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GST effect on consumer behaviour and spending patterns: An empirical study

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Abstract

The successful implementation of India's Goods and Services Tax (GST) signaled a significant change to the country's taxation structure, which in turn affected several economic activities, such as spending habits and consumer behavior. The purpose of this empirical research is to examine the impact of the Goods and Services Tax (GST) on expenditure by Indian consumers across income brackets. The analysis compares purchasing decisions, spending habits, and expenditure distribution before and after the implementation of GST. Considerations such as financial adaptability, shifts in discretionary spending, and customers' emotional reactions to the new expenditure structure are all part of the analysis. Also, to get a feel for the fiscal effects of GST, the study looks at different spending habits in urban and rural regions. This research aims to improve consumer welfare in the Indian economy by providing a comprehensive understanding of the wider consequences of GST on consumer behavior via statistical analysis and overviews. It also contributes to the development of solutions that might mitigate any unfavorable effects.

Keywords: GST, consumer goods, consumer behaviour, market impact

1. Introduction

The Goods and Services Tax (GST) was a revolutionary change to India's indirect tax system that was implemented on July 1, 2017, with the goal of bringing the country's disjointed market together and making the tax system easier to understand. The Goods and Services Tax (GST) was enacted to consolidate the many indirect taxes imposed by the federal and state governments into a single, all-encompassing tax. This would simplify and standardize the country's tax system. The corporate environment and consumers' daily lives were both predicted to undergo substantial changes as a result of this legislation. Many parts of the economy, including how and what consumers spend their money, have been profoundly affected by the shift to GST. Price adjustments for products and services brought forth by GST's uniform taxing have affected consumers' propensity to buy. Examples include lower taxes on certain necessities, which may make them more affordable, and higher taxes on some luxuries, which could make people think twice about buying them. A new tax system will have a significant psychological effect on customers, and how they interpret these changes will influence their purchasing behavior.

In an effort to better understand how the Goods and Services Tax (GST) has affected Indian consumers, this research will use an empirical analysis to look into the matter. This study seeks to shed light on how various income levels and urban/rural populations have adapted their spending habits in reaction to the new GST by comparing consumption patterns before and after its introduction. Examining how shifts in disposable income and price sensitivity have affected total consumption, the research will also look at the wider socio-economic impacts of GST on consumer well-being. When evaluating GST's efficacy and contemplating future tax system revisions, politicians, companies, and economists must have a firm grasp of these processes. Findings from this study will add to the current conversation on the GST's financial effects by shedding light on how best to apply the tax and how consumers may overcome obstacles they encounter as they adjust to the new system.

Literature Review

This literature review synthesizes existing research to provide a foundation for understanding

how GST has influenced consumption dynamics in the Indian context.

2.1 GST and Price Changes: Several studies have examined the direct impact of GST on the prices of goods and services, which is a primary factor influencing consumer behavior. According to a survey by KPMG (2017)^[4], implementing GST led to varied price adjustments across different sectors, with essential goods experiencing price reductions due to lower tax rates, while luxury goods faced price increases. These changes in pricing have a direct effect on consumer purchasing power and spending habits. Bansal and Singhal (2018)^[1] further noted that consumers in the middle-income bracket were susceptible to these price changes, as they had to adjust their expenditure on discretionary items.

2.2 Consumer Perception and Behavioral Economics: The psychological impact of GST on consumers has been explored through the lens of behavioral economics. Sharma and Gupta (2019)^[9] highlighted that consumer perception of GST as a complex and burdensome tax influenced their spending decisions. The study found that the lack of clarity and understanding of GST rates among consumers led to a cautious approach towards spending, particularly in the initial implementation phases. Additionally, Mishra (2020)^[6] discussed how the perception of fairness in taxation under GST affected consumer trust and confidence, which are critical in shaping long-term spending patterns.

2.3 Socio-Economic Disparities in Spending Patterns: Research has also focused on how GST impacts different socio-economic groups. A study by Kumar and Sinha (2018)^[5] emphasized the differential impact of GST on urban and rural consumers, with rural areas experiencing a more pronounced change in spending patterns due to their reliance on essential goods, which saw varying tax rates under GST. The study argued that while GST aimed to create a unified market, its impact was not uniform across different demographic groups, leading to disparities in consumption behavior.

2.4 GST and Consumer Spending in Specific Sectors: The literature has explored the sector-specific impact of GST on consumer spending. For instance, Mukherjee and Rao (2019) analyzed the effect of GST on the automobile industry, finding that the increase in tax rates on mid-range vehicles led to a temporary decline in sales as consumers postponed purchases. Similarly, a study by Joshi (2018) on the FMCG (Fast-Moving Consumer Goods) sector showed that introducing GST streamlined the supply chain, leading to cost reductions and subsequent benefits for consumers in the form of lower prices, which stimulated demand.

2.5 Comparative Studies and Global Perspectives: Comparative studies have been conducted to place India's GST experience within a global context. Rao and Patel (2020)^[8] compared India's GST implementation with that of other countries, such as Malaysia and Australia, to understand its relative impact on consumer behavior. The study found that while India faced challenges similar to those of other developing economies, such as initial

confusion and compliance issues, the long-term effects on consumer spending were consistent with global trends where GST led to more predictable and stable consumption patterns.

2.6 Methodological Approaches to Studying GST's Impact: The literature reveals a variety of methodological approaches used to study the impact of GST on consumer behavior, ranging from econometric analysis to survey-based research. Chakraborty and Sen (2020)^[2] used a difference-in-differences approach to quantify the impact of GST on household expenditure, finding significant changes in spending patterns across different income groups. On the other hand, Singh and Bhattacharya (2019)^[10] employed a qualitative approach, using focus group discussions to gather consumer insights on GST's perceived impact on their daily lives.

3. Objectives of the study

1. Examine how implementing GST has altered consumer spending habits across various product categories, including essential goods, luxury items, and services.
2. Examine how the Goods and Services Tax (GST) has impacted the purchasing patterns of India's various income brackets, with a particular emphasis on low-, middle-, and high-income families.
3. Study consumer awareness and understanding of GST rates and regulations and how these perceptions influence their spending behavior.

4. Research Methodology

1. Primary Data: The majority of the information for the research comes from a standardized questionnaire with just yes/no questions.

2. Secondary Data: Journals, magazines, and websites are among the several places the study's secondary data is culled from.

3. Sampling: Fifty people from the city of Lucknow were selected for the sample. The study uses a primary random sampling method. Every member of a statistical population has an equal probability of getting picked from a simple random sample.

4. Statistical Methods

Multiple Regression Analysis was the statistical framework for this study. A statistical method that builds upon the idea of simple linear regression is multiple regression. In order to predict a variable's value, the values of at least two other variables must be taken into account. By using numerous regressions, one may evaluate not only the model's overall fit (variance explained) but also the relative importance of each predictor in this fit.

5. Hypothesis

H₁: The attitudes of taxpayers and the costs related to following the rules would significantly influence GST compliance.

H₂: Compliance with the Goods and Services Tax (GST) would have a substantial impact on reducing inflation and curbing tax evasion.

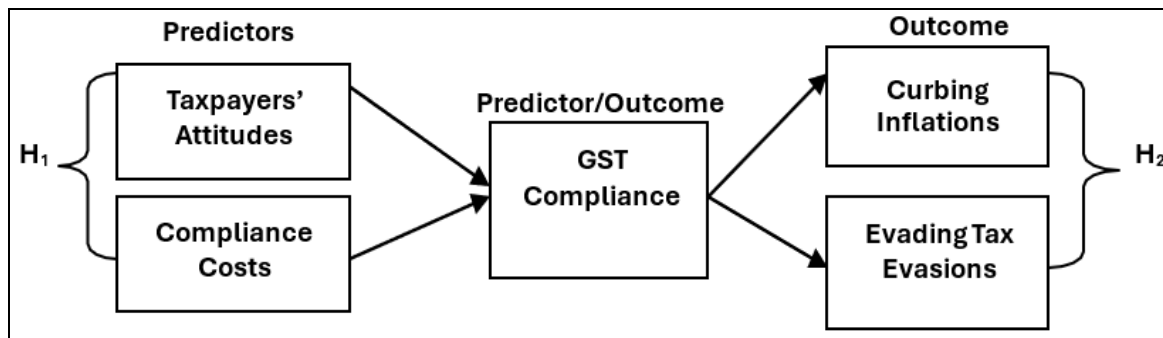


Fig 1: Predictors and Outcomes of GST Compliance

Analysis

It is clear from the statistics shown above that the number of clients with lower incomes has fallen after GST was implemented. With an average score of 3.55, it's clear that consumers' discretionary income has decreased due to price hikes caused by GST adoption. The following mean score, with a mean value of 3.65, shows that the amount of inflation has increased. There has been a dramatic increase in inflation inside the country, as the WPI has just climbed to almost 8%, according to figures. Increased inflation reduces people's purchasing power, as seen by consumer mood after the adoption of the Goods and Services Tax (GST) in the form of lower income. On the other hand,

some buyers believe that prices have dropped since the GST was announced. The mean and standard deviation are directly related in statistics. A decrease in the mean leads to an increase in the standard deviation, as is clearly seen in the table, indicating their inverse connection. On the particular variable that the researcher is examining, consumers tend to favor a high mean score and dislike a low one.

Main ideas about Multiple Regression Analysis
 The variable Y represents the GST rates.
 X₁ represents the purchasing power of customers.

Table 1: Descriptive data of consumer perspective

Descriptive Statistics					
	N	Min.	Max.	Mean	S.D.
Reduced money after GST	100	1.00	5.00	3.7500	.95665
Inflation hike level	100	1.00	5.00	3.6500	.97803
Decrease in price	100	1.00	5.00	3.4200	1.57520
Valid N	100				

Table 2: Regression analysis

Model	Non-standard Coefficients		Uniform Coefficients	t	Sig.
	B	Std. Error	Beta		
Constant	10.505	.812		12.412	.000
X ₁	1.248	.250	.499	5.425	.000

Regression Equation: $Y = 10.550 + 1.248 X_1$

The table above clearly demonstrates that GST rates have a substantial impact on the purchasing power of consumers in Lucknow city. The p-value is less than 0.01, indicating a high degree of significance at the 1% level of significance for both variables, as seen in the preceding table. Consequently, we validate the research hypothesis and invalidate the null hypothesis. This is because, although GST has increased costs for some products, it has had less impact on the pricing of others. Purchasing a smaller amount at the same price before the implementation of GST might be advantageous when prices increase. Consequently, clients' ability to spend decreases. The GST rates in Lucknow city have a positive effect on the buying power of customers, which should be acknowledged. According to

statistics, X₁ increases by a factor of 1.248 for every unit rise in the Y variable. As a result, the independent variable experiences a more considerable increase compared to the dependent variable.

Table 3: Test for sphericity and adequacy

KMO Measure of Sampling Adequacy.	.873
Chi-Square approximately	1260.375
Bartlett's Sphericity Test df	163
Sig.	.000

The Kaiser-Meyer Value, which is higher than 0.75, is 0.873, according to the table above. The metric of sample adequacy is shown to be useful for factor analysis.

Table 4: Exploratory factor analysis result

Latent Structure	Item Code	Loading Standardized Factor	Eigen-value	Variance %	Cumulative %	Cronbach Alpha
Personal Standards	PS08	0.840	3.020	20.036	20.036	0.844
	PS09	0.748				
	PS06	0.787				
	PS07	0.776				
	PS10	0.792				
Attitude and Conduct	AC01	0.861	3.009	20.066	40.181	0.844
	AC02	0.778				
	AC04	0.788				
	AC03	0.746				
	AC05	0.733				
Behavioural Control as Perceived	BCP14	0.892	3.004	20.091	60.173	0.803
	BCP12	0.787				
	BCP13	0.737				
	BCP15	0.754				
	BCP11	0.723				

Notes: Principal components analysis with varimax Kaiser Normalization rotation was used to obtain the factor. Six rounds of a rotation led to convergence.

6. Findings

1. The GST results in lower consumer income due to price increases, with a maximum mean score of 3.75.
2. The Goods and Services Tax (GST) has caused nationwide inflation to rise.
3. The GST rates have a positive and causal association with spending ability (6.3).
4. At the 1% level of significance, the link between GST rates and spending capacity is very significant (p-value < 0.01).

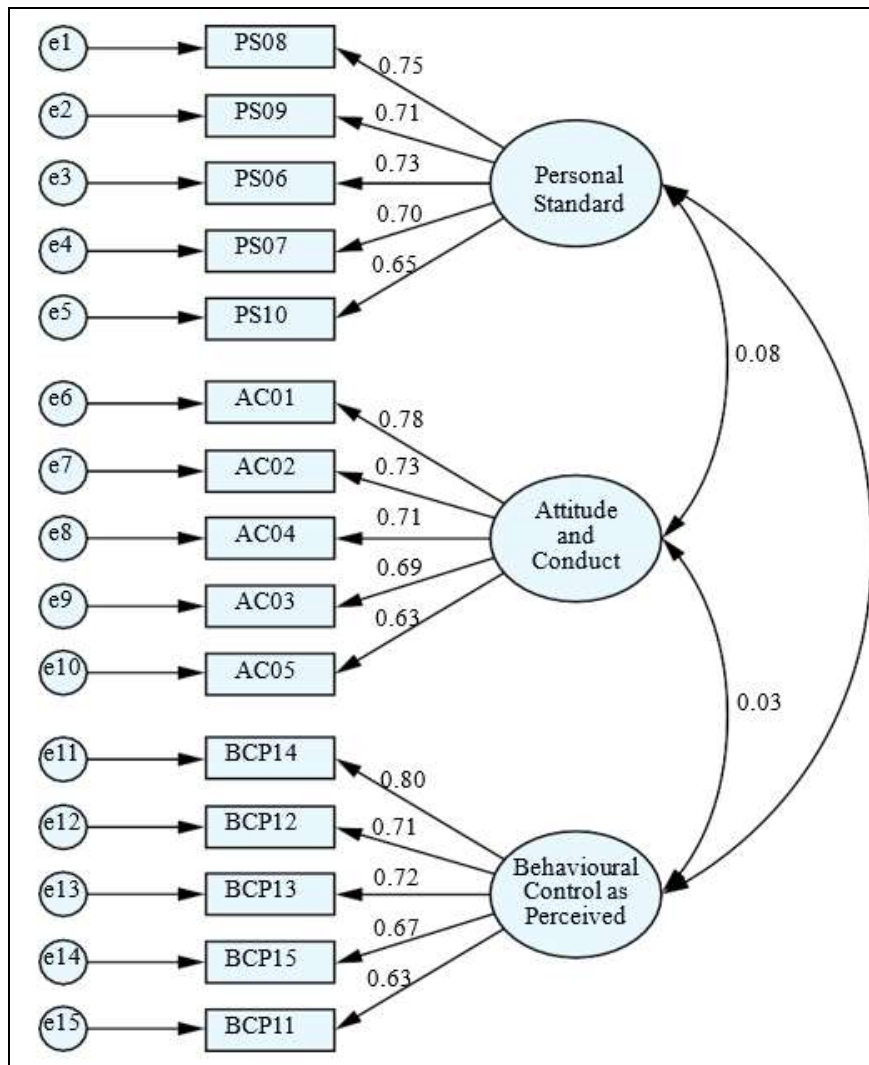


Fig 2: Path Diagram of variables effect

The findings of the factor analysis indicate that the subjective norms of the referent group are a significant predictor of compliance behavior among GST taxpayers. The attitude component of the framework pertains to an individual's evaluation or perception of a particular activity. It involves assessing whether a behavior is typically positive or destructive, advantageous or disadvantageous. This factor represents the individual's subjective understanding of the

potential outcomes or consequences of engaging in that particular behavior. According to this concept, an individual's attitude encompasses their cognitive, affective, and emotional responses towards one specific activity, which might influence their level of motivation or preparedness to either participate in or abstain from the behavior based on these assessments.

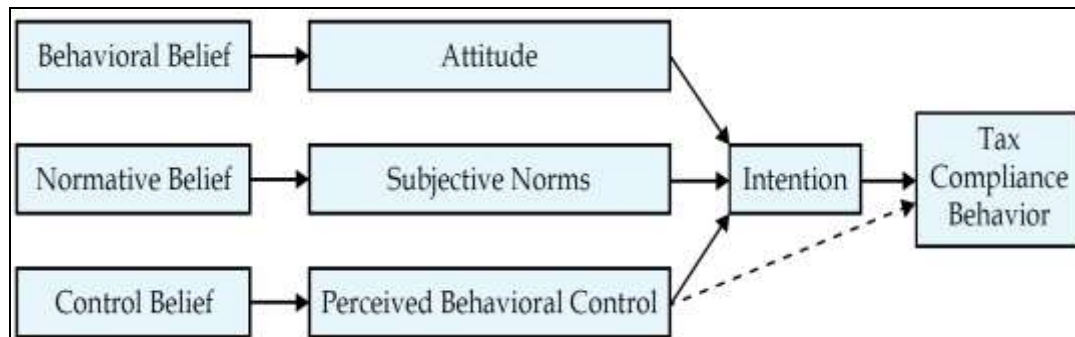


Fig 3: Consumer Behaviour Pattern towards GST

With regard to the Theory of Planned Behavior, the idea of Perceived Behavioral Control is rather important. It is referred to as perceived behavioral control, and it is the subjective appraisal that a person makes about how simple or difficult it is to carry out a certain activity. The phrase “performance-based compensation” refers to a system in which the monetary incentive that an employee receives is reliant on their ability to accomplish certain targets that have been established in advance.

7. Conclusion

Consumer behavior and purchasing habits in India have changed significantly since the GST was implemented. This empirical research examined how GST has changed consumption in different socio-economic circumstances. This research uses planned behavior to examine the factors affecting GST taxpayer compliance in India. The research found that attitudes, subjective standards, and perceived behavioral control drive GST taxpayer compliance in India. These factors explained roughly 60% of the study variable variation. Comparatively, CFA research supports the component omitted from exploratory factor analysis and included in the theory of planned behavior. Views of the GST taxation system, subjective norms, and behavioral control favorably affect GST taxpayer compliance, according to the research. GST taxpayer compliance behavior is most influenced by the subjective norm, which explains 20.063% of all study factors.

To cultivate trust and responsibility among taxpayers, the government should strive to create a prevailing belief in society that paying taxes contributes to the country's progress and efficient utilization of resources. The prevailing belief will also enhance the overall adherence of GST taxpayers, as the study's results elucidate how subjective norms can have a favorable impact on taxpayer compliance behavior. The government should actively strive to implant in the minds of GST taxpayers the apprehension that participating in non-compliant activities might lead to social ostracism from their peers.

The findings reveal that GST has led to significant shifts in consumer spending, particularly in terms of how different income groups allocate their resources. While some goods and services have become more affordable due to lower tax rates, others - especially luxury items - have seen increased prices, leading to changes in purchasing decisions. The study also highlights the differential impact of GST on urban and rural consumers, with rural areas experiencing more pronounced changes in their spending patterns due to their reliance on essential goods.

Moreover, the research underscores the importance of consumer perception in the adaptation to GST. The initial confusion and perceived complexity of the new tax regime influenced spending behavior, especially among middle- and low-income groups. Over time, as consumers became more familiar with GST, their spending patterns began to stabilize, but the initial impact was marked by caution and reduced discretionary spending.

The sector-specific analysis shows that industries such as FMCG and automobiles experienced varied effects, with some benefiting from streamlined supply chains and others facing temporary declines in demand. These findings suggest that while GST has the potential to simplify and unify the tax structure, its effects on different sectors and consumer groups are complex and multifaceted.

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