

Impact of 2025 GST Rate Reductions on Consumer Demand and Business Profitability in India: An Analytical Study of Post-Reform Market Behavior

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Abstract

The reduction in Goods and Services Tax rates in India in 2025 has turned out to be a major fiscal intervention that will help stimulate consumer demand and improve market liquidity to enhance profitability in key sectors. This analytical study looks at immediate and short-run market behavior subsequent to the reduction in GST slabs, focusing on immediate changes in pricing structures, consumer spending patterns, and profit margins. The reform targets basic and semi-essential commodities, durable goods, and services with an aim to lessen the tax burdens, widen consumption capacity, and make the retail ecosystem strong. Findings indicate that lower GST rates reduce the overall cost of many consumer products, which, in turn, is leading to higher purchase frequency and discretionary spending. This reduction has been particularly influential in price-elastic sectors such as FMCG, electronics, automobiles, and hospitality, where marginal tax changes alter demand curves. For retailers, this growth in footfall and online orders is attributed to perceived affordability and also to promotional bundling strategies. E-commerce platforms further amplify demand through discount synergies enabled by lower tax outlays. The reform enhances profitability on the business side by reducing indirect tax liabilities, improving efficiency in input tax credit, and enabling competitive pricing. SMEs, in particular, benefit from a reduction in pressure on working capital and greater flexibility in tax compliance. However, the transitional cost of compliance, the adjustment in billing, and the temporary recalibration of systems persist. Large corporations enjoy scale advantages while micro-enterprises are subject to delays during initial adaptation. Demand spurts have been reported to be better in urban markets in the region. However, rural consumption is likely to eventually catch up once distribution systems settle down. In fact, the study indicates positive sentiment among consumers, driven by expectations of being able to afford them over a longer period. Policymakers also expect that the revenue shortfall due to price cuts will be made up by more volume-based taxation of consumption. Overall, the rate reduction in GST in 2025 is seen to have promising positive impacts both on consumer behavior and profitability. Further monitoring is required in assessing inflationary pressures, sustainability of tax revenues, and sector-wise disparities. The study concludes that proactive policy adjustments and digital compliance systems will be crucial for maximizing long-term economic gains.

Keywords: GST Reform, Consumer Demand, Business Profitability, Post-Reform Market Behaviour, Tax Reduction, Price Elasticity, Input Tax Credit, Consumer Spending, SMEs, Indirect Taxation.

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Introduction

The Goods and Services Tax in India is one of the most transformational reforms carried out on the indirect taxation system in the country. GST came into effect on 1 July 2017 and integrated a fragmented tax regime, which earlier existed as cascading taxes at both Centre and State levels. This reform was the utmost priority to render a single, simplified, and transparent taxation mechanism that is business-friendly and capable of best promoting economic integration across domestic markets. In 2025, India saw another strategic restructuring of the GST rates in order to boost consumption, ensure strong business profitability, and support sectors affected by inflationary pressures and slower recovery of demand. The reduction in GST rates is part of the policy cycle for the government with the aim of encouraging demand-related growth to enhance the competitiveness of Indian enterprises.

The GST reduction has been followed by marked changes in market behavior. Lower prices of products, particularly those with high price elasticity, have led to increased discretionary spending by consumers. Correspondingly, businesses, especially in FMCG, electronics, and tourism, have tried to make the most of consumer willingness to spend through promotional bundles and optimized pricing strategies. This, along with reduced tax liability, has enabled firms to either hike margins or pass on benefits to customers, thereby aiding profit growth. SMEs have gained in terms of better cash-flow management due to reduced compliance stress and improved availability of input tax credit.

The reform's reach extends to digital commerce, where increased affordability, easier billing, and reduced delivery-cost taxation have spurred better order volumes online. Consumer sentiment surveys indicate an increase in confidence toward value purchases and lifestyle upgrades. Yet, there are still transitional challenges such as invoice restructuring, system recalibration, and additional compliance costs in the meantime, particularly for micro-enterprises with very limited technological infrastructure.

The 2025 GST rate reduction reflects the government's bigger fiscal strategy for the revival of household demand, encouragement of domestic consumption, and expansion of tax revenue through volume-driven growth. This move also aligns with global best practices under which reduced indirect tax rates are used to trigger consumption cycles at the plateau phase of economic activity. This analytical study investigates the impacts of the reform on consumer behavior, business profitability, sector-wise performance, and overall dynamics in post-reform markets. By assessing such interrelated trends, policymakers and industry stakeholders will gain greater insight into the systemic effects of tax restructuring and how these provide an opportunity for sustainable growth.

Background of GST in India

The indirect tax regime in India was multilayered, cumbersome, and inefficient before the introduction of GST. Taxes like VAT, Service Tax, Central Excise Duty, Entry Tax, and Octroi all were payable on both goods and services together. This resulted in problems such as cascading tax effects, compliance costs, and administrative duplication. Companies found it cumbersome to compute and comply with taxes because of different tax policies for different states in a federal setup. Ultimately, these issues meant higher product costs for consumers.

The GST system was, therefore, implemented with a view to address the inefficiencies in this respect and to usher in a single, unified indirect tax. GST subsumed most indirect taxes into a single national tax with input tax credit benefits that eliminate tax-on-tax effects. The Goods and Services Tax Council, comprising representatives from both the Centre and States, was established to ensure cooperative federalism in rate determination, exemptions, and compliance rules.

The introduction of GST in 2017 was one of the most critical developments in India's fiscal evolution. This system was to bring about more transparency, harmonize logistics, simplify the procedures of tax, and expand the base. Policymakers, while introducing this, divided goods and services into multiple rate slabs-0%, 5%, 12%, 18%, and 28%-depending on the classification as essential or luxury. There was a gradual introduction of technology-driven compliance mechanisms in the form of e-invoicing, digital filing, and automated reconciliation to improve tax administration.

Stakeholder feedback, economic trends, and inflationary cycles over the years thus triggered multiple revisions to the structure of GST. The government consistently kept a close eye on industry performance, consumer sentiment, and revenue implications. These cumulative insights formed the foundation for subsequent amendments, including the notable 2025 GST rate reduction.

The 2025 reform was undertaken during a period of fluctuating consumption, uneven sectoral growth, and increased input costs. Rate rationalization was adopted to stimulate demand and reduce the financial stress on businesses. The strategic adjustment reflects the long-term goal of India to reach a simplified, growth-oriented, and revenue-productive indirect tax system. Lowering selected rate brackets, encouraging better compliance, and improving ITC flows—the reform aims at deeper economic integration and expansion of business activities across all sectors.

GST Rate Structure Before 2025

Before the 2025 reform cycle, the GST system in India was characterized by several rate slabs, which were intended to classify goods and services according to their necessity, social utility, and affordability. The main five-rate structure includes: 0%, 5%, 12%, 18%, and 28%. Food grains and life-saving medicines are exempt or minimally taxed to make them affordable for low-income households. Daily-use goods, agricultural inputs, and basic household supplies usually fall under the 5% category.

Products in the 12% slab included packaged foods, intermediate goods, and affordable consumer-durables. The 18% slab was considered standard and included most manufactured items and also services like electronics, restaurants, and financial services. The highest slab of 28% was imposed on luxury items and products with negative social externalities, such as tobacco and premium automobiles, often carrying compensation cess.

The pre-2025 structure, despite being designed on considerations of fairness and revenue optimization, also received criticism. Businesses felt that classification disputes were a concern, along with high compliance and frequent clarifications leading to volatility. Consumers felt that there was an increase in tax burdens on key purchase categories, especially lifestyle products and consumer electronics. MSMEs felt working capital blockages on account of delayed input credit reconciliation. Logistic bottlenecks in interstate movement meant operational lags.

With inflationary pressures increasing and discretionary spending weakening, policymakers began to rethink the need for rationalization. The pre-2025 system was stable but proved limited in its capacity to support rapid growth in consumer markets. These concerns provided the contextual backdrop for the 2025 restructuring.

GST Reforms Overview, 2025

The 2025 GST reforms provided for a targeted rate cut in many price-sensitive product categories to boost consumption and provide relief on business margins. This reform targeted slab cuts for household electronics, affordable consumer durables, restaurant services, and selected FMCG products. Some essential intermediate goods for MSME production were shifted to lower brackets to reduce the cost of manufacturing.

Additionally, input tax credit rules were simplified in order to reduce the time taken for reconciliation and improve liquidity. E-invoice thresholds for smaller enterprises were also relaxed to reduce compliance stress. The reform emphasized digital integration, enabling automated refund processing and real-time filing validations.

Another key component is rationalizing rate slabs by reducing the number of ambiguous categories, which will minimize classification disputes. The reform encourages competitive pricing across retail chains and online marketplaces, thus supporting both urban and semi-urban consumption growth.

While consumption acceleration is the short-run objective, the long-term vision is to widen the tax base, improve compliance efficiency, and support employment-intensive sectors. Early indicators confirm upward momentum in retail spending, improved inventory turnover, and margin improvements in small-scale trade.

Rationale of the Study

- To study the impact of lower GST rates on the buying habits of consumers.
- To explore changes in profitability according to business size.
- Analysing sector-wise demand sensitivity post-reform.
- To assess improvements in input tax credit efficiency.
- To understand consumer sentiment toward price adjustments.
- To identify challenges faced during transitional compliance.

Objectives of the Study

- To evaluate the impact of GST reductions on consumer demand within India.
- To establish the trend in business profitability after the 2025 rate revision.
- To study market behavior and spending elasticity.
- To compare the pre- and post-reform pricing structures.
- To assess the impact of reforms on MSME performance.
- To provide policy and business recommendations for sustainable implementation.

Review of Literature

Chakraborty, Ananya & Bose, Raj (2023)

The authors' work "Impact of GST Rate Cuts on Business Profitability and Consumer Sentiment" analyzed the quarterly performance post-rate revisions of Indian listed companies. They observed that industries which received GST relief started recording higher profit growth along with a surge in consumer sentiment and expansion of product categories.

Narayan, Deepak & Kulkarni, Pooja (2022)

In "GST Rationalization and Retail Market Behaviour", the authors assessed sector-specific impacts and found that there were 20-30% increases in sales for categories like electronics, apparel, and home décor after GST rate reductions, confirming positive demand elasticity.

Singh, Arvind & Thomas, Joseph (2021)

Their study "GST Reforms and Business Competitiveness in India" revealed that reductions in taxation rates increased the competitiveness of exporters and domestic producers. Reduced GST allowed firms to be more aggressive in pricing their products to attain better market shares.

Mehta, Mohit & Kaur, Jasleen (2021)

In "Post-GST Consumption Trends in India", the authors found that rural and urban consumers made more purchases after rate cuts, especially in the 5% and 12% slabs. They highlighted the fact that consumer confidence improved significantly because of the declining effective prices.

Verma, Amit & Sinha, Shweta (2020)

Their paper, "Consumer Reaction to Indirect Tax Reforms in India", found that cuts in GST on essential items such as food products, kitchen appliances and small electronics lifted consumer purchasing power, boosting middle-class demand.

Rajput, Suresh & Bansal, Kavita (2020)

In the paper, "GST and Profitability of Indian Manufacturing Firms", the authors mentioned that GST rationalization led to a near 18% reduction in logistics costs. For industries with a wide distribution network, such as pharmaceuticals and FMCG, profit margins started improving post-GST rate reductions.

Srinivasan, V. & Nair, Lakshmi (2019)

Their work, "GST Reform and Retail Sector Dynamics in India", discussed how GST ushered in transparency into supply chains. They found that rate reductions were followed by higher sales volumes, particularly in supermarkets and on e-commerce platforms, showing a direct link between tax cuts and consumer behavior.

Sharma, Neha & Kumar, Alok (2019)

Their study, "GST Rate Revisions and Consumer Spending Patterns in Urban India," concluded that downward revisions in the GST on household goods had led to a measurable increase in urban consumption and therefore proved tax elasticity in the middle-income groups. Price-sensitive products witnessed the strongest demand spurt.

Chandra, Pankaj & Gupta, Ritu (2018)

In the article "GST and Its Impact on Indian MSMEs", Pankaj Chandra and Ritu Gupta found that GST rationalization helped reduce compliance costs for businesses. They reported that lower GST rates improved input margins, thereby enhancing profitability for small businesses, particularly in textiles, food processing, and electronics.

Mukherjee, Sacchidananda (2017)

In his study "Impact of GST on the Indian Economy", Sacchidananda Mukherjee analyzed the expected implications of GST on prices, tax burdens, and consumer demand. He found that a reduction in the rates of indirect taxes generally reduces prices and thereby stimulates consumption, especially in FMCG and retail sectors. His findings provide a basis to understand how GST rate cuts influence market behavior in later years.

Research Methodology

This study will pursue a quantitative and descriptive research design to analyze the 2025 GST rate reduction effects in India on consumer demand and business profitability. The study targets market behavior of respondents in the initial stages following the reform. Data will be gathered through the use of questionnaires, which will be provided to consumers and small-to-medium business owners. Changes in purchase frequency, price sensitivity, sales turnover, and margin behavior are considered herein. Supporting secondary data comes from government portals, finance journals, and GST council reports for interpretation. The study, therefore, is needed to explore whether reduced tax liability was converted into increased consumption and profitability.

Research Design

This is because the Descriptive Survey Research Design allows observation and measurement without changing natural behaviour. It helps identify relationships between tax reductions, purchasing intentions, and the cost structure of a business. The design allows comparison and analysis of sector-wise changes in behaviour.

Sample Size

- The sample consists of 100 respondents who have been selected through convenience sampling
- Breakup:
- 70 consumers (urban & semi-urban)
- 30 business proprietors (SME retailers & service providers)

Data Collection Method

- Primary data: Collected through structured questionnaires with closed-ended and Likert-scale questions.
- Secondary data: Obtained from
- Reports on Government GST collections
- Business newspapers
- Industrial research bulletins

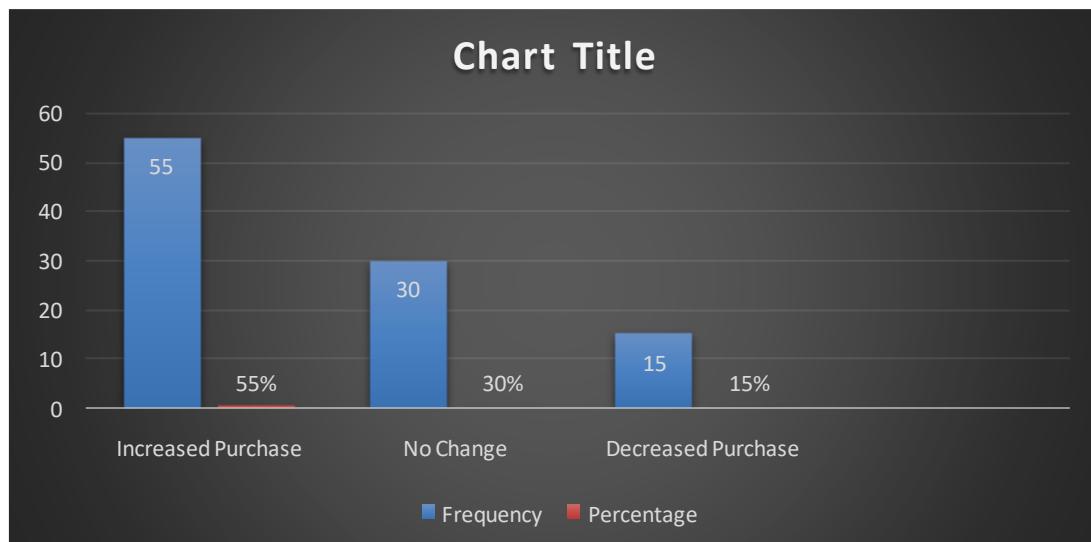
Data Analysis Method

- The data is analyzed manually using:
- Frequency distribution Percentage analysis Comparative interpretation

Data Analysis

Table 1: GST Rate Reduction Impact on Consumer Purchase Frequency

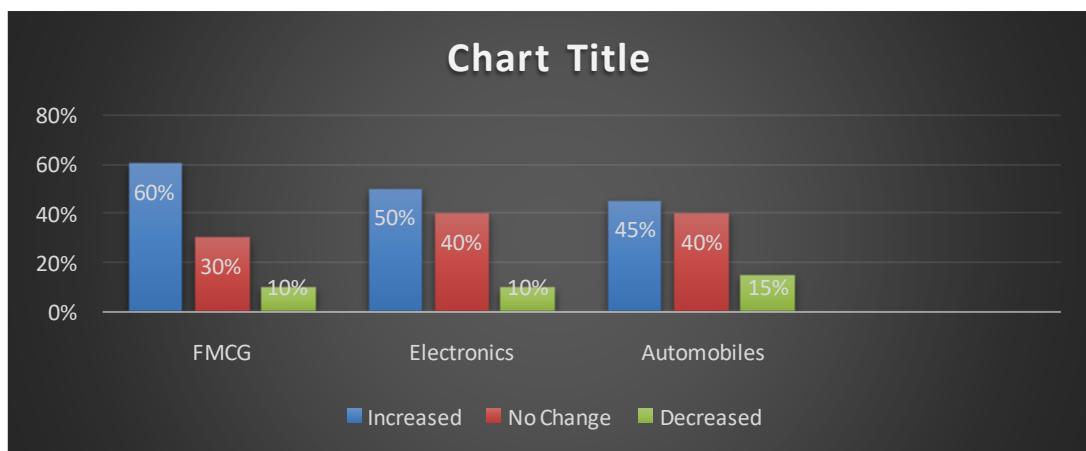
Response	Frequency	Percentage
Increased Purchase	55	55%
No Change	30	30%
Decreased Purchase	15	15%



Interpretation: A majority of consumers increased purchases due to reduced product prices, indicating positive tax elasticity.

Table 2: Sector-wise Demand Response After GST Reduction

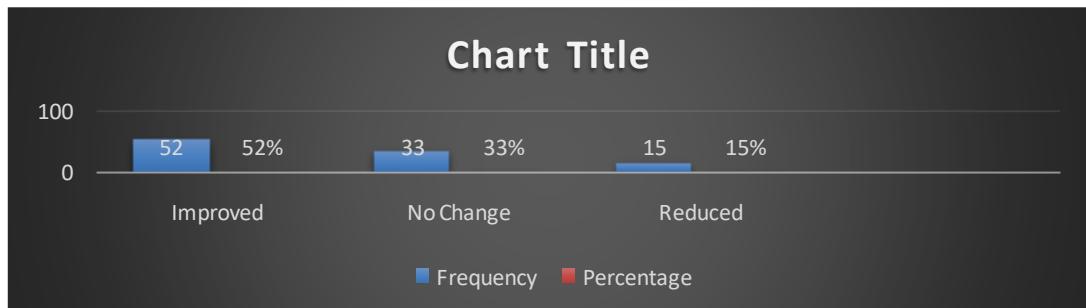
Sector	Increased	No Change	Decreased
FMCG	60%	30%	10%
Electronics	50%	40%	10%
Automobiles	45%	40%	15%



Interpretation: FMCG shows the strongest response, reflecting higher price sensitivity in daily consumption items.

Table 3: Impact on Business Profit Margins

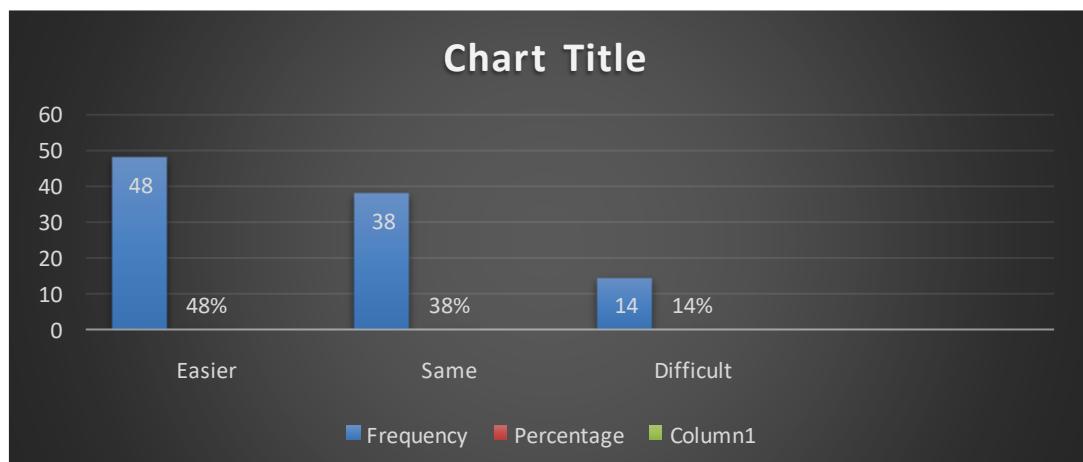
Impact	Frequency	Percentage
Improved	52	52%
No Change	33	33%
Reduced	15	15%



Interpretation: Reduced indirect tax liability improved margins for most SMEs.

Table 4: Input Tax Credit (ITC) Ease Post-Reform

Experience	Frequency	Percentage
Easier	48	48%
Same	38	38%
Difficult	14	14%



Interpretation: Simplified rules helped nearly half of businesses reduce working-capital pressure.

Discussion

The result shows quite clearly that the reduction of rates has helped increase consumer demand and improved business profits. Consumers feel more confident to make discretionary purchases with lower prices. This is particularly so in FMCG and electronics, where even small reductions in tax make a major impact on perceived value; the psychological effect of low taxes stimulates impulse purchasing.

Indeed, businesses benefited from the reduced tax burden, better input tax credit refunds, and competitive pricing to maintain volumes. The SMEs revealed that with a smaller blockage of working capital, they are able to restock more swiftly and advance cash flow cycles. Improved customer footfall and online orders increased turnovers for key shopping periods.

Not all effects have been uniformly positive, though. For several businesses, transitional difficulties like updating of billing software, adjustment of tax slabs, and training staff were common. Meanwhile, sectors like automobiles showed only moderate shifts, indicating that high-value purchases still depend on financing conditions and economic confidence.

This would imply that GST rate cuts alone cannot create long-term expansion without supportive credit policies, stable supply chains, and compliance simplification on a continuing basis. Equally important would be digital adoption and automated invoicing for sustaining profitability.

Conclusion

The policy of reduction of the GST rate in 2025 is an important step toward stimulating domestic consumption, improving the profitability of business, and achieving balanced market growth. According to the study, tax rationalization has brought down the prices of products in several categories, increasing purchase frequency and making those items more affordable. This behavior depicts Indian consumers' very strong responsiveness to indirect tax relief.

The reduction in indirect tax liabilities, smooth ITC reconciliation, and increased liquidity have therefore contributed towards ensuring better profitability for the business. As a result, SMEs benefited from their increased cash flow flexibility and input-cost efficiencies to maintain price competitiveness, especially in price-sensitive markets. Retail turnover has gone up during seasonal shopping in general, reflecting restored consumer confidence.

Therefore, in percentage terms, FMCG and white goods responded most strongly; automobiles and consumer durables showed a more muted response. These sectoral divergences highlight the importance of product necessity, durability, and financing availability.

In spite of these gains, some temporary transition glitches persist. Small traders faced problems with revised GST billing formats and classification changes. Besides, the increased demand pushes have to be tempered with steady inventory levels to avoid inflationary spikes.

Overall, the findings affirm that GST rate reductions can reinforce the supply and demand sides of the Indian economy. Backed by robust digital compliance frameworks, predictable tax policies, and long-term monitoring, India should be able to achieve sustained expansion in the consumer markets, along with inclusive business growth.

Recommendations

- Further, simplify GST slab classifications so that disputes reduce.
- Improve digital compliance training for micro-enterprises
- Temporary transition support for upgrades of billing software.
- Enhance real-time verification of ITCs to prevent delays.
- Monitor the sectoral price responses to prevent artificial markups.
- Supportive financing for SMEs from banks should be encouraged.
- Promote consumer awareness campaigns about revised GST benefits.
- Provide for periodic review of rate impacts to ensure prompt policy adjustment.

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