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A change in consumer expenditure behavior since implementation of goods and service tax in India

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Abstract

The implementation of Goods and Services Tax (GST) has contributed to the changes in price of consumer goods and services due to the rising cost of production and supplies. This situation may have reduced total consumer demand due to decrease in purchasing power and change in consumer buying behavior. After its implementation there has been mixed reviews from the stakeholders. The GST is said to have altered the prices of goods and services. In the present study an attempt has been made to analyses the consumer buying behavior after the implementation of GST. Questionnaire based survey was carried out in the western Uttar Pradesh with a sample size of 350 and the data was analyzed using appropriate statistical tools. This study is expected to provide an understanding on patterns of consumer buying behavior after the implementation of GST.

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Keywords: Consumer buying behavior, consumer demand, consumer goods, GST, Purchasing power

Introduction

The Goods and Services Tax (GST) is an indirect tax in India that has substituted plenty other indirect taxes. Parliament approved the Goods and Services Tax Act on March 29, 2017, and it came into force on July 1, 2017. The Goods and Services Tax Council oversees the legislation and regulations controlling tax rates. GST, which is a unified tax, has simplified India's tax structure and is likely to revolutionize the Indian economy. The Goods and Services Tax Law of India charges a multi-stage, destination-based tax on all value additions. Cleartax.in (2018, <https://cleartax.in/>).

Goods and services are taxed at five different rates for tax collection. The five tax brackets are as follows: 0%, 5%, 12%, 18%, and 28%. Individual state governments tax alcoholic and petroleum-based beverages individually. From the stage of manufacturing to the place of consumption, a product passes through several hands in its supply chain. Because the Goods and Services Tax (GST) is collected at each phase of product's life cycle, is therefore referred as a multi-stage tax. When a product goes through various stages, value is added at each stage. These value additions are subject to GST. If the products are produced in one location and consumed in another, the GST is levied at the point of consumption; hence, it is a destination-based tax.

GST Components

GST consists of three taxes: CGST, SGST, and IGST.

CGST: These taxes on intra-state sales are levied by the Central Government.

SGST: The State government is authorized to collect these taxes on intra-state sales.

IGST: These taxes are imposed by the Central Government on interstate sales.

Table 1: Show the Sale inside the State, Sales outside the state boundaries

Transaction	New Law	Old law	
Sale inside the State	CGST + SGST	VAT + Central Excise/Service tax	Revenue shared between center and state
Sales outside the state boundaries	IGST	Central Sales Tax + Excise/Service Tax	Only one type of tax in case of central taxes. The center will then share revenue with the state government.

Theoretical Framework (GST and Consumer Behavior)

The study of how individuals and organizations make purchasing decisions is known as consumer behavior. The study about how customers behave while they are exploring for, purchasing, using, reviewing, and disposal of goods and services that they perceive would meet their demands is known as consumer behavior. (Schiffman, 2015) ^[19] Marketing features such as product and design, pricing, promotions, personal traits, psychological variables, sociocultural factors, demographic variables, etc. all influence customer behavior. Taxes are an inescapable part of the purchasing process, and can take several forms, such as sales taxes, value added taxes (VAT), goods and services taxes (GST), and so on.

Taxes on purchases are sometimes included in the listed price in many nations, making them invisible due to their indirect character. Taxation on the consumption of products accounts for a sizable portion of the government's revenue. Changes in policy concerning such levies have an indirect effect on the consumer purchasing behavior. Following the successful adoption of this comprehensive tax system in other countries, the Indian government introduced it in India. It has been noticed on several occasions that consumers have difficulties in adopting the taxation system and have differing attitudes of consumption taxes. Positive perceptions and satisfaction of all stakeholders are required for the tax system to be successfully implemented.

The implementation of the Goods and Services Tax (GST) in India is likely to influence consumer behavior. Consumer spending accounts for most of the overall expenditure, and considerable changes in consumer spending behavior are projected because of pricing changes with the adoption of GST. Despite the benefits of GST implementation, stakeholders are concerned about rising costs for products and services that would affect the country's citizens. Consumers are concerned about the significant price hikes that will occur with the implementation of GST. The GST will primarily affect medium and low-income individuals. (Ibrahim, 2012) ^[17]

Gelardi (2013) applied graphical descriptive analysis to analyze tax reforms and household expenditure. The research reveals minimal or minor changes in consumer behavior after the new tax structure is imposed in the United Kingdom and Canada (Gerald, 2013) ^[4]. Taxes, on average, evoke a stronger reaction from consumers than comparative financial charges or positive incentives (e.g., rebates, subsidies, and bonuses). Some customers have a natural aversion to taxes (Sussman, 2015) ^[20], and they react more strongly to losses than to matching benefits (Cooper, 2013) ^[14].

Over several months prior to the implementation of GST in Australia, there was significant increase in domestic consumption as consumers made impulsive purchases. Domestic consumption slumped when the GST was introduced but recovered quickly (Ibrahim, 2012) ^[17]. With the hike in price of various products following the implementation of GST, customers' consumption behavior has been changed, with individuals being more cautious and

cautious when purchasing goods and services (Ibrahim, 2012) ^[7]. Even though GST implementation has resulted in changes in consumer spending behavior, these changes are not primarily the result of GST implementation (Ahmad, 2016) ^[11].

Research Gap

Global research on changes in consumer behavior following tax reforms reveals contradictory results. Some investigations claimed that consumers react considerably to tax reforms (Ibrahim, 2012) ^[17], but others argue that tax reforms have little effect on consumer purchasing behavior (Gerald, 2013) ^[4]. However, all the research determined that the tax reforms had a little or major impact on consumers. Several studies have revealed how tax reforms influence consumers, but there is no literature on how these reforms affect different demographics. The current study aims to investigate this influence across occupational categories. Because occupation is connected to consumer income, this study is expected to give a comprehensive picture of how tax reforms affect purchasing behavior.

Research Objectives

1. To investigate changes in consumer purchasing behavior and expenditure patterns following the implementation of the GST.
2. To compare consumer spending trends before and after the implementation of GST.
3. To examine the variations in purchasing behavior and spending patterns among occupational groups.

Research Methodology

The western Uttar Pradesh is selected for area of study. The data is collected from respondents through quota sampling technique. A total 350 response collected from the respondents. To collect data, a survey was carried out in western part of Uttar Pradesh with a sample of 350 respondents. A quota sampling method was used wherein the respondents were divided into three categories: private employees, government employees, and self-employed. The study includes three categories of employees in the sample in fixed proportions i.e., 15 employees from each category. The data was collected from the respondents through a structured questionnaire. The respondents were asked to fill out the questionnaire on aspects like expenditure patterns before and after GST implementation and changes in spending patterns after GST implementation for six categories of goods and services that consumers commonly use. The six categories include food, clothing and footwear, books, and stationery, FMCGs (shampoos, soaps), recreation and entertainment (hotels, movies, etc.), communication, and the internet. The changes in consumer buying behavior are measured in a five-point scale starting from strongly disagree to agree strongly, where 1=strongly disagree, 2=disagree, 3=neither agree nor disagree, 4=agree, 5=strongly agree.

Similarly, changes in spending patterns are also analyzed on

a five-point scale. The level of change is indicated by values where 1=very low, 2=low, 3=neutral, 4=high and 5=very high. The study analyzes if there is any significant difference between the three groups in the buying behavior and spending pattern ANOVA has been used. Changes in expenditure patterns are analyzed by taking the approximate expenditure before and after GST implementation. To check if there is any significant difference between the expenditure patterns, a t-test has been used. The data is analyzed using SPSS software.

Hypothesis

H01.1: There is no significant difference in changes in overall spending among occupational groups after the adoption of GST.

H01.2: There is no significant difference in saving patterns after GST implementation among the occupational groups.

H01.3: There is no significant difference in consumers' perceptions that their purchasing power has decreased after the implementation of GST among the occupational groups.

H01.4: There is no significant difference in consumers' decline in shopping frequency after the implementation of GST among the occupational groups.

H01.5: There is no significant difference in the decline in visiting restaurants after GST implementation among the occupational groups.

H02.1: There is no significant difference in changes in spending pattern on food items after the implementation of GST among the occupational groups

H02.2: There is no significant difference in changes in spending pattern on clothing and footwear after the implementation of GST among the occupational groups

H02.3: There is no significant difference in changes in spending pattern on entertainment after the implementation of GST among the occupational groups

H02.4: There is no significant difference in changes in spending pattern on FMCGs after the implementation of GST among the occupational groups

H02.5: There is no significant difference in changes in spending pattern on books and stationery after the implementation of GST among the occupational groups

H02.6: There is no significant difference in changes in spending patterns on communication and the internet after the implementation of GST among the occupational groups

H03.1: There is no significant difference between the overall expenditure's patterns of government employees before and after the implementation of GST.

H03.2: There is no significant difference between the overall expenditure's patterns of private employees before and after the implementation of GST.

H03.1: There is no significant difference between the overall expenditure's patterns of self-employed before and after GST implementation.

Results and Discussions

Demographic profile of the respondents:

This section covers the demographic profile of the respondents like age, income, education, and marital status. The maximum numbers of government employees are in the age group of 46-55, while the highest number of private and self-employed employees are in the age group of 26-35. Overall, most of the respondents fall in the group of 26-35. A majority, i.e., 80% of the total respondents, are male. Most of the respondents are well educated. 73% of the government employees are postgraduates, 86.6% of the private employees are graduates, and 26.6% are self-employed and postgraduates. 37.7% of the total respondents are graduates and postgraduates equally. 93% of the government employees are in the income group of 50000-75000, while 53% private employees are in the income group of less than 25000 and 80% of self-employed are in the income group of less than 25000. 73% of the government employees are married, 60% of the private employees are unmarried, and 66.6% of self-employed are unmarried.

Changes in consumer buying behavior after the implementation of GST

The difference in buying behavior of the respondents is given in this section. A score of 1 represents a very low change, and 5 represent a very high chance.

Table 2: Changes in respondents buying behavior due to GST

	N	Min	Max	Mean	Std. Deviation
My overall spending pattern has changed	350	1.00	4.00	3.1556	.85162
I focus on saving more	350	1.00	5.00	3.3333	.95346
My purchasing power has decreased	350	1.00	5.00	3.3778	1.00654
The frequency of my shopping has decreased	350	1.00	5.00	3.1778	1.15383
The frequency of visiting restaurants has decreased	350	1.00	5.00	3.1111	1.17207

As shown in the table, consumer buying behavior has changed after GST. All the items have a mean score above three which indicates that the consumers agree the patterns of spending have increased after GST implementation.

Changes in buying behavior according to occupation

Table 3 presents changes in buying behavior in terms of the occupation of the respondents.

Table 3: Changes in purchasing behavior according to occupation

Occupation	Mean
Government employees	2.4556
Private employees	3.5111
Self employed	3.7778

Table 3 represents mean changes in buying behavior according to the occupation. The table indicates that the highest change is noticed in self-employed respondents. High changes are also seen in private employees, while the government employees have the least changes in buying behavior.

Changes in spending patterns of the respondents

The changes in spending patterns are indicated on a five-point scale where 1 is the least change, and 5 is the highest change. Six commonly used goods and services were analyzed to study the changing patterns in spending after GST implementation. Table 4 shows the respondents' spending patterns in six categories of commonly used goods and

services.

Table 4: Changes in spending patterns of the respondents

	N	Minimum	Maximum	Mean	Std. Deviation
Food	350	1.00	5.00	3.4444	.96661
Clothing and footwear	350	1.00	5.00	3.1778	1.09314
Entertainment	350	1.00	5.00	3.2000	1.05744
FMCGs	350	1.00	4.00	3.0222	1.03328
Books and stationery	350	1.00	5.00	2.9778	.96505
Communication and internet	350	1.00	5.00	2.9998	1.01105

This table represents the changes in spending patterns among various types of goods and services.

All the items of goods and services except books, stationery and communication, and the internet have a mean score of more than 3, indicating a high change in the spending patterns after the implementation of GST. The results show low changes in spending patterns of books, communication, and the internet. The results indicate that the overall spending pattern on goods and services has increased after GST implementation.

Changes in spending patterns according to occupation

Table 5 shows the changes in spending patterns according to occupation

Table 5: Changes in spending patterns according to occupation

Occupation	Mean
Government employees	2.3444
Private employees	3.4111
Self-employed	3.6333

The table shows that self-employed respondents have shown high changes in the spending pattern on goods and services. There is high change in the spending pattern of self-employed and private employees, while the government employees are the least affected.

Testing of Hypothesis

Analysis of Variance for changes in buying behavior among the occupational groups

Table 6: Analysis of Variance for changes in buying behavior among three different groups

		Sum of Squares	df	Mean Square	F	Sig.	Inference
My overall spending pattern has changed	Between Groups	13.378	2	6.689	15.1	.000*	The null Hypothesis is rejected
	Within Groups	18.533	42	.441			
	Total	31.911	44				
I focus on saving more	Between Groups	8.400	2	4.200	5.58	.007*	Null Hypothesis is rejected
	Within Groups	31.600	42	.752			
	Total	40.000	44				
I spend more cautiously than before	Between Groups	12.133	2	6.067	8.53	.001*	Null Hypothesis is rejected
	Within Groups	29.867	42	.711			
	Total	42.000	44				
My purchasing power has decreased	Between Groups	15.244	2	7.622	10.9	.000*	Null Hypothesis is rejected
	Within Groups	29.333	42	.698			
	Total	44.578	44				
The frequency of my shopping has decreased	Between Groups	24.844	2	12.422	15.466	.000*	Null Hypothesis is rejected
	Within Groups	33.733	42	.803			
	Total	58.578	44				
The frequency of visiting restaurants has decreased	Between Groups	19.511	2	9.756	10.010	.000*	Null Hypothesis is rejected
	Within Groups	40.933	42	.975			
	Total	60.444	44				

Significant at 5%

ANOVA (Analysis of Variance) applied to test if there is any difference between the three categories' understudy in the buying behavior after GST implementation. Table 5 shows a significant difference in the buying behavior among the three groups after implementing GST. All the values are below 0.05, indicating a significant difference at a 5% level of significance. The results show a high difference in the buying

behavior among three groups.

Changes in spending pattern across the occupational groups

The changes in the spending pattern across the occupational groups are analyzed through ANOVA and presented in table 6.

Table 7: Analysis of Variance for spending patterns among three different occupational groups

		Sum of Squares	Df	Mean Square	F	Sig.	Hypothesis
Food	Between Groups	23.644	2	11.822	28.646	.000*	Null Hypothesis is rejected
	Within Groups	17.333	42	.413			
	Total	40.978	44				
Clothing and footwear	Between Groups	32.044	2	16.022	32.773	.000*	Null Hypothesis is rejected
	Within Groups	20.533	42	.489			
	Total	52.578	44				
Entertainment	Between Groups	14.400	2	7.200	8.690	.001*	Null Hypothesis is rejected
	Within Groups	34.800	42	.829			
	Total	49.200	44				
FMCGs	Between Groups	18.311	2	9.156	13.414	.000*	Null Hypothesis is rejected
	Within Groups	28.667	42	.683			
	Total	46.978	44				
Books and stationery	Between Groups	7.511	2	3.756	4.713	.014*	Null Hypothesis is rejected
	Within Groups	33.467	42	.797			
	Total	40.978	44				
Communication and internet	Between Groups	2.311	2	1.156	1.255	.295	
	Within Groups	38.667	42	.921			
	Total	40.978	44				

*Significant at 5%

H01: There is no significant difference in spending patterns among different occupational groups after GST implementation.

Ha1: There is significant difference in spending patterns among different occupational groups after GST implementation.

This table shows the variance in the spending pattern of commonly used goods and services among three different types of groups.

Table 6 shows the analysis of variance for changes in expenditure patterns of six categories of goods and services among the three groups under study. All the items except communication and internet have a value of less than 0.05, indicating a significant difference in expenditure patterns among three groups. There is no difference among the changes in expenditure pattern for communications and the internet.

Table 8: Show the Mean Expenditures

Occupation	Mean Expenditures		t	df	Sig (2 tailed)	Inference
	Before GST	After GST				
Government Employees	20896.6	21063.33	-2.480	14	0.026	Null Hypothesis is accepted
Private Employees	7643.33	9123.33	-6.059	14	0.000	Null Hypothesis is rejected
Self Employed	9606.66	11774.67	-5.026	14	0.000	Null Hypothesis is rejected

The table represents expenditure patterns before and after implementing GST of self-employed. As seen in the table, the highest mean expenditure is on food followed by clothing. The p values indicate a significant difference between the means of expenditure before and after GST implementation in five categories of goods and services. There is no significant difference between the means of spending in the case of communications and the internet.

Conclusions

Consumer buying behavior is dynamic and keeps changing due to many factors. The implementation of GST has raised many questions on how this would impact consumer buying behavior. This study was conducted to answer these questions and to check if the GST has affected spending patterns of the consumers. As consumer buying behavior is affected by income patterns and income is in turn affected by occupation, the respondents were divided into three groups: self-employed, government, and private employees. The summary of the results is given below:

- Overall, the consumer buying behavior has changed. Highest changes in buying behavior are seen in self-employed followed by private employees. The buying behavior of government employees has not changed. The government employees have assured source of income;

hence they are least affected while the self-employed earnings are not continuous; hence they are more cautious about spending prefers saving after the implementation of GST.

- There is also high change in the overall spending patterns of consumers after the implementation of GST. The greatest change is observed in spending on food. Highest difference is observed in self-employed followed by private employees. Low spending shift is noticed in government employees.
- There is a significant difference in consumer buying behavior changes after the implementation of GST. The changes in buying behavior are not uniform across the groups. The change is caused due to low changes in buying behavior of government employees, while high changes are noticed in private employees and the self-employed.
- There is a significant difference between the changes in spending patterns after GST implementation among the different groups. The difference between the groups has arisen because low change is noticed in expenditure patterns of government employees while high changes are noticed in private employees and self-employed.
- There is no significant difference between the mean expenditures of government employees before and after

the implementation of GST. Significant change is noticed only in one item, i.e., clothing.

- There is a significant difference between the mean expenditure of spending patterns of private employees before and after GST implementation. A significant difference is observed except books and communications.
- There is a significant difference in the mean expenditures of self-employed before and after the implementation of GST except in items like communication and internet.
- Consumers with less income are the most affected due to the implementation of GST. High changes are noticed in the consumers whose income is less than 25000. As discussed above high changes are seen in self-employed and the private employees. Majority of the private employees and self-employed respondents are in the income group of less than 25000. Low changes are noticed in government employees and majority of the government employee respondents are in the income group of 50000 to 75000. Hence implementation of GST has affected consumers of low-income groups while no changes are noticed in consumers under high-income groups.

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