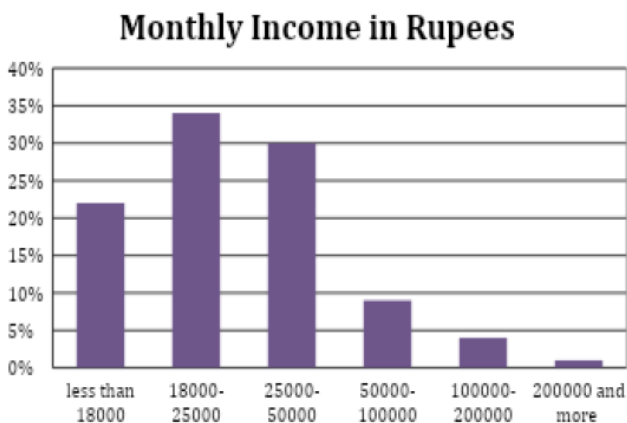


Figure 5 Monthly Household Income (in INR)

Section B: Awareness and Perception of GST

Understanding of the Goods and Services Tax (GST) in India

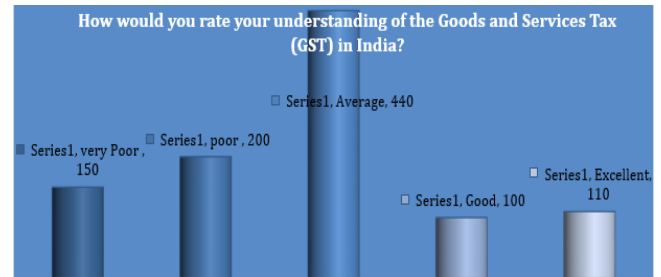


Figure 6 Understanding of the Goods and Services Tax (GST) in India

GST simplified the overall tax system in India

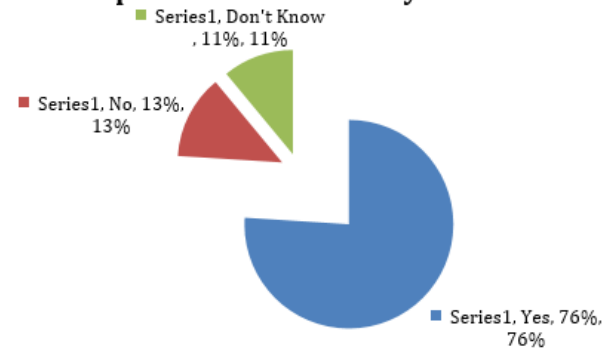


Figure 7 In your opinion, has GST simplified the overall tax system in India?

GST has helped reduce the overall cost of goods and services for your household?

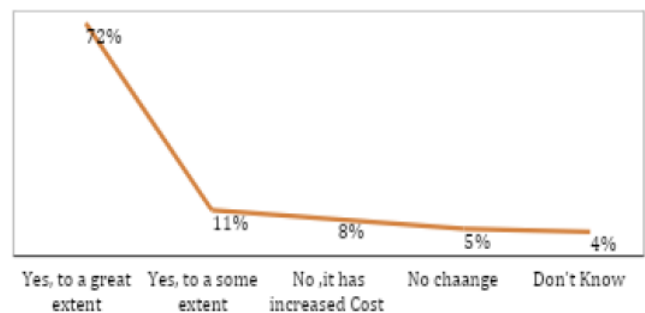


Figure 8 GST has helped reduce the overall cost of goods and services for your household?

Section C: Impact on Household Expenditure

Please indicate how your household's spending on the following categories has changed since the implementation of GST (compared to the pre-GST era).

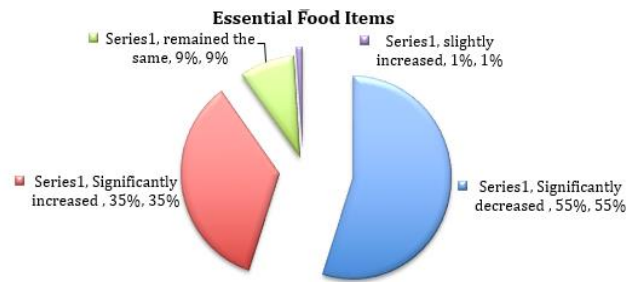


Figure 9 Essential Food Items (packaged foods, dairy products, cooking oil)

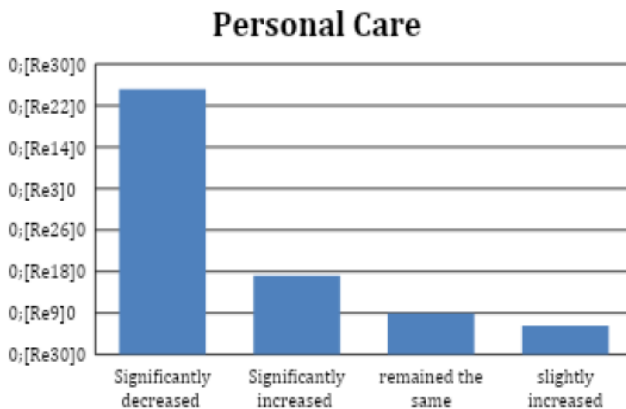


Figure 10 Personal Care Products (soap, shampoo, toothpaste)

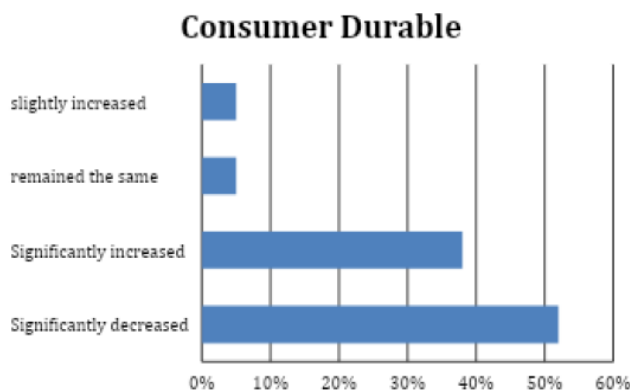


Figure 11 Consumer Durables (TV, refrigerator, washing machine)

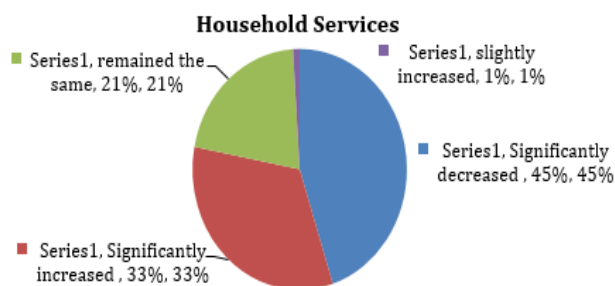


Figure 12 Household Services (electricity, water, internet)

KEY FINDINGS

Here are the main effects of GST on household spending, demonstrating the positive impacts on essentials and consumer durables, the effect on different income groups, and the overall boost to domestic consumption.

Positive Impact on Essentials and Consumer Durables

The recent GST rate reductions have significantly benefited households by making many essential and big-ticket items more affordable. Lower tax rates have directly translated into savings for consumers.

- **Daily Essentials:** Many packaged food items like biscuits, chocolates, and namkeen have seen their tax rates lowered from 12-18% to just 5%. Similarly, personal care products like shampoo, toothpaste, and soap, which previously attracted an 18% GST, are now in the 5% bracket.
- **Consumer Durables:** Major household appliances such as air conditioners, large-screen televisions, and washing machines, once taxed at a high 28%, now fall under the 18% slab. This reduction makes them more accessible for middle-class families, particularly ahead of festival seasons, and is expected to drive demand.
- **Services:** The affordability of key services has also improved. Health insurance premiums, for example, are now exempt from GST, a significant relief for families and a move designed to increase insurance penetration. Similarly, hotel stays have become cheaper.

These changes directly increase the disposable income of families, allowing them to either save more or spend on other goods and services, thereby stimulating the economy.

Impact on Different Income Groups

As a consumption-based tax, GST affects all consumers equally at the point of purchase, regardless of their income. This can make the tax system appear regressive, as lower-income households spend a larger proportion of their earnings on consumption. However, the Indian GST structure attempts to mitigate this with a tiered system.

- **Progressive Structure:** The government has designed the GST with exemptions and lower rates on essential goods like basic food items, which are predominantly consumed by lower-income groups. This makes the tax burden on the poorest segments of the population less severe than it would be under a flat tax system.

- **Equity Concerns:** Despite these efforts, studies have shown that the tax burden on the bottom 50% of the population remains similar to that of the middle 30%. This highlights ongoing concerns about equity and the need for a more progressive tax system that reduces the disproportionate burden on the poor.

The current structure is a work in progress, aiming to balance the need for revenue with the principle of social equity.

Boost to Domestic Consumption

The reduction in GST rates on a wide range of goods and services is a deliberate strategy to stimulate domestic consumption.

- **Stimulus Effect:** Lower prices on items from consumer electronics to small cars are expected to increase demand and boost sales. This "consumption stimulus" is a key driver for economic growth, especially in an environment where the government wants to reduce reliance on exports.
- **Demand Generation:** The direct savings for consumers from lower taxes on everyday items create a virtuous cycle. Increased purchasing power leads to greater demand, which in turn encourages businesses to ramp up production, create jobs, and invest more. This fosters a self-reliant economy and helps offset potential global economic headwinds.

The Goods and Services Tax (GST) in India has had a varied impact on household expenditure, with recent reforms generally aiming to reduce the tax burden on everyday items. The effect on an individual household's budget largely depends on their spending habits and lifestyle choices.

Initially, the implementation of GST saw mixed results. Some goods and services became more expensive, while others became cheaper. For instance, services like telecommunications, banking, and insurance generally saw a tax rate increase, which could raise monthly household bills. In contrast, many personal care items and certain home appliances saw a reduction in tax. The GST Council's more recent reforms, often referred to as "GST 2.0," have sought to rationalize the tax structure and provide relief to the common consumer.

Key Changes and Their Impact

- **Daily Essentials:** Recent GST reforms have significantly reduced the tax on a wide range of everyday essentials. Many pre-packaged and

labelled food items, such as paneer, rotis, and pizza bread, are now tax-free, while other items like butter, ghee, and packaged snacks have seen their GST rates slashed from 12-18% to just 5%. This has made a "typical grocery basket" notably cheaper.

- **Consumer Durables and Apparel:** GST cuts on consumer durables like televisions, air conditioners, and washing machines have made these items more affordable for the middle class. Similarly, a reduction in the GST on fabrics and apparel below a certain price point provides relief for clothing purchases.
- **Healthcare and Education:** The GST system has also impacted healthcare and education expenses. While certain essential medical products and life-saving drugs have seen a reduction or complete exemption from GST, the tax on health insurance premiums had been a point of concern. However, recent changes have made health and life insurance premiums tax-free, improving accessibility and affordability for a wider population.
- **Luxury and "Sin" Goods:** To offset revenue implications and discourage consumption of harmful products, luxury and demerit goods such as pan masala, aerated sugary drinks, and high-end automobiles are now subject to a higher GST rate of 40%. This ensures that the tax burden is shifted away from essential goods and onto non-essential and socially undesirable items.

CONCLUSION

The evolution of GST in India, particularly with the recent reforms, demonstrates a clear shift towards making essential goods and services more affordable for the common man. By rationalizing the tax structure, the government aims to boost consumption, stimulate economic growth, and ease the financial burden on middle-class households. While the initial implementation had a mixed effect, the current framework largely benefits household budgets by lowering the cost of groceries, consumer durables, and personal care items. This, in turn, is expected to increase household savings and discretionary spending, driving the consumption-led growth of the Indian economy.

A survey on the impact of GST on household expenditure would likely conclude that recent reforms have created a positive and tangible impact on consumer budgets. The simplification of the tax structure and the reduction of rates on essentials and durables have made daily life more

affordable for many. This has freed up household savings and is expected to drive a virtuous cycle of increased demand, investment, and job creation.

The findings from such a paper would provide valuable insights for policymakers. To enhance the system's progressivity and fairness, further reforms could focus on:

- Periodically reviewing and revising the list of tax-exempt or low-tax essentials based on consumption patterns.
- Strengthening the framework to ensure the benefits of tax cuts are passed on to consumers by businesses.
- Using targeted subsidies or other welfare spending to alleviate the tax burden on the most vulnerable households.

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