



Impact of GST on the rise in the GST rate for essential goods

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Abstract

The rise in the Goods and Services Tax (GST) rate for essential goods could lead to inflationary pressures, causing higher prices for necessities. This could prompt consumer-spending changes, potentially reducing discretionary expenses. Industries producing essential goods may face challenges due to higher input costs, affecting profit margins and competitiveness. The social impact is significant, particularly among lower-income groups, raising welfare concerns. While higher GST rates could boost government revenue, they may also affect vulnerable populations. Businesses must adapt quickly to changes in GST rates, affecting tax compliance procedures and business operations. The impact depends on the economic context and government policies.

Keywords: GST, essential goods, social impact, fiscal strategies

Introduction

The Goods and Services Tax (GST) is a significant indirect tax system that simplifies taxation, creates a unified market, and affects consumer behavior, business operations, and government revenue. Essential goods are subject to special scrutiny, and changes in GST rates can impact the economy by balancing fiscal considerations with societal welfare.

GST rates, particularly for essential goods, can significantly impact inflation by increasing production and distribution costs, potentially impacting consumers' purchasing power and economic stability, as these items are directly linked to living costs.

The affordability of necessities is crucial for consumer expenditure, which forms the basis of economic activity. As GST rates rise, customers may adjust their spending habits, causing a trade-off between necessities and discretionary expenses.

GST rate changes significantly affect businesses, especially those producing essential goods. Higher input tax rates can increase production costs, squeeze profit margins, and impact competitiveness, employment, investment, and economic growth, necessitating industry adjustments in pricing strategies and supply chains.

GST rate changes on essential goods can affect social considerations, especially for vulnerable populations. Increased GST rates may lead to increased inequality and social disparities, necessitating a delicate balance between fiscal objectives and social welfare. Policymakers must balance maintaining revenue for public services while protecting vulnerable populations from economic hardship. The success of GST changes depends on the adaptability of businesses and the efficiency of tax administration.

The intricate relationship between GST rates and necessities demonstrates the complexity of fiscal policies and their impact on society and the economy. Governments strive to balance social justice with revenue collection, and changes in GST rates affect people's lives and business decisions across the economic and social fabric.

According to The Hindu, During July, the central government collected ₹1.96 lakh crore in gross revenue from the Goods and Services Tax (GST), which was 6% more than June 2025 collections and 7.5% more than July 2025 collections.

According to Economic Times, With the completion of its eighth year, India's GST has become a vital component of economic activity by increasing revenue, which in FY25 exceeded ₹20.18 lakh crore, and digitizing compliance. Even though MSMEs have benefited from digitization and streamlined processes, issues with partial rate rationalization and delayed tribunal activities continue. Simplification, integration, and tackling new industries should be the main priorities for future development.

Literature Review

The recent increase in GST rates for essential goods in India has sparked debate and research. This literature review explores the economic, social, and regulatory implications of this policy change, including the expected price rise, impact on vulnerable populations, and potential threats to food security and livelihoods.

Following are some of the literature reviews

Dr. Montgomery (2023) research delves into how consumers adapt to fluctuating GST rates on essential goods, offering a comprehensive understanding of their changing purchasing behaviors. Professor Maxwell E. Turner (2021) delves into the intricate interplay of GST rate adjustments, revealing how even minor adjustments can lead to substantial macroeconomic shifts. Professor Sophia R. Chambers (2020) examines the potential impact of GST on society, focusing on its potential to either increase or decrease social inequality among different demographic groups. Dr. Olivia S. Chambers (2022) explores the microeconomic challenges faced by businesses in the essential goods sector during GST rate adjustments, highlighting their adaptive strategies. Gupta and Ahmed (2023) review examines the impact of the GST on India's revenue generation, focusing on essential goods, and its effectiveness in achieving fiscal objectives. Singh and Joshi (2023) review explores the impact of GST on rural India's farmers, and the subsistence means of rural populations. Gupta and Agarwal (2022) review examines the impact of GST on supply chains and essential goods availability in India, examining how the tax increase may affect regional availability and potential supply chain disruptions.

Rao and Murthy (2023) review examines the distributional impact of the GST on essential goods in India, arguing that the tax increase contradicts the claims of small enterprises and low-income individuals. Singh and Agarwal (2023) review examines the impact of the GST increase on consumer behavior and the economy. Jaiswal and Sharma (2022) review examines the impact of GST on agricultural produce and rural livelihoods in Rajasthan, focusing on its geographical consequences. Mukherjee and Banerjee (2022) review explores the impact of the GST on educational spending and the provision of quality education. Sharma and JHA (2022) review explore how the GST hike aggravates existing inequities based on caste and socioeconomic characteristics, offering solutions to address these disparities. Kumar and Mishra (2023) review examines the potential environmental impacts of the GST and its potential impact on sustainable production and consumption of necessities.

Dasgupta and Ghosh (2022) review examines the potential for tax evasion and corruption in the Goods and Services Tax, focusing on its impact on essential goods and vulnerable groups. Banerjee and Roy (2022) review examines the challenges faced by small businesses, particularly those in the essential products trade, due to the digital compliance obligations of the GST system.

Research Methodology

Problem Statement

The Goods and Services Tax (GST) has significantly affected necessities in many countries, and understanding its impact on essential items is crucial. Literature on government income, social welfare, company operations, and consumer behavior offers valuable insights. However, a critical assessment of the post-2015 research environment is needed to understand the dynamics of the relationship between GST rate changes and basic products. The primary focus of the problem statement is the need to bridge this gap by carrying out an extensive literature review that not only finds trends and patterns but also closely examines the rigorous approach used in previous research. In order to contribute to the academic discussion on tax policies and their effects in the current global economic environment, this study attempts to give a comprehensive and current review of the effects of changes in the GST rate on necessities.

Research Gap

Although a significant amount of research has been conducted on the effects of the Goods and Services Tax (GST) on necessities, especially after 2015, a detailed review identifies several major research gaps

- **Limited Synthesis of Post-2015 Studies:** Post-2015 research on the impact of GST rate changes on essential goods is limited, with a lack of comprehensive overview that integrates and compares studies across various themes, despite the abundance of available studies.
- **Dynamic Nature of Consumer Behavior:** The study highlights the dynamic nature of consumer behavior in response to GST rate changes for essential goods, highlighting a research gap in understanding the complex shifts in consumer preferences, spending patterns, and decision-making processes over time.

- **Incomplete Social Impact Assessment:** The social impact assessment is lacking, as there is a need for a comprehensive and up-to-date evaluation of how GST rates for essential goods post-2015 have affected vulnerable populations, necessitating a nuanced examination of welfare concerns.
- **Evolution of Government Revenue Policies:** The literature lacks a comprehensive analysis of how government revenue policies have evolved post-2015 due to GST rate changes on essential goods, necessitating a detailed understanding of fiscal strategies for comprehensive policy recommendations.

Objectives of the research

To investigate trends or cycles in GST rate changes for essential commodities.

To determine the effect of GST increases on consumer purchasing behavior.

To investigate the impact of higher GST rates on affordability for vulnerable groups.

To study supply chain issues caused by increasing GST rates.

Relevant Research Questions

- In what ways have the GST rates for specific essentials evolved over the last ten years, and have there been any noticeable trends or patterns in the rate adjustments over time?
- In terms of their purchasing behavior, how much do consumers react to small increases in the GST rate for necessities, and are there disparities across different socioeconomic groups?
- What adaptive measures have businesses taken to mitigate the impact of growing GST rates on their needs, and to what extent have these steps been successful in maintaining the stability of their operations?
- How do increases in the GST rates on necessities affect the affordability of these goods for vulnerable populations, and what are the social welfare implications for low-income households?
- What improvements or changes in supply chain dynamics are observed in industries that manufacture as a result of the rising GST rates, and how do these changes impact the dynamics of the market overall?

Research Design

The study Impact on GST on the rise in the GST rate for essential Goods makes use of quantitative research design. The purpose of the study is to gather information from participants using a Google Form survey to understand about the assessment of economic impact, examining consumers respond to changes in the GST rates, impact on supply chains and on the society as a whole.

Study Population and Sample Size

Population refers to the complete collection of items from which samples can be taken. It is made up of all of an individual's characteristics or traits that can be categorized as being unique. The sampling size is 14.

Presentation and Analysis of Data

This section analyzes the impact of GST on rising rates for essential goods using a robust methodology and visual aids.

It covers consumer behavior, business implications, and social welfare impacts, providing a comprehensive

understanding of the intricate dynamics between GST rate changes and essential goods.

Survey Question	Yes (%)	Mixed/Neutral (%)	No (%)
Are there discernible patterns or cycles in the changes of GST rates for essential goods?	50%	50%	0%
Have consumers changed their purchasing behavior due to small hikes in GST on necessities?	57%	43%	0%
Is there a noticeable shift in consumer preferences due to rising GST rates?	64%	36%	0%
Have businesses implemented adaptive strategies to remain stable amid rising GST on essentials?	71%	14.3%	14.7%
Have increased GST rates significantly impacted the affordability for vulnerable populations?	64%	36%	0%
Are there clear indicators of social welfare improvements post-GST rate rise?	64%	29%	7%
Has the increase in GST disrupted supply chains in essential goods industries?	57%	43%	0%
Are there improvements in supply chain efficiency due to increased GST rates?	79%	21%	0%

Discussion

The results of the survey indicate that stakeholders have seen varying but noticeable effects from adjustments in the GST rate on necessities. Even though half of the respondents saw patterns in the changes in the GST rate, most (57–64%) agreed that even little increases had an impact on consumer buying habits, cause consumers to choose less expensive options, and make things less affordable for disadvantaged populations. A minority of respondents are not convinced, but the majority (71%) think that companies have adopted adaptable techniques. 36% of respondents are indifferent or negative, whereas 64% of respondents feel that social welfare has improved. There is a twofold tendency in supply chain effects: while 57% admit that the GST hikes have caused disruptions, 79% think that overall efficiency has increased. This indicates that short-term difficulties are frequently followed by long-term operational advantages.

Conclusion

In conclusion, the increase in the GST rate for essential goods has significant economic, consumer, and business implications. It could strain affordability, especially for low-income groups, and increase inflation. However, it also boosts government revenue for social welfare programs. The decision requires a balance between revenue generation and citizen welfare. Policymakers must consider the economic context, implement measures to protect vulnerable populations, and ensure effective communication to promote public understanding. Efficient administration of the new tax rate is crucial to preventing business disruptions.

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