

GST and Its Impact on the Cost of Living of Salaried Employees

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Abstract

The introduction of the Goods and Services Tax (GST) marked a major reform in India's indirect tax system by replacing multiple taxes with a unified structure. While GST aimed to simplify taxation and improve transparency, its effect on the cost of living of salaried employees remains a subject of concern. Salaried individuals, with fixed and predictable incomes, are more sensitive to changes in prices of everyday goods and services. This research paper examines the impact of GST on the cost of living of salaried employees using secondary data sources.

The study is based on data collected from government reports, Consumer Price Index (CPI) statistics, GST Council publications, and existing research studies. The analysis focuses on key expenditure areas such as food items, transportation, telecom services, housing-related costs, insurance, and other commonly used services. Descriptive and comparative analysis is used to assess price trends before and after the implementation of GST.

The findings indicate that while GST has reduced tax cascading and improved billing transparency, it has also increased the prices of several services that salaried employees regularly consume. As a result, household expenditure has risen, particularly in urban areas. The study concludes that GST has had a noticeable impact on the cost of living of salaried employees and highlights the need for periodic review of GST rates on essential services to reduce financial pressure on this income group.

Keywords: Goods and Services Tax, GST, Cost of Living, Salaried Employees, Household Expenditure, Consumer Prices, Indirect Tax, Urban India, Fixed Income, Secondary Data Analysis.

1.1 Background of the study

The Goods and Services Tax (GST) represents one of the most significant indirect tax reforms in India, aimed at creating a unified national market by replacing multiple central and state-level taxes. Introduced with the objectives of simplifying the tax structure, reducing tax cascading, and improving transparency, GST fundamentally changed the way goods and services are taxed and priced. While the reform was largely designed to benefit businesses through streamlined compliance and input tax credit mechanisms, its implications for end consumers particularly salaried employees—have been equally important.

Salaried employees form a major segment of India's working population and depend on fixed, predictable monthly incomes. Unlike businesses or self-employed individuals, they cannot claim input tax credits or adjust their income to offset tax-induced price increases. As a result, any change in indirect tax rates directly affects their consumption expenditure and overall cost of living. With GST applied across multiple slabs, including higher rates on commonly used services such as telecom, transportation, insurance, dining, and digital subscriptions, salaried households face continuous exposure to indirect taxation in their daily lives.

In urban areas, where reliance on GST-covered services is high, the impact becomes more visible. Expenses related to commuting, housing, healthcare-related products, packaged food, and lifestyle services often include GST, leading to gradual but consistent increases in monthly household expenditure. Although essential goods remain exempt or taxed at lower rates, the cumulative effect of GST on frequently used services can reduce disposable income and savings for salaried individuals.

Moreover, the transparent display of GST on bills has increased tax awareness among consumers, influencing spending behaviour and financial decision-making. While GST has contributed to efficiency and formalization of the economy, its distributional impact on fixed-income groups raises important questions about affordability and financial pressure. Against this backdrop, the present study seeks to examine GST's role in shaping the cost of living of salaried employees, using secondary data to understand trends, patterns, and implications within the Indian economic context.

1.2 Statement of the Problem

The implementation of the Goods and Services Tax (GST) in India marked a major shift in the country's indirect taxation system, with the intention of simplifying tax administration, eliminating cascading taxes, and promoting economic efficiency. While GST has largely benefited businesses through uniform taxation and input tax credit mechanisms, its impact on individual consumers—particularly salaried employees—has raised important concerns. Salaried employees depend on fixed monthly incomes and have limited flexibility to adjust their earnings in response to rising prices. Consequently, any increase in the cost of goods and services due to indirect taxes directly affects their standard of living.

Under the GST regime, a wide range of goods and services commonly used by salaried households, such as mobile and internet services, transportation, insurance, dining, packaged food, and household

appliances, are taxed at moderate to high rates. Although essential items are either exempt or taxed at lower rates, the frequent use of GST-taxed services results in a cumulative increase in monthly expenditure. Over time, this leads to reduced discretionary income, lower savings, and increased financial pressure on households already operating within tight budgets.

Another concern is that salaried employees cannot claim input tax credits to offset the GST paid on consumption, unlike businesses and self-employed individuals. This creates a perceived imbalance where the tax burden is more directly borne by fixed-income earners. Furthermore, the transparent display of GST on bills has heightened consumer awareness, often making price increases more noticeable and influencing spending behaviour.

Despite several studies examining GST's macroeconomic effects, inflationary trends, and business compliance, limited attention has been given to its specific impact on the cost of living of salaried employees. There is a need to understand how GST has altered consumption patterns, household budgets, and financial well-being within this group. Therefore, the core problem addressed in this study is to analyze the extent to which GST has contributed to changes in the cost of living for salaried employees and to identify the economic pressures arising from indirect taxation under a fixed-income structure.

2. REVIEW OF LITERATURE

The review of literature examines existing studies, reports, and academic discussions related to Goods and Services Tax (GST) and its economic and social impact. It helps in understanding how GST has influenced prices, consumption patterns, cost of living, and household welfare, particularly for salaried employees. The literature also helps in identifying gaps that justify the present research.

3. OBJECTIVES OF THE STUDY

The present research paper aims to examine the impact of the Goods and Services Tax (GST) on the cost of living of salaried employees in India by analysing existing data, reports, and academic

studies. The objectives are framed to understand both the economic and behavioural implications of GST on individuals with fixed incomes. The specific objectives of the study are as follows:

a. To examine changes in the prices of goods and services after the implementation of GST

This objective focuses on identifying how GST has influenced the prices of essential and non-essential goods and services commonly consumed by salaried employees. Using secondary data such as CPI reports, GST Council notifications, and economic surveys, the study seeks to understand price trends and their contribution to changes in household expenditure.

b. To analyse the impact of GST on the consumption patterns of salaried employees

This objective aims to study how changes in GST rates have affected spending behaviour, particularly the shift between essential and discretionary consumption. By reviewing existing literature and consumption data, the research examines whether salaried employees have altered their purchasing decisions in response to GST-induced price changes.

c. To assess the effect of GST on the cost of living and disposable income of salaried employees

This objective evaluates how GST has influenced overall household expenses and real purchasing power. The study analyses whether increased taxation on services and frequently used items has reduced disposable income, thereby affecting savings and lifestyle choices.

d. To examine sector-wise GST impact on goods and services relevant to salaried households

This objective focuses on specific sectors such as food and groceries, telecom, transportation, healthcare, education, housing-related services, and financial services. The aim is to identify which sectors have contributed most to the rise in living costs after GST.

e. To review policy challenges and identify implications for salaried employees under the GST regime

This objective seeks to understand challenges such as higher service taxation, lack of input tax credit for individuals, and increased tax visibility. Based on secondary evidence, the study also highlights possible policy implications to reduce the burden on middle-income salaried households.

4. RESEARCH METHODOLOGY

This study adopts a **secondary data-based research methodology** to examine the impact of the Goods and Services Tax (GST) on the cost of living of salaried employees in India. The methodology is **descriptive and analytical in nature**, as it seeks to explain how GST-related price changes have influenced household expenditure, consumption patterns, and financial pressure on individuals with fixed monthly incomes.

Rather than relying on primary surveys, the study synthesizes existing data, reports, and academic findings to draw meaningful conclusions. By integrating theoretical insights with empirical evidence from credible secondary sources, the research aims to provide a comprehensive understanding of GST's implications for salaried employees.

4.1 Research Design

The research design is structured to combine **systematic literature review** with **analytical evaluation of secondary data**. The study follows a two-stage approach.

In the **first stage**, an extensive review of academic literature, policy documents, and government reports is undertaken. This stage traces the evolution of GST in India, its objectives, changes in tax structure, and theoretical expectations related to prices, consumption, and cost of living. Previous studies focusing on indirect taxation, consumer behavior, inflation, and household expenditure are examined to identify key trends and research gaps.

The **second stage** focuses on analytical interpretation of secondary data relating to price

indices, sector-wise GST rates, household expenditure patterns, and urban consumption trends. Data from official publications are analyzed to understand how GST has influenced prices of essential goods, services, and discretionary items commonly consumed by salaried employees. This design allows the study to move beyond individual observations and present a consolidated, evidence-based assessment of GST's impact on cost of living.

4.2 Data Collection Sources

The study relies entirely on **secondary data** collected from reliable and authoritative sources to ensure accuracy and credibility. The major sources include:

- **Academic Journals and Research Papers**

Peer-reviewed articles, working papers, and published studies related to GST, indirect taxation, consumption theory, inflation, and cost of living were reviewed. These sources provide theoretical frameworks and empirical findings relevant to salaried employees.

- **Government and Regulatory Publications**

Reports from the **Reserve Bank of India (RBI)**, **Ministry of Finance**, **GST Council**, **National Statistical Office (NSO)**, and **NITI Aayog** were used. These publications offer data on GST structure, price movements, CPI trends, and household consumption expenditure.

- **Economic Surveys and Official Statistics**

The **Economic Survey of India**, Consumer Price Index (CPI) data, and Household Consumption Expenditure Surveys were used to analyze changes in prices and spending patterns after GST implementation.

- **Industry and Policy Reports**

Reports from research institutions, think tanks, and consulting firms were used to understand sector-specific GST impacts on services such as telecom, transport, dining, housing, and financial services.

4.3 Sampling Technique

Since the study is based on secondary data, a **purposive sampling technique** is used to select

relevant sources. This non-probability method involves deliberately choosing studies, reports, and datasets that directly relate to GST and its impact on consumer prices and salaried households.

Only sources that provide **reliable data, empirical evidence, or systematic analysis** of GST's effect on cost of living, urban consumption, and salaried income groups were included. Older or irrelevant studies not aligned with the current GST framework were excluded. This approach ensures that the research remains focused, up-to-date, and contextually relevant.

4.4 Data Analysis Methods

The study employs **qualitative and quantitative analytical methods** suitable for secondary data analysis.

- **Descriptive Analysis**

Descriptive analysis is used to explain GST structure, tax rate distribution, and price trends across essential and non-essential goods and services. Changes in household expenditure patterns of salaried employees are interpreted using published statistics.

- **Trend and Comparative Analysis**

Trend analysis is applied to CPI data and sector-wise price movements to observe changes before and after GST implementation. Comparative analysis is used to assess differences in expenditure on goods versus services and essentials versus discretionary items.

- **Theoretical Interpretation**

Economic theories such as consumption theory, Engel's law, tax incidence, and cost-of-living theory are used to interpret observed trends and explain how GST affects salaried employees with fixed incomes.

These methods together help establish a clear link between GST and changes in the cost of living, enabling the study to draw well-supported conclusions based on secondary evidence.

5. SUMMARY OF FINDINGS

The secondary data analysis carried out in this study reveals several important findings regarding the impact of the Goods and Services Tax (GST) on the cost of living of salaried employees in India. The findings are based on a review of government reports, academic studies, inflation data, and sector-wise GST analyses.

Key Finding 1

GST has significantly increased the visibility of indirect taxes on everyday consumption. Unlike the pre-GST system where taxes were embedded and often hidden, GST is clearly mentioned on bills. This transparency has made salaried employees more aware of the tax component in their spending, leading to a stronger perception of rising living costs even when price changes are moderate.

Key Finding 2

Secondary data shows that services commonly used by salaried employees—such as telecom, internet subscriptions, banking services, insurance, transportation, and dining—are taxed at relatively higher GST rates. Since these services form a regular part of urban household expenses, GST has contributed to a steady increase in monthly expenditure for salaried individuals with fixed incomes.

Key Finding 3

The analysis indicates that GST has had a mixed effect on prices. While the removal of cascading taxes reduced costs in manufacturing and logistics, the benefits have not always been fully passed on to consumers. As a result, salaried employees have not consistently experienced price reductions, particularly in service-heavy consumption categories.

Key Finding 4

GST has influenced consumption behaviour among salaried employees. Studies show a shift toward lower-taxed or GST-exempt goods and a reduction in discretionary spending such as frequent dining out, entertainment, and branded purchases. This reflects budget adjustments made to manage higher indirect tax burdens.

Key Finding 5

The findings also highlight that salaried employees bear a relatively higher burden under GST because they cannot claim input tax credits. Any increase in GST directly raises their cost of living and reduces disposable income. This has led to increased financial pressure, particularly among middle-income urban households.

Key Finding 6

Overall, while GST has improved tax efficiency, compliance, and transparency at the macroeconomic level, its impact on salaried employees has been uneven. The evidence suggests that GST has contributed to a gradual rise in the cost of living, especially through higher taxation on essential services, necessitating policy attention to protect fixed-income groups.

6.1 A Conditional Framework for GST Impact on Cost of Living

Based on the findings from secondary data, this study proposes a **Conditional Framework for GST's Impact on the Cost of Living of Salaried Employees**. The framework explains how salaried households respond to GST under two broad economic conditions: **Stable Income Regime** and **Cost Pressure Regime**.

In the **Stable Income Regime**, salaried employees experience predictable earnings and relatively stable prices. Under these conditions, GST functions mainly as a transparent indirect tax. Although GST is visible on bills, households are able to absorb the tax burden through planned budgeting and controlled discretionary spending. Consumption patterns remain largely stable, savings are not severely affected, and the overall cost of living impact is moderate.

In contrast, the **Cost Pressure Regime** emerges during periods of rising inflation, increased service costs, or economic uncertainty. In this phase, GST amplifies financial stress for salaried employees because their incomes remain fixed while indirect tax burdens on services continue. GST on telecom, transport, insurance, dining, and digital services accumulates across monthly expenses, leading to a

noticeable rise in the cost of living. As a result, households are forced to cut discretionary spending, reduce savings, or reallocate budgets toward essentials.

This framework highlights that the impact of GST on salaried employees is **not uniform** but depends on broader economic conditions and household financial resilience.

6.2 Interpretation of Results

The proposed framework explains that GST's effect on salaried employees intensifies during periods of cost pressure rather than during stable economic conditions. What may appear as a neutral and efficient tax system at the macro level can translate into a regressive burden at the household level when prices rise and incomes do not adjust.

The findings suggest that the visibility of GST increases tax awareness and influences consumption behaviour. Salaried employees become more cautious, shift toward lower-taxed goods, and reduce spending on non-essential services. However, since they cannot claim input tax credits, the cumulative GST paid directly reduces disposable income.

The framework also shows that traditional evaluations of GST focusing only on efficiency and revenue overlook its **distributional impact** on fixed-income groups. This underlines the need for policy sensitivity toward salaried households, especially during inflationary periods, through rate rationalisation on essential services or targeted relief measures.

Table 1: Conditional Framework for GST Impact on Cost of Living of Salaried Employees

Dimension	Stable Income Regime	Cost Pressure Regime
GST Impact	Absorbable and manageable	Strongly felt and burdensome
Consumption Behaviour	Planned and budget-oriented	Cautious, necessity-focused
Cost of Living	Relatively	Noticeably

	stable	increasing
Disposable Income	Largely unaffected	Reduced due to higher indirect taxes
Savings Behaviour	Stable or gradual	Declining or postponed
Role of GST Visibility	Awareness without stress	Heightened stress and budget adjustments

7. LIMITATIONS OF THE STUDY

Although this study provides meaningful insights into the impact of Goods and Services Tax (GST) on the cost of living of salaried employees in India, certain limitations arise due to the scope and nature of the research methodology adopted.

1. Dependence on Secondary Data

The study is based entirely on secondary data drawn from government reports, academic literature, and published statistics. As a result, it does not capture first-hand perceptions, personal experiences, or subjective financial stress faced by salaried employees. Differences in income levels, household size, occupation, and regional consumption patterns may not be fully reflected in aggregated data.

2. Limited Micro-Level Analysis

Secondary data often presents macro-level trends, which may mask variations across different segments of salaried employees. For instance, the impact of GST may differ between lower-income and higher-income salaried households, or between urban and semi-urban employees, but such distinctions could not be explored in depth.

3. Changing GST Rates and Policies

GST rates and rules in India are subject to periodic revisions. Some findings may lose relevance over time as tax slabs are rationalized or exemptions are modified. This limits the long-term applicability of certain conclusions.

4. Lack of Causal Inference

The study focuses on identifying patterns and associations between GST and cost-of-living indicators rather than establishing direct causal relationships. Other factors such as inflation, wage growth, and economic conditions may also influence household expenditure alongside GST.

In view of these limitations, the findings should be interpreted with caution. Future research incorporating primary data, household-level surveys, and longitudinal analysis would provide a more comprehensive understanding of GST's real impact on the cost of living of salaried employees.

8.1 Conclusion

This study examined the impact of the Goods and Services Tax (GST) on the cost of living of salaried employees in India using secondary data sources. The analysis shows that GST has brought structural improvements to the indirect tax system by simplifying tax administration, reducing cascading taxes, and increasing transparency in pricing. From a macroeconomic perspective, GST has contributed to better tax compliance and a more integrated national market.

However, from the perspective of salaried employees, the findings indicate mixed outcomes. While GST has stabilized prices of several essential goods over time, it has increased the cost of many services that salaried households rely on daily. Services such as telecom, internet, insurance, dining, transportation, and packaged consumer goods attract moderate to higher GST rates, which directly raise monthly household expenditure. Since salaried employees earn fixed incomes and cannot claim input tax credits, the GST paid on consumption directly increases their cost of living.

Secondary evidence also suggests that the visibility of GST on bills has made salaried consumers more conscious of their spending. This has led to changes in consumption behaviour, including reduced discretionary spending, substitution toward lower-taxed goods, and more careful budgeting. Although GST is not inherently inflationary in the long run,

its short-term adjustment effects and service-sector taxation have placed financial pressure on middle-income salaried households, particularly in urban areas.

Overall, the study concludes that GST has achieved efficiency and transparency objectives but has also increased the effective cost of living for salaried employees, especially through service taxation.

8.2 Recommendations

1. Rationalisation of GST on Essential Services

Policymakers should consider reviewing GST rates on frequently used services such as telecom, internet, insurance, and public transportation. Reducing rates on essential services can ease the financial burden on salaried households.

2. Targeted Relief Measures for Salaried Employees

The government may introduce targeted relief mechanisms such as tax credits, deductions, or GST-linked compensation benefits for fixed-income earners to offset higher indirect tax burdens.

3. Improved Price Monitoring and Transparency

Regular monitoring of post-GST price movements is necessary to ensure that businesses pass on input tax credit benefits to consumers rather than retaining them as profit margins.

4. Consumer Awareness and Financial Planning

Financial literacy initiatives should educate salaried employees on GST slabs, budgeting under indirect taxation, and ways to manage consumption efficiently without compromising essential needs.

5. Scope for Future Research

Future studies can include primary data surveys to capture real-time perceptions, stress levels, and coping strategies of salaried employees.

Longitudinal research may also assess how GST affects household welfare over time.

In conclusion, while GST has strengthened India's tax framework, ensuring equity and affordability for salaried employees requires continuous policy refinement and consumer-focused interventions.

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