
GST AND SOCIAL CHANGE IN INDIA: A STUDY OF ECONOMIC AND SOCIETAL IMPLICATIONS

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ABSTRACT¹

The Goods and Services Tax (GST) was implemented in India on July 1, 2017, marking a significant tax reform designed to unify the indirect taxation framework, eradicate cascading taxes, and sister a smooth national market.

In recent years, the government has adjusted GST rates on various goods and services, sparking considerable debate about its effects on different segments of society. This paper aims to assess the impact of the new GST rates on India's middle class, a demographic that constitutes a large part of the nations consumer base and plays a crucial role in driving economic growth.

The middle class in India is especially responsive to price fluctuations in everyday goods and services, which include essential items, utilities, consumer durables, education, healthcare, and lifestyle products. Adjustments in GST rates directly influence disposable income, purchasing power, and consumption habits for this demographic. This study investigates how the revised GST rates have affected household spending, consumption patterns, and overall economic sentiments among middle income families. It also examines whether these changes have been progressive, regressive, or neutral, given that GST is a consumption-based tax applied uniformly across income levels, in contrast to the progressive nature of income tax.

In terms of methodology, the paper utilizes blend of quantities and qualitative analysis. It analyses household surveys, government data on GST collections, and price indices to identify spending patterns before and after the rate changes. Furthermore, interviews with households, small businesses, financial experts offer valuable perspectives on the perceived advantages or disadvantages of these adjustments. The research also takes into account the role of the Goods and Services Tax (GST) introduced in India on July 1, 2017, as a pivotal tax reform aimed at consolidating the indirect tax structure, eliminating cascading taxes, and encouraging a seamless national market.

Keywords: GST, middle class, India, tax reform, household expenditure, indirect taxation.

¹ Central Goods and Services Tax Act, No. 12 of 2017, India Code (2017).

Introduction-

The Goods and Services Tax (GST), which was introduced in India on July 1, 2017², represented a major overhaul of the nation's indirect taxation framework, replacing a complicated array of Central and State taxes with a streamlined tax system.

The main goal of GST was to simplify that tax process, establish a unified national market, and mitigate the cascading impact of various taxes on goods and services. Although the reform sought to boost economic efficiency and enhance government revenue, its effects on various socioeconomic groups, especially the middle class, have been significant and complex.

In India, the middle class is often seen as the backbone of the economy, constituting a vital consumer base whose spending habits are essential for maintaining demand across different sectors. Any changes in GST rates have affected direct impact on their Purchasing power, consumption patterns, and overall financial health. The categorization of goods and services into multiple GST slabs ranging from 0% to 28% has presented both opportunities and challenges for the middle class. Basic goods and daily necessities typically incur lower rates, while luxury items and certain services are subjected to higher tax rates, affecting discretionary spending.

Moreover, the introduction of GST has influenced pricing strategies, inflation rates, and household budgets, leading middle-class families to reevaluate their consumption decisions. In addition to the direct financial consequences, the reform has also altered complainant obligations for middle-class entrepreneurs and salaried workers involved in small-scale business ventures, adding another layer of complexity.

This paper intends to investigate how different GST rates affect the economic behavior of the middle class in India.

By analyzing elements like shifts in disposable income, consumption habits, and the affordability of goods and services, the study aims to offer a thorough insight into how GST impacts the daily financial choices of this vital segment of society.

Furthermore, the paper will assess if the anticipated benefits of GST such as tax rationalization

² Constitution (One Hundred and First Amendment) Act, 2016, Gazette of India.

and enhanced economy efficiency have resulted in real advantages for middle class families, or if the tax burden has unfairly impacted their quality of life.

Objectives behind introducing GST and Subsequent Rate Revisions-³

Prior to GST, the Indian economy was burdened with multiple indirect tax landscape. Before the implementation of GST, the Indian economy faced the challenge of multiple indirect taxes, including excise duty, VAT, service tax, and entry tax, resulting in a convoluted and fragmented tax system. The main aim of GST was to establish a unified national market by consolidating these various taxes into a single, comprehensive framework. This initiative was designed to mitigate the cascading effect of 'tax on tax,' improve transparency, and simplify compliance for both businesses and consumers.

Another crucial objective was to enhance the efficiency of tax administration through the digitization of processes, broadening the tax base, and combating tax evasion. By advocating the principle of 'One Nation, One Tax, One Market,' GST aimed to facilitate smooth interstate trade, enhance the ease of doing business, and attract increased foreign investment. Additionally, the reform sought to ensure an equitable distribution of tax revenue between the Centre and the States via a strong sharing mechanism.

The subsequent adjustments to GST rates have primarily been influenced by the necessity to reconcile two competing priorities: generating revenue for the government and maintaining affordability for consumers. Rate changes have frequently been implemented to tackle inflationary pressures, rectify anomalies, or provide relief to specific sectors and consumers, particularly the middle class. For example, lowering GST on essential goods was intended to alleviate household financial strain, while raising rates on luxury items aimed to sustain revenue without unduly burdening the average citizen. Therefore, the implementation of GST and its regular updates demonstrate an ongoing effort to simplify taxation, uphold fiscal stability, and guarantee that the system adapts to economic conditions and the hopes of India's large middle class.

Social implications-

The introduction of the Goods and Services Tax (GST) in India has significantly social

³ Ministry of Finance, Government of India, GST: One Nation, One Tax Framework (Official Materials).

consequences, especially for the middle-class demographic, which constitutes a large segment of the nation's consumer market. Although GST was designed to simplify taxation and minimize cascading taxes, its complex structure featuring rates of 0%, 5%, 12%, 18%, and 28% has presented both advantages and obstacles for middle class households, affecting their consumption habits, views on equity, and overall quality of life.⁴

One of the most pressing social consequences is the weight of indirect taxation on middle class families. In contrast to direct taxes that are progressive, GST is primarily a consumption-based tax, meaning that households incur higher costs as their consumption increases, irrespective of their income levels. This has a profound impact on Middle income families, as they are the main consumers of goods and services that fall within the 12% and 18% GST categories, including household appliances, educational materials, personal care items, and dining experiences. While essential goods like basic food items are frequently exempt or taxed at lower rates, discretionary expenditures face higher rates, which affects household finances and compels middle class families to rethink their spending priorities.

The way fairness and equity are perceived significantly influences the social reaction to GST. Many middle-class consumers view certain GST slabs as regressive, especially when essential urban living items like electricity, education, and healthcare services incur higher taxes than expected. The viewpoints are intensified by a lack of understanding regarding input tax credits, which tend to favor business over end consumers. Such feelings of inequity can lead to dissatisfaction among the middle class, undermining trust in government policies and shaping public discussions about the fairness of taxation.

Another important social outcome is the impact on living standards and consumption habits. Middle class families frequently modify their lifestyle choices in response to prove fluctuations caused by the new GST rates. For example, increased taxes on services such as dining out, gym memberships, or domestic travel can result in decreased discretionary spending, thereby affecting leisure activities, nutrition, and social interactions. Families might choose locally produced options or entirely skip certain services, indicating a shift in consumption trends that can have broader economic implications.

Lastly, the experience of the urban versus rural middle class under GST reveals regional

⁴ GST Council Secretariat, GST Rate Rationalization Discussions and Reports.

disparities. Urban middle class households are more likely to engage with services and non-essential goods that carry higher GST rates, while rural middle-class families often allocate a large portion of their income to basic commodities, which are typically taxed at lower or zero rates. This difference not only influences spending behavior but also impacts social mobility and access to lifestyle amenities, leading to varied effects within the middle-class demographic itself.

Although GST is designed to establish a cohesive tax framework and minimize inefficiencies, its effects on the middle class are multifaceted. The weight of indirect taxes, perceived disparities in tax rates, shifts, in living standards, and varying experiences between urban and rural areas all contribute to the socioeconomic consequences of GST. Grasping these elements is essential for policymakers who aim to reconcile revenue generation with social fairness and the well-being of a demographic that is vital to India's economic advancement.

Comparative Analysis-

Pre-GST V. Post GST regimes:⁵

Prior to the introduction of the Goods and Services Tax (GST) in India, the tax environment was marked by a variety of indirect taxes, such as:

- Value Added Tax (VAT): Applied to free sale of goods within a state.
- Service Tax: Charged on the provision of services
- Excise Duty: Imposed on the production of goods.

This complex tax framework resulted in a cascading effect, where taxes were imposed on other taxes, thereby elevating the overall tax burden on consumers.

The rollout of GST was designed to simplify this framework by merging multiple taxes into a single tax system. GST operates as a destination based tax, which means it is collected at the point of consumption instead of the point of origin. This reform was anticipated to mitigate the

⁵ Report of Task Force on Indirect Taxes, Government of India.

cascading effects, enhance tax compliance, and Foster a cohesive national markets.

Different Impact: Lower, Middle, and Upper- Middle Classes:

The effect of GST differs among various income brackets:

Lower Class: Typically exempt from GST or enjoy reduced tax rates on essential items. Thus demographic may see a decrease in their overall tax load thanks to these exemptions and lower rates.

Middle Class: This group bears the brunt of GST due to their higher consumption of taxed goods and services. Consequently, they may face an increasing in living costs, particularly if essential products are taxed at elevated rates.

Upper- Middle Class: Although they are impacted by increased taxes on luxury goods, they possess a larger disposable income to manage this effect. Additionally, thus group may gain from exemptions reduced rates on specific goods and services.

Recent Developments in India's GST Structure⁶

In September 2025, the Indian Government revealed major modifications to the GST Framework:

Simplification of Tax Slabs: The GST slabs were streamlined from four to two- 5% and 18%. A new 40% slabs were introduced for luxury and sin goods.

Reduction in Tax Rates: Taxes on essential products like toothpaste, shampoo, and packaged foods were lowered to 5%. Items such as small cars and certain electronics experienced as drop from 28% and 18%.

Exemptions: Individual life and health insurance policies were made exempt from GST.

These reforms aim to alleviate the financial strain on the middle class and boost domestic demand. For an average Middle-class family earning around 12 lakh per year, everyday expenses totaling approximately 6 lakhs annually could result in savings of nearly 45,000 each

⁶ GST Council Press Releases on exemptions and slab restructuring.

year due to these GST reductions. Now total 1.25 lakh can be saved through the income tax relief.

Government's approach to balancing revenue without affordability-⁷

Dual Rate/ simplified slabs structure: A significant change in 2025 involved the consolidation of the 12% and 28% slabs into mainly two slabs (5% and 18%), along with 40% slabs for sin and luxury goods. Thus, streamlining reduces the number of tax categories, alleviating the tax burden on many everyday products, thus enhancing affordability.

Targeted Relief for the Middle Class: Goods and services that are frequently used by middle income families (such as FMCG items, personal care products, small cars, cement, etc.) Have seen their tax rates lowered, providing direct assistance to the middle class. For example, the GST on "small cars and select electronic" has been reduced from 28% to 18%, and beauty/ personal care items have been shifted to lower tax rates.

Offsetting losses through Higher Rates on Sin and Luxury Goods: To balance the revenue lost from reduced rates on commonly used Goods, the government has implemented higher GST rates on luxury and sin Goods, or revised valuation rules for certain products. For instance, 40% slabs have been introduced for sin and luxury items.

Anticipation of increased consumption and expanding tax Base: The government and analysts predict that lowering GST on numerous items will boost consumption, which will subsequently enhance turnover and total GST Collections; this is achieved through lower rates but higher volumes. This aspect is crucial in the revenue versus affordability equation.

Fiscal Consolidation and Debt Management: The Government must uphold fiscal discipline. Rating agencies like Moody's have pointed out that revenue losses must be controlled to prevent excessive borrowing or deterioration of credit metrics. Therefore, Rates reductions are carefully calibrated and paired with cost controls or spending adjustments in other areas.

Input from Expert Committees, the GST Council, and Decision Processes-

The GST Council Serves as the main authority for making decisions regarding changes to the

⁷ Economic Survey of India, Discussions on indirect Taxation and Consumption.

GST rates structure. This body comprises finance Ministers from both the Union and State levels.

During its 55th meeting in September 2025, the Council approved a new dual- slabs structure.

In previous research, the National Institute of Public Finance and Policy (NIPFO) has advocated for the rationalization of rates. For instance, a study conducted by NIPFP in 2021 proposed a three rare structure (8%, 15%, 30%) as a Menasha to achieve rationalization without incurring significant revenue losses. The Hindu studies have also provided insights on how reallocation goods among different slabs and simplifying the structure could enhance consumption and expand the tax base. These findings contributed to the discussions held by the GST Councils.

Data and Modelling: Various factors such as estimates of revenue foregone, demand elasticity, consumer behavior, inflationary effects, and household saving estimates are taken into account. For example, SBI Research projected a consumption increase of 1.98 lakh Crore, but also indicated a potential revenue loss of approximately 85,000 Crore annually as a result of the 2025 reform.

Feedback from States:

Different states experience varying impacts; some face revenue losses, particularly those with a smaller industrial base or those that are more consumer oriented compared to producer/manufacturer states. During meetings, numerous states expressed their concerns regarding revenue losses (such as Kerala and Jharkhand). Issues related to compensation, delays, and expectations also play a significant role.

Criticism and Public Opinion Regarding the Rate Structure⁻⁸

Concerns about Revenue Loss and Fiscal Deficit:

Critics contend that excessive concessions (rare reductions) will undermine the revenue base, particularly during challenging years, complicating states' ability to implement welfare or capital programs. They express worries that the fiscal framework between the Centre and States

⁸ Reserve Bank of India, Handbook of Statistics on Indian Economy.

will be undergoing pressure.

Complexity V. Simplicity Trade-off:

Although simplification is an articulated objective, there are apprehensions that consolidating slabs, altering valuations, exception clauses, and definitions of 'sin goods' could introduce new complexities or result on frequently rule changes. Businesses incur compliance costs due to these ongoing modifications.

Impact on Middle Class V. Upper Class:

Some claim that numerous tax cuts favor middle -income consumers, yet other highlight that the affluent also gain unless progressive rates are Sigourney applied. Luxury items, despite being taxed heavily, still experience Some distortion or evasion. Certain rate hikes in specific categories (such as Coal, which impacts various industries) may indirectly contributed to inflation.

Public Sentiment Against Increasing Basic GST Slabs:

Polls indicate that the public is largely against raising GST rates on lower slabs (first instance from 5% to 7-8%, or from 18% to 20% as these changes directly influence household finances.

Equity Considerations:

Concerns have been caused about whether GST rates reductions truly benefit the most vulnerable populations. Whole many essential goods have been moved to lower rates or exempted, numerous items used by lower- middle or impoverished households still incur non-zero GST. Those in informal sectors or lacking easy access to formal supply chains may not fully reap the benefits. Additionally, indirect costs (such as transportation and utilities) continue to drive up prices.

Transitional issues and State financial health:

Several states have reported significant revenue deficits, seeking compensation or permanent solutions to safeguard their financial stability. They also argued that prior commitments (like guaranteed annual revenue growth for five years) have lapsed, leaving them vulnerable.

Conclusion-⁹

The recent revamp of the GST framework in India, particularly the simplification into two primary slabs (5% and 18%) along with an additional 40% for luxury and sin goods, signifies a major transformation in the government's indirect tax strategy. From the viewpoints of the middle class, this reform seems to provide substantial short-term relief and indicates a wider policy shift aimed at boosting consumption and alleviating financial burdens on typical households.

Empirical data indicates that middle income families, especially those earning between ₹8 to ₹20 lakh per year, are poised to gain from reduced tax obligations on commonly used goods and services. Everyday items like packaged foods, toiletries, household cleaning supplies, and certain electronics have experienced a decrease in GST rates from 18% or 28% to 5% or 18%. These reductions directly lead to an increase in disposable income. Some evaluations suggest an annual saving of ₹49,000 to ₹50,000 per household, further enhanced by Concurrent income tax relief. These dual advantages can stimulate household spending, which is essential for maintaining economic momentum, particularly in demand driven economy like India.

Nevertheless, the overall impact should also be considered from a long-term perspective. The middle class in India is ambitious, and any policy that influence their disposable income, educational expenditures, healthcare Accessibility, or investment potential has far reaching implications for national progress. By making essential consumption items more affordable, the new GST rates resonate with economic aspirations of this demographic facilitating greater access to quality-of-life products and promoting upward mobility.

However, challenges persist. The anticipated revenue loss from extensive rate reductions is estimated to exceed ₹90,000 crore each year. If this deficit is not balanced by increased consumption, enhanced compliance, or a broader tax base, it could put pressure on public finances. This situation might subsequently impact government expenditure on infrastructure, education, and healthcare critical sectors for the middle class. Additionally, the demands for compensation from state governments raise issue regarding fiscal federalism and the Sustainable distribution of resources.

In summary, while the updated GST framework offers concrete advantages to the middle class

⁹ Ministry of Finance GST Collection Reports and Revenue Statistics.

in the immediate term, its long- term effectiveness hinged on its ability to stimulate enough economic activity to counter balance revenue losses. The challenge for policy makers lies in ensuring that fiscal responsibility and economic inclusivity are aligned empowering the middle class without Jeopardizing macroeconomic stability.