

## A STUDY ON IMPACT OF GST ON THE HOUSEHOLD EXPENSES OF MIDDLE-CLASS FAMILY

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### Abstract:

*The introduction of the Goods and Services Tax (GST) in India was a landmark reform aimed at simplifying the indirect tax structure and promoting a unified market. While it brought transparency and reduced tax cascading, its effects on household expenses, spanning various income groups, remain a subject of critical analysis. This study investigates how GST has influenced household spending patterns across essential and discretionary categories such as groceries, healthcare, education, utilities, and discretionary spending. Drawing insights from primary data collected via surveys and secondary data from credible sources, the research provides a comprehensive understanding of GST's socio-economic impact. Key findings highlight changes in financial burdens, shifts in consumer behavior, and varied impacts on household savings. The analysis incorporates perspectives from reviewed literature, including challenges such as limited public awareness, perceptions of fairness, and the need for reforms. This study contributes to the discourse on tax policy, offering insights into GST's implications for economic equity, consumer behavior, and financial well-being.*

*Keywords: GST, Indirect Tax, Household Expenses, Consumer Behavior, Spending Patterns, Financial Burden, Tax Policy, Secondary Data, Economic Equity.*

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### Introduction

Taxation plays a vital role in shaping a nation's economy, with indirect taxes being a significant source of government revenue. Among these, the Goods and Services Tax (GST) has transformed how taxes are collected and managed in many countries, including India. GST is a consumption-based tax that is imposed on the supply of goods and services. In an effort to make the taxation process simpler and more transparent, it unifies several indirect taxes into a single system. While GST simplifies the tax structure, it also directly impacts the daily lives of individuals, especially middle-income families.

Middle-income families often operate on a tight budget, balancing essential needs with limited financial flexibility. For them, any changes in tax policies can influence their spending habits and overall financial stability. Both necessities like food, clothes, healthcare, and education as well as luxury goods like technology and entertainment have seen price increases since the implementation of the GST.

Indirect taxes, such as GST, are incorporated into the cost of goods and services rather than being imposed on income like direct taxes are. This implies that every time a consumer makes a purchase, they are responsible for paying taxes. For

middle-income households, this can lead to a noticeable change in monthly expenses, as GST is applied across a wide range of products and services, some of which may have higher tax rates. The impact of GST on middle-income families can be seen in both positive and negative lights. On the one hand, GST reduces tax cascading (double taxation) and promotes a uniform tax system, potentially leading to lower prices for some items. However, the cost of some goods and services may increase, making household budgets more difficult to manage. Understanding how GST influences spending patterns, savings, and overall affordability is crucial for policymakers and families alike.

In order to streamline the nation's intricate tax system and encourage economic expansion, the Goods and Services Tax (GST) was implemented in India in 2017. However, its impact on household expenses, particularly for middle-class families, has been a subject of concern. Various studies and analyses have highlighted the significant effects of GST on the financial well-being of middle-class families in India.

According to recent reports and blogs, GST has led to increased expenses for middle-class families, particularly on essential items like food, clothing, and footwear (Knowksaj, 2024; SAG Infotech, n.d.). Moreover, the GST has resulted in higher prices for various goods and services, affecting the monthly budgets of middle-class families (Kotak, 2022). A study by the Asian Development Bank (ADB) also found that GST has led to an increase in living costs for Indian households, particularly those in the lower- and middle-income brackets

(ADB, 2020).

This study attempts to look into the effects of GST on the household expenses of middle-class families in India, exploring how the tax reform has affected their budget allocation, expenditure patterns, and overall economic well-being. By analyzing the effects of GST on various household expense categories, This research aims to shed light on the challenges faced by middle-class families in India and inform policy decisions that can mitigate the adverse effects of GST on this vulnerable segment of the population.

### **Research Methodology**

#### **Methodology:**

Our research employs a mixed-method approach, integrating both qualitative and quantitative methodologies. Data collection involved both primary and secondary sources. Secondary data was gathered from reviewed research papers, reputable websites, government portals, and official circulars. Primary data was collected gathered via online Google Form, distributed to a diverse group of individuals, including relatives, friends, and teachers. Respondents were provided with clear explanations to ensure they understood the survey and provided accurate responses. The collected data underwent descriptive analysis to derive meaningful insights. As our research is descriptive in nature, it focuses on understanding and interpreting the impact of GST on household expenses without formulating a hypothesis. Our sample size is 52 responses.

#### **Objectives:**

1. To analyse the impact of the Goods and Services Tax (GST) on the household expenses

of middle-income families.

2. To evaluate how GST has influenced the savings behaviour of middle-income families.
3. To assess public awareness and perceptions of GST among middle-income households.
4. To investigate how the GST has affected living standards and household income levels.

#### **Limitations:**

1. Limited time restricts the depth of data collection and analysis.
2. Self-reported responses may include subjective biases.
3. Dynamic economic factors like inflation or policy changes are not fully accounted for.

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#### **Significance of the study:**

The significance of this research stems from its capacity to offer valuable insights about how the GST has affected middle-class Indian families' spending. The middle class plays a crucial role in promoting economic development, as they drive economic growth through human capital accumulation, savings, and consumption (Loayza et al., 2012). In the context of India, the rise of the middle class is expected to drive economic growth, with the middle-class population projected to increase significantly (Lukmani, 2024). However, the impact of GST on the expenses of middleclass families can have significant implications for their financial stability and overall well-being. By examining the impact of GST on middle-class families, this study aims to contribute to a better understanding of how tax policies affect economic

equity, cost of living, and quality of life in India. The results of this study can help guide policy choices intended to mitigating the adverse effects of GST on middle-class families, ultimately promoting economic growth and development.

### Scope of the Study:

The scope of this study focuses on understanding the impact of the Goods and Services Tax (GST) on the household expenses of middle-income families in India, who are particularly sensitive to changes in indirect taxation due to their limited financial flexibility. The research encompasses diverse households across urban, rural, and semi-urban areas to provide a comprehensive perspective. It examines the effects of GST on various expense categories, including essentials like groceries, healthcare, education, and utilities, as well as discretionary spending such as entertainment and travel. Additionally, the study explores the influence of GST on savings and spending habits, providing insights into its broader implications for financial stability and quality of life. By utilizing both primary data collected from surveys and secondary data from credible sources, the research aims to analyse these impacts and offer a detailed understanding of GST's role in shaping household economics.

### Review of Literature:

Dr. Vengatesan C's article, *Impact of Goods and Services Tax (GST) on Customers' Perception - An Empirical Study*, examines how the introduction of the GST has affected Indian consumers' attitudes. Low customer knowledge, conflicting responses to price adjustments, and worries about price inflation in specific industries

are some of the main problems. The study stresses the importance of educational campaigns and transparent communication to address misconceptions and improve public trust in GST. Hari K. Dwivedi's paper, *Seven Years of GST: Time to Move Beyond the Exuberance*, reviews GST's progress since its 2017 implementation. Positive outcomes include reducing tax multiplicity and eliminating cascading taxes, but challenges remain due to India's federal structure. The paper advocates for second-generation reforms, such as rationalizing tax slabs, expanding the tax base, and strengthening cooperation between the State and Central governments to resolve systemic issues.

The study *GST Effect on Consumer Behaviour and Spending Patterns: An Empirical Study* by Rahul Kanauiya and Himanshu Shekhar Singh examines GST's impact on consumer spending across income groups in India. Key findings include varied price adjustments, with essential goods becoming cheaper and luxury goods more expensive, and a psychological impact leading to cautious spending. Sector-specific changes, like a temporary decline in automobile sales and benefits for the FMCG sector, are also highlighted.

S. Vamsikrishna's paper, *The Impact of GST on Consumer Behaviour: An Empirical Study in India* (2023), explores behavioural shifts post-GST, such as increased price sensitivity, reduced brand loyalty, and a preference for online shopping. The study highlights challenges for businesses and suggests tax reductions on high-value goods and incentives for online shopping to stimulate growth. It calls for further mixed-method research to

understand GST's broader effects.

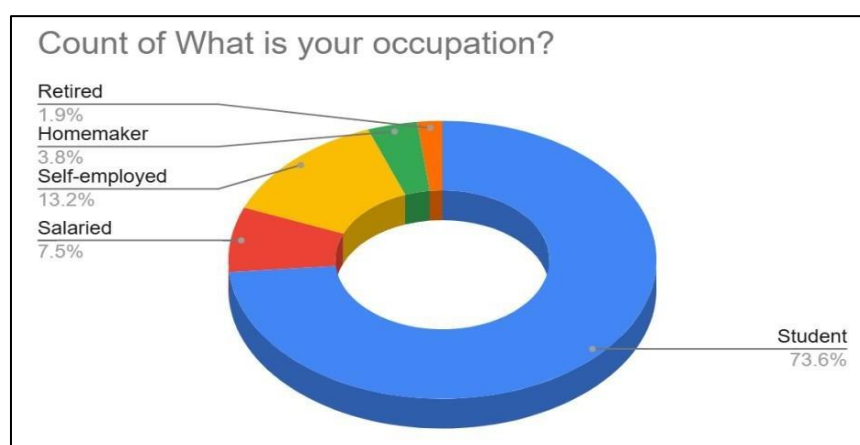
In the paper *Impact of GST on Spending Behaviour of the Consumers* (2020, Chitra D. V.), the study highlights the influence of the Goods and Services Tax (GST) on expenditure trends, particularly in electronics and sports equipment, which show significant changes, unlike essential items like food and clothing. The research emphasizes that GST has a more pronounced impact on non-essential items, suggesting targeted adjustments to minimize the burden on necessities. The article **The Impacts of Goods and Services Tax (GST) on Middle Income Earners in India** (2018, C. Bala Nageswara Rao & Neeraja B.) explores the implications of GST for middle-class

families. It identifies increased financial pressures due to uniform taxation across industries. The authors recommend government intervention to alleviate these challenges and highlight the necessity of consumer education on GST's benefits and impact.

Dr. Amulya M. (2019), in her paper *Impact of GST on the Spending Habits of the Consumers in Mysore*, investigates how the GST reform amalgamated multiple tax regimes. Initial consumer concerns about spending behavior prompted research into awareness and its effects, revealing the need for ongoing evaluation of GST's influence on consumers' economic activities.

## DATA ANALYSIS:

### Respondents Occupation:

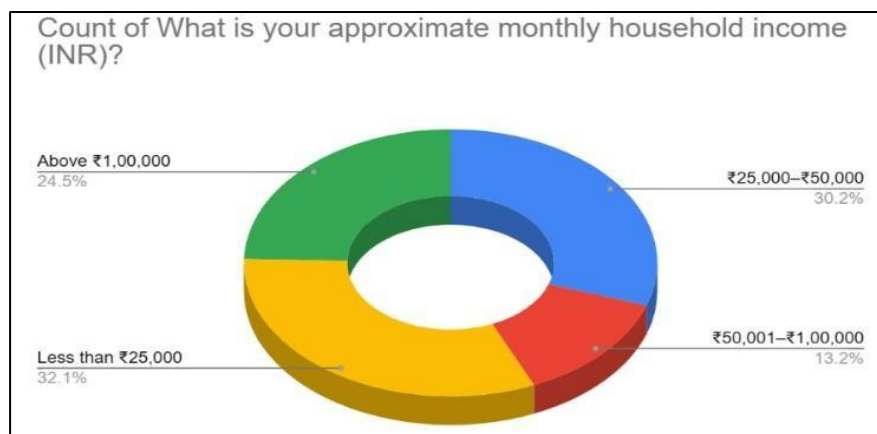


### Interpretation:

The data shows the occupational distribution of respondents. Students form the largest group, making up 73.6% of the sample. Self-employed individuals account for 13.2%, salaried individuals represent 7.5%, homemakers constitute 3.8%, and retired individuals make up 1.9%. This suggests that students make up the bulk of responders, with lesser numbers coming from other vocational categories.



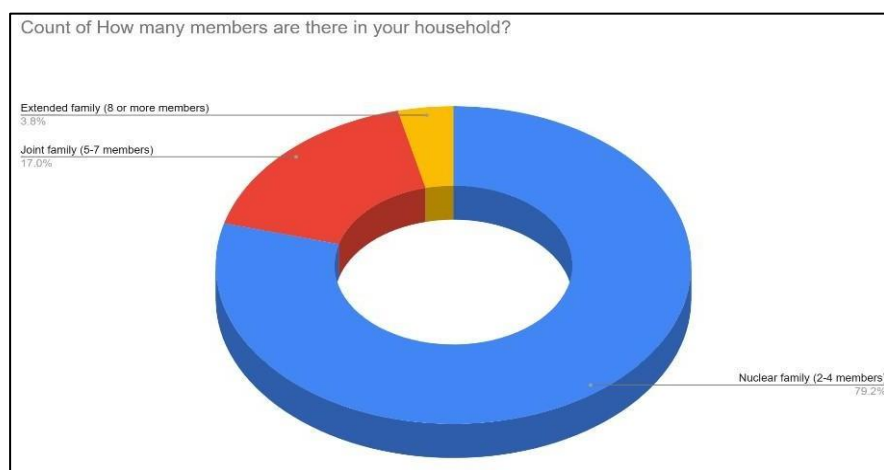
### Respondents monthly household income:



### Interpretation:

The data represents the approximate monthly household income (INR) distribution of the respondents. The largest group (32.1%) reported earning less than ₹25,000 per month. This is followed by 30.2% of respondents with incomes between ₹25,000–₹50,000. A smaller portion (24.5%) reported incomes above ₹1,00,000, and 13.2% reported earning between ₹50,001–₹1,00,000. This indicates that while a smaller percentage of respondents make higher earnings, the majority are in the lower to mid-income bracket.

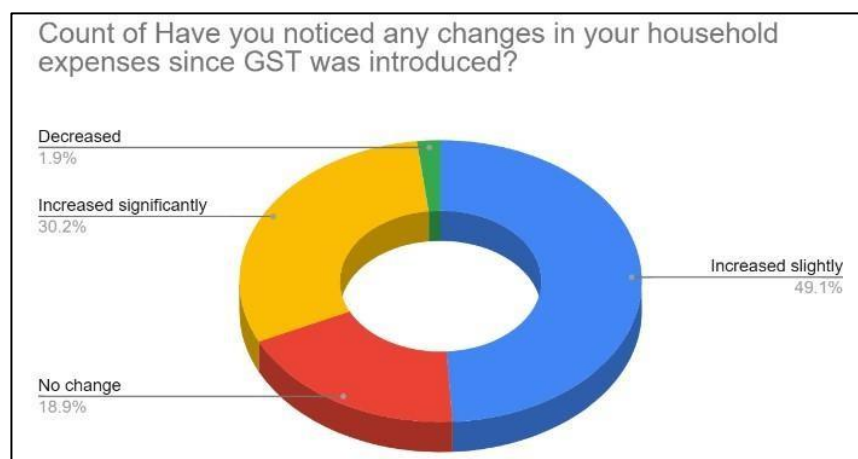
### No of family members of respondents:



### Interpretation:

The data illustrates the household size distribution among the respondents. The majority (79.2%) live in nuclear families consisting of 2–4 members. Around 17.0% of respondents belong to joint families with 5–7 members, while a small proportion (3.8%) live in extended families with 8 or more members. This indicates that nuclear families are the dominant household type among the respondents, with fewer individuals living in larger family arrangements.

### Changes noticed by respondents In household expenses after GST came into effect:

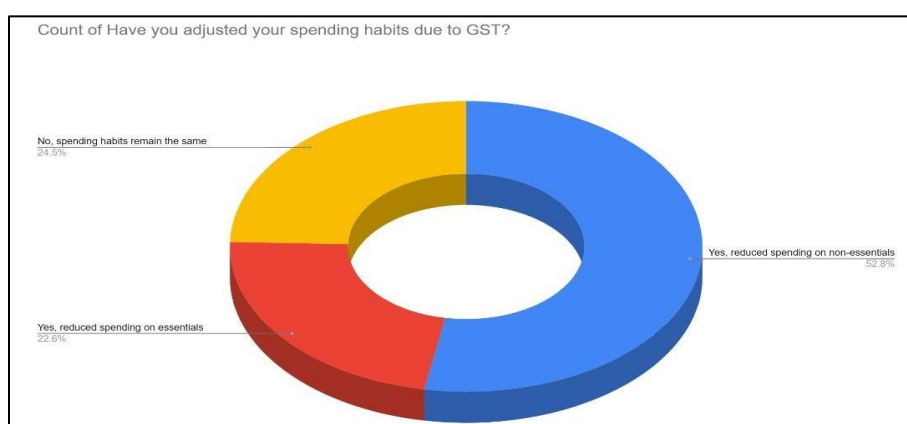


#### Interpretation:

The data highlights respondents' perceptions of changes in household expenses since the introduction of GST. A majority, 49.1%, reported that their expenses have increased slightly, indicating a modest impact for most households. Additionally, 30.2% observed a significant increase, reflecting a considerable financial effect for a substantial portion of respondents.

Meanwhile, 18.9% noted no change, and a small fraction, 1.9%, experienced a decrease in expenses. These findings suggest that the implementation of GST has predominantly resulted in increased household expenses, with the majority reporting either slight or significant rises

### Changes in Respondent's spending habits:



#### Interpretation:

The responses indicate significant adjustments in spending habits due to the introduction of GST. A majority, 52.8%, reported that they have reduced spending on non-essentials, while 22.6% have reduced spending on essentials, showcasing that GST has led to noticeable financial constraints in various areas.

On the other hand, 24.5% stated that their spending habits remain the same, suggesting that a smaller portion of respondents have not felt compelled to make changes in their expenditures. This data suggests that GST has had a notable impact on household spending patterns, particularly encouraging a reduction in discretionary spending.

Q.6 How has the implementation of GST affected your ability to save money on a monthly basis? Please elaborate on any specific areas where you have noticed changes, such as increased expenses, reduced discretionary spending, or changes in saving habits.

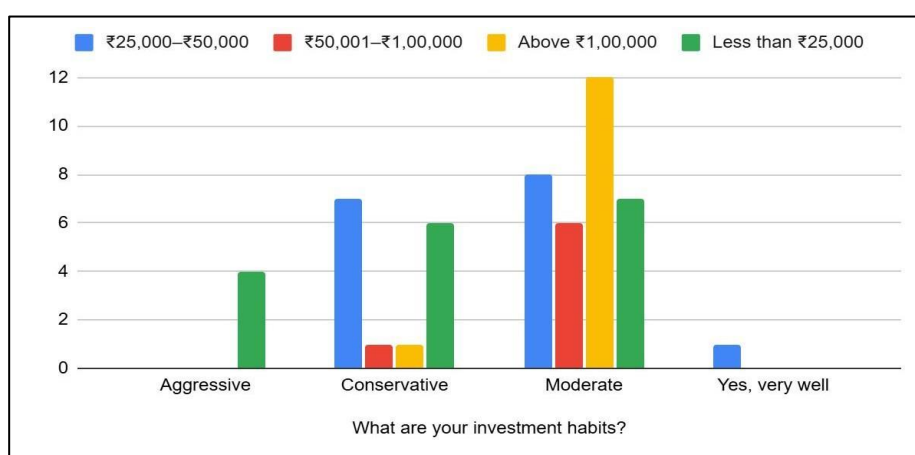
### Interpretation:

The responses to the open-ended question reveal diverse perspectives on the impact of GST on saving habits and monthly expenses. The dominant theme among respondents is increased expenses, particularly in areas like food, daily essentials, and services, which has led to a noticeable reduction in discretionary spending and savings capacity. Many individuals have expressed concerns over their reduced ability to save consistently, citing higher costs for essentials as a primary factor.

Some respondents highlighted specific adjustments, such as budgeting more carefully, cutting back on leisure activities, or exploring investments to offset increased expenses. A few have reported no significant impact, either due to adjustments in their income or minimal lifestyle changes. A small minority perceived positive impacts, such as simplification of taxation and increased financial transparency, enabling better planning.

Overall, GST has predominantly resulted in increased household expenses and reduced savings for most, although some individuals recognize its broader benefits for infrastructure development and economic growth.

### Relationship Between Monthly Household Income (INR) and Investment Habits





### Interpretation:

This bar chart depicts the relationship between income levels ("Less than ₹25,000," "₹25,000–₹50,000," "₹50,001–₹1,00,000," and "Above ₹1,00,000") and investment habits ("Aggressive," "Conservative," "Moderate," and "Yes, very well").

The "Moderate" investment habit is most prominent among higher-income individuals, with 12 people in the "Above ₹1,00,000" income level and notable numbers in the "₹25,000–₹50,000" and "₹50,001–₹1,00,000" ranges. "Conservative" habits are seen primarily in the middle-income groups, with 7 in the "₹25,000–₹50,000" range and 6 in "₹50,001–₹1,00,000." "Aggressive" investment is most common among individuals earning "Less than ₹25,000" (4 responses). The "Yes, very well" category sees minimal responses, with only 1 person in the "₹25,000–₹50,000" income range. Overall, higher-income levels correlate with a preference for moderate investment habits.

### Summary of Findings

The study examined the impact of GST on household expenses, focusing on its effects on consumption patterns, savings, and financial stability across various demographics. Key findings include:

1. **Occupational Impact:** A significant portion of respondents were students, reflecting limited or dependent income sources, while smaller proportions represented salaried, selfemployed, homemaker, and retired groups.
2. **Income Distribution:** Most respondents fell into the lower-to-mid-income brackets, with a notable portion earning less than ₹25,000 per month. This group exhibited greater sensitivity to changes in expenses due to GST.
3. **Family Structure:** Nuclear families dominated the sample, highlighting individual household dynamics and their financial adaptability to GST-induced changes.
4. **Household Expenses:** Nearly 80% of respondents reported an increase in household expenses post-GST, with a majority observing slight to significant rises, impacting their financial flexibility.
5. **Spending Habits:** Over half of the respondents reduced spending on non-essentials, while a smaller proportion cut back on essentials, indicating adjustments to financial constraints imposed by GST.
6. **Savings Impact:** Respondents highlighted increased expenses on necessities like food and healthcare, reducing discretionary spending and savings capacity. Few reported exploring budgeting or investment strategies to manage the impact.
7. **Perceived Benefits and Challenges:** While many respondents identified financial strain due to GST, some acknowledged benefits such as tax simplification, transparency, and potential long-term advantages for economic growth.
8. **Household Income:** A significant number of respondents reported a negative impact on household income, although some experienced a neutral or positive effect

depending on their income levels and spending patterns.

**Suggestions:**
**1. Revise GST Slabs for Essential Goods:**

The government should consider lowering GST rates for critical goods such as groceries, healthcare services, and education. A separate tax slab for daily necessities would reduce the burden on middle-income families, ensuring that essentials remain affordable.

**2. Introduce GST Rebates for Middle-Income Groups:**

Develop a system of targeted GST rebates or tax credits for middle-income families. This could work similarly to income tax deductions, providing relief without disrupting overall tax revenue.

**3. Strengthen Price Monitoring Mechanisms:**

To prevent businesses from overcharging under the guise of GST, stricter price monitoring and penalties should be implemented. Transparency in pricing post-GST ensures fair consumer practices.

**4. Promote Community-Based Financial Guidance Programs:**

Local governments and NGOs could organize workshops to educate households on budgeting, expense tracking, and efficient saving strategies in a GST-influenced economy.

**5. Expand Digital Financial Tools:**

Develop user-friendly apps that help families calculate GST on purchases and identify cost-effective products and services. This would empower consumers to make more informed

financial decisions.

**6. Subsidies for Essential Service Providers:**

Offer subsidies to providers of essential goods and services, allowing them to maintain lower prices despite higher GST rates. This reduces the cost burden without compromising the tax system.

**7. Encourage Cooperative Consumer Models:**

Promote cooperative stores and community buying groups that pool resources to negotiate bulk discounts, reducing overall costs for households. Government incentives could make these models more viable.

**8. Incentivize Sustainable Consumption:**

Provide lower GST rates for eco-friendly products and services. This not only eases household expenses but also aligns with broader environmental sustainability goals.

**9. Periodic Impact Assessments and Adjustments:**

Conduct regular studies on the impact of GST on various demographics and adjust tax policies based on findings. This ensures the system remains adaptable to evolving economic realities.

**Conclusion:**

The study underscores the multifaceted impact of the Goods and Services Tax (GST) on the household expenses of middle-income families. While GST has simplified the tax structure and promoted transparency in the taxation system, it has also introduced financial challenges for many households, particularly through increased costs of essential goods and services. The findings reveal a significant strain on discretionary

spending and savings capacity, highlighting the need for targeted policy interventions to balance economic equity and revenue generation.

Despite these challenges, GST's long-term benefits, such as reducing tax cascading and fostering a uniform tax regime, cannot be overlooked. Policymakers must address the concerns of middleincome families by revisiting tax slabs, offering targeted rebates, and enhancing awareness about financial planning in a GST-influenced economy.

This study contributes valuable insights into understanding how indirect taxation shapes household finances, emphasizing the importance of continued reforms to ensure that GST evolves into an inclusive system benefiting all sections of society. The observations and suggestions presented here provide a roadmap for aligning taxation policies with the needs of middle-income families while sustaining the nation's economic growth.

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