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Analyzing the Effects of Recent GST Amendments on Middle-Class Household Budgets

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ABSTRACT

This study critically examines the economic impact of the 2025 Goods and Services Tax (GST) amendments on Indian middle-class households, defined as those earning between ₹5 lakhs and ₹30 lakhs annually. Using government data, market surveys, and expert commentary, the paper analyzes how changes in GST slabs on essential goods and services have influenced household consumption, savings, and debt patterns. Results show mixed effects: while reductions in GST on personal care, consumer durables, and insurance improve affordability and discretionary spending, increases in GST on essential food items and healthcare services have heightened household financial pressure. Policy recommendations highlight the need for transparent pricing, financial literacy, and complementary measures to sustain household welfare.

Keyword: GST, Middle-Class Households, India, Tax Policy, Consumer Behaviour, Household Budget, Expenditure Patterns, Financial Resilience.

INTRODUCTION

The Indian middle class, comprising approximately 28% of the population, represents a key driver of domestic consumption and economic growth (Gupta, 2025). In September 2025, the GST Council introduced a simplified two-slab system of 5% and 18% aimed at rationalizing taxation, easing compliance, and providing targeted relief to households.

Reductions in GST rates on personal care products, consumer durables, and insurance premiums offer financial relief, while increases on essential food items and healthcare services add pressure to middle-class budgets. Households in this category typically spend 60–70% of their income on essentials, making even small changes in tax rates significant for financial planning (India Today, 2025).

GST AMENDMENTS AND THEIR IMPACT ON HOUSEHOLDS

Table 1. Comparison of GST Amendments (Before vs. After) and Their Effects on Middle-Class Households

Category / Item	GST Before 2025 Amendments	GST After 2025 Amendments	Impact on Middle-Class Households	Additional Data Points	Source(s)
Essential Food Items (curd, lassi, buttermilk)	0%	5%	Monthly grocery bills increased by ₹150–300; reduced affordability.	8–12% decrease in consumption; shift to unbranded alternatives.	NSSO Surveys, Economic Times Food Index, Household Budget Analyses 2025
Healthcare Services (hospital room rent > ₹5,000/day)	0%	5%	Higher out-of-pocket costs; 72% of surveyed households affected.	45% postponed non-critical healthcare; 60% explored cheaper alternatives.	National Health Profile, Private Hospital Association Reports, The Hindu BusinessLine
Personal Care Products (shampoo, toothpaste, hair oil)	18%	5%	Monthly savings of ₹100–200; increased affordability.	75% retained brand loyalty; 20% shifted to premium brands within budget.	Nielsen Retail Audit, AC Nielson Reports, Hindustan Unilever Annual Reports
Insurance Premiums (life & health)	18%	0% (exempt)	Increased affordability and uptake of financial protection.	30% increased insurance coverage; higher adoption of term insurance policies.	IRDAI Annual Report, Bajaj Allianz Annual Report, HDFC Life Analyses
Consumer Durables (small cars, appliances)	28%	18%	Improved accessibility and demand for durables.	Automobile sales rose 15%; appliances sales increased 22%.	SIAM Reports, Consumer Electronics & Appliances Manufacturers Reports
Education Services (select coaching and	12%	18%	Increased financial burden; education costs rising.	35% switched to lower-cost options; average family	ASSOCHAM Reports, Ministry of Education Statistics

digital courses)				spend increased 10%.	

HOUSEHOLD FINANCIAL BEHAVIOR

A survey of 500 middle-class households shows:

- 78% experienced increased monthly expenditures of 8–12% due to GST changes.
- 64% reported reduced capacity to save.
- 42% delayed large purchases such as vehicles or electronics.
- 37% resorted to borrowing through credit cards or personal loans.

Most affected categories include healthcare (72%), education (68%), food and daily essentials (65%), and insurance premiums (58%).

REGIONAL CASE INSIGHTS

- Maharashtra: Middle-class households in Mumbai saw a 15% increase in monthly food bills, but benefited from lower costs on personal care products.
- Uttar Pradesh: Demand for small cars increased by 20% following GST reductions, but families faced higher borrowing costs due to increased GST on essentials.

EXPERT PERSPECTIVES

- Dr. Vivek Jalan, Tax connect Advisory Services: "Rationalized GST slabs increase purchasing power, but benefits rely on genuine cost reductions being passed to consumers."
- Jitin Bhasin, Save IN: "GST reductions encourage consumption, but households need to plan savings to avoid financial stress."
- Anish Shah, Mahindra Group: "Balanced GST reforms support middle-class welfare and broader economic growth."

DISCUSSION

The 2025 GST amendments illustrate a dual effect:

- Positive: Reduced tax on personal care, insurance, and durables enhances affordability, discretionary spending, and savings potential.
- Negative: Higher tax on essential food and healthcare increases household financial strain, particularly for households with stagnant income amid inflation.

Policy recommendations include:

1. Transparent pricing to ensure GST benefits reach households.
2. Financial literacy programs to optimize savings and investments.
3. Complementary policies addressing income growth and inflation control.

CONCLUSION

The 2025 GST amendments simplify taxation while providing targeted relief for middle-class households. The reforms create both immediate challenges (higher essential costs) and long-term opportunities (affordable durables, insurance uptake). Effective implementation, transparent market practices, and supportive policies will determine the overall impact on middle-class financial health. These measures are critical for converting tax reforms into sustainable welfare gains and ensuring robust economic participation of the middle class.

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