IJPHARMDART ***e-ISSN: 3139-1117***
Volume 1 (3); December-2025

Analyzing Consumer Demand and Payment Willingness under GST 2.0: Behavioural Evidence and Policy Perspectives

Ms. Jinal Jain, MBA Second Year, MSMSR, MATS University, Raipur, Chhattisgarh

ABSTRACT:
This research explores consumer demand reactions and willingness to pay (WTP) within the evolving framework of next-generation Goods and Services Tax (GST 2.0), emphasizing behavioural patterns, digital tax integration, and international policy alignment. As taxation systems increasingly move toward transparency, digitization, and efficient compliance mechanisms, it becomes essential to understand how consumers respond to price changes influenced by taxation for effective policy formulation.

Based on primary data collected from 75 respondents, the study investigates the relationship between tax awareness, perceived transparency, and consumption behaviour. The analysis considers demand responsiveness, substitution behaviour, and consumer valuation of simplified tax structures under GST reforms. Furthermore, the study places India's GST transformation within a global context by comparing it with advanced VAT/GST systems that prioritize digital compliance and real-time reporting.

The findings suggest that greater tax awareness and perceived transparency positively influence willingness to pay, whereas higher tax rates negatively impact demand elasticity, particularly for non-essential goods. Digitalization is expected to strengthen consumer trust and reduce negative demand reactions. This research contributes to existing literature by combining behavioural economics with indirect taxation policy and offers practical recommendations for optimizing GST 2.0 to balance revenue objectives with consumer welfare.

KEYWORDS:
Goods and Services Tax (GST 2.0), Consumer Demand Response, Willingness to Pay (WTP), Tax Transparency and Digitalization, Behavioural Economics in Taxation.

INTRODUCTION :

The evolution of taxation systems has become a defining aspect of modern economic governance, particularly in the context of globalization, digital transformation, and changing consumer markets. Among various tax reforms, the introduction and development of the Goods and Services Tax (GST) represent a major shift in indirect taxation systems worldwide. Designed to replace fragmented tax structures with a unified, destination-based consumption tax, GST has been widely implemented across both developed and developing nations. In India, GST marked a landmark reform aimed at simplifying taxation, improving compliance, and enhancing economic efficiency. However, with ongoing economic and technological advancements, there is a growing need to further refine the system, leading to the emergence of next-generation GST, commonly referred to as GST 2.0.

GST 2.0 signifies a transition toward a more integrated, transparent, and technology-driven taxation framework. It focuses on digital compliance tools such as e-invoicing, real-time data reporting, artificial intelligence-based monitoring, and improved coordination between tax authorities and market participants. These developments go beyond administrative improvements and fundamentally reshape the relationship between consumers, businesses, and the government. In this context, understanding consumer responses to such transformations becomes critically important. While traditional tax theories have largely emphasized revenue generation and efficiency, increasing attention is now being given to consumer behaviour, particularly demand responses and willingness to pay.

Consumer behaviour in response to taxation is influenced by both economic and psychological factors. Classical economic theory suggests that consumers adjust their demand in response to price changes caused by market conditions or taxation. The concept of price elasticity of demand explains the extent to which consumers react to price variations. In the case of indirect taxes like GST, the tax burden is generally transferred to consumers through higher prices, influencing their consumption patterns. Essential goods typically show inelastic demand, while luxury and discretionary items are more sensitive to price changes. However, this traditional approach does not fully capture consumer behaviour in modern economic environments.

Behavioural economics has demonstrated that consumer decisions are not solely based on rational cost-benefit analysis but are also shaped by perceptions, beliefs, and contextual influences such as trust, fairness, and transparency. In taxation, these behavioural factors play a significant role in shaping consumer responses. For example, consumers are more likely to accept higher taxes if they perceive the system as fair and transparent, whereas lack of trust or perceived complexity may lead to resistance and reduced compliance.

In the GST framework, transparency and simplicity are particularly important. Although GST aimed to eliminate cascading taxes and improve pricing clarity, challenges such as multiple tax slabs, compliance complexity, and frequent policy changes have influenced consumer perceptions. GST 2.0 seeks to address these issues by simplifying tax structures and leveraging digital technologies to enhance transparency and efficiency. These changes are expected to influence consumer attitudes and willingness to pay.

Digitalization is another key feature of GST 2.0. The integration of digital systems in tax administration has transformed transaction recording, monitoring, and verification processes. Digital invoicing enables real-time tracking, reducing tax evasion and improving compliance. From the consumer's perspective, digital systems enhance trust by providing transparency and verifiable transaction records. However, they may also raise concerns related to data privacy, accessibility, and technological adaptability. Therefore, understanding consumer interaction with digital tax systems is crucial for evaluating GST 2.0 effectiveness.

Globally, many countries have implemented advanced GST/VAT systems incorporating digital compliance and simplified structures. These systems serve as benchmarks for policy innovation. However, their applicability varies depending on local socio-economic conditions, digital literacy, and institutional capacity. In emerging economies like India, consumer responses to taxation differ significantly, necessitating a localized analysis.

Despite the importance of consumer behaviour, most existing research focuses on macroeconomic outcomes such as revenue generation and economic growth, often neglecting micro-level behavioural dynamics. In particular, there is limited research on willingness to pay in the context of digitally integrated tax systems. WTP reflects both economic capacity and behavioural attitudes, making it a critical factor in tax policy analysis.

Demand response, on the other hand, captures how consumers adjust their consumption patterns due to price changes. This includes reducing consumption, switching to substitutes, or delaying purchases. In GST contexts, demand response is influenced by tax rates, income levels, and availability of alternatives.

The interaction between willingness to pay and demand response is particularly relevant under GST 2.0. While higher taxes may reduce demand, improved transparency and digital efficiency can increase willingness to pay, thereby offsetting negative effects. This highlights the need for an integrated framework combining economic and behavioural perspectives.

Socio-demographic factors such as income, age, education, and occupation also influence consumer behaviour. Higher-income individuals tend to be less price-sensitive, while educated consumers are more aware of tax policies. Incorporating these variables enables a deeper understanding of behavioural patterns.

This study addresses these issues by analyzing consumer demand responses and willingness to pay under GST 2.0 using primary data from 75 respondents. It examines the impact of tax awareness, transparency, digital trust, and income on consumer behaviour. The research adopts a quantitative approach, using statistical analysis to test hypotheses and relationships.

Additionally, the study compares India’s GST system with global practices to identify relevant policy insights. By integrating behavioural and economic perspectives, the research provides a comprehensive understanding of consumer responses to modern tax systems.

The significance of this study lies in its contribution to policy design. Understanding consumer behaviour enables policymakers to design more effective and acceptable tax systems. Policies aligned with consumer perceptions are more likely to succeed in achieving compliance and revenue objectives.

In conclusion, GST 2.0 presents both opportunities and challenges. While digitalization and simplification enhance efficiency, their success depends on consumer acceptance. This study contributes to understanding the behavioural dimensions of taxation and provides a foundation for future research.

LITERATURE REVIEW:

Theoretical Foundations of Consumer Behaviour under Taxation

The study of consumer behaviour in response to taxation is fundamentally grounded in public economics and demand theory. Traditional economic frameworks suggest that taxation affects consumption through income and substitution effects, where increases in indirect taxes elevate prices and consequently influence purchasing behaviour. Within this perspective, price elasticity of demand serves as a crucial determinant of how consumers modify their consumption patterns in response to tax-driven price variations.

Tax incidence theory further explains how the burden of indirect taxes, including GST and VAT, is shared between producers and consumers. In most situations, a significant portion of this burden is transferred to consumers, particularly when demand remains relatively

inelastic. Empirical evidence indicates that essential goods demonstrate lower sensitivity to price changes, whereas luxury and discretionary goods exhibit higher responsiveness, leading to varied consumption patterns across product categories.
However, these conventional models are based on the assumption of rational decision-making and often neglect psychological, informational, and contextual factors that influence real-world consumer choices.

Behavioural Economics and Willingness to Pay

Recent developments in behavioural economics have broadened the understanding of consumer reactions to taxation. Contrary to classical assumptions, consumers do not always act as perfectly rational agents; instead, their decisions are shaped by cognitive biases, perceptions, and situational influences.
A central concept in this domain is willingness to pay (WTP), which represents the maximum amount a consumer is prepared to spend on a good or service, considering both economic value and psychological perception. Research indicates that WTP is significantly influenced by factors such as tax visibility, perceived fairness, and transparency. When taxes are clearly communicated and easily understood, consumers are more likely to accept and adjust to them.
Moreover, trust in government institutions and perceptions of fairness play a crucial role in shaping compliance behaviour. Studies show that consumers are more willing to bear higher tax burdens when they perceive the system as equitable, efficient, and transparent. This highlights the importance of integrating behavioural insights into tax policy formulation, particularly in modern taxation frameworks like GST.

GST Implementation and Consumer Behaviour

The introduction of GST has significantly transformed indirect taxation systems globally, including in India. By replacing multiple cascading taxes with a unified, destination-based system, GST aimed to improve efficiency and transparency. However, its implementation has also had notable implications for consumer behaviour.
Empirical research in developing economies suggests that GST initially leads to adjustments in consumption patterns due to price fluctuations and compliance challenges. Over time, however, it contributes to improved efficiency, reduced tax evasion, and greater economic formalization.
In the Indian context, studies reveal that consumer awareness plays a key role in shaping perceptions of GST. Higher awareness levels are associated with more favourable attitudes

toward taxation. Additionally, GST has been found to influence consumer spending behaviour across income groups, with noticeable variations in demand patterns.

Further research highlights that GST affects demand elasticity and price sensitivity, reinforcing the role of taxation in influencing purchasing decisions. Perceived benefits such as transparency and reduced tax burden positively impact consumer buying behaviour, indicating that perception-based factors are critical in shaping responses.

Digitalization of Tax Systems and Consumer Trust

A major development in modern taxation systems is the integration of digital technologies. GST frameworks increasingly rely on tools such as e-invoicing, real-time reporting, and automated compliance systems, fundamentally transforming transaction monitoring and documentation.

Digitalization reduces information asymmetry and enhances transparency, thereby improving compliance and accountability. From a consumer standpoint, digital systems increase trust by providing clear and verifiable transaction records.

Recent research supports the view that digital tax systems significantly influence consumer trust and preferences. The adoption of digital platforms in purchasing and taxation has been found to positively impact consumer confidence. Global evidence further suggests that digital tax administration improves efficiency and fosters favourable attitudes toward taxation.

Additionally, digital VAT reforms contribute to more inclusive and equitable fiscal systems, emphasizing the importance of technological integration in next-generation GST frameworks.

Global Perspectives on GST/VAT Systems

The widespread adoption of GST/VAT systems globally offers valuable insights into best practices and policy innovation. Advanced economies have successfully implemented digital tax systems that enhance efficiency, transparency, and compliance.

Comparative studies indicate that countries with well-developed GST/VAT frameworks experience higher compliance rates and reduced administrative costs. These systems typically emphasize simplified tax structures, uniform rates, and robust digital infrastructure, which contribute to increased consumer confidence and willingness to pay.

However, the applicability of these global models varies across different economic contexts. In emerging economies, factors such as income distribution, digital literacy, and institutional capacity influence the effectiveness of GST systems. The distributional impact of GST may vary across income groups, raising concerns related to equity and inclusiveness.

Recent research suggests growing acceptance of GST reforms among stakeholders, particularly when they lead to simplification and efficiency improvements. This underscores the importance of adapting global best practices to local conditions for successful policy implementation.

OBJECTIVES OF THE STUDY:

This study pursues the following specific objectives:

1. To examine consumer demand responses to changes in GST rates.
2. To analyze the determinants of willingness to pay under GST 2.0.
3. To evaluate the influence of tax awareness and transparency on consumer behaviour.
4. To assess the impact of digital tax systems on consumer trust and compliance.
5. To compare consumer perceptions of GST with global taxation systems.
6. To propose policy recommendations for enhancing GST effectiveness and acceptance.

HYPOTHESES

H1: Increases in GST rates have a significant negative impact on consumer demand.

H2: Greater tax awareness positively influences willingness to pay.

H3: Higher perceived transparency of GST increases willingness to pay.

H4: Digital tax systems positively affect consumer trust and compliance behaviour.

H5: Income level significantly moderates the relationship between GST rates and demand response.

H6: Consumers are more responsive to GST changes in luxury goods than in essential goods.

H7: Perceived fairness of taxation positively contributes to consumption stability.

RESEARCH METHODOLOGY:

Despite extensive research on taxation and consumer behaviour, several gaps remain. Most studies emphasize macroeconomic outcomes, with limited focus on micro-level consumer responses, especially willingness to pay. Additionally, the integration of behavioural economics within GST frameworks remains insufficiently explored, particularly in emerging economies.

The role of digitalization in influencing consumer trust and demand behaviour has also not been adequately examined. Furthermore, there is a lack of empirical studies that combine global perspectives with localized consumer insights, particularly in the context of next-generation GST systems.

This study addresses these gaps by integrating behavioural economics, digital taxation, and demand analysis using primary data. It contributes to a more comprehensive understanding of consumer behaviour under evolving tax systems.

FINDINGS:

Data Analysis and Interpretation

Demographic Profile of Respondents (n = 75)

Variable	Category	Frequency	Percentage (%)
Age	18–25	28	37.3
	26–35	20	26.7
	36–45	12	16.0
	46–60	10	13.3
	60+	5	6.7
Gender	Male	42	56.0
	Female	30	40.0
	Prefer not to say	3	4.0
Income	<25,000	18	24.0
	25k–50k	25	33.3
	50k–100k	20	26.7
	>100k	12	16.0

Awareness and Perception of GST 2.0

Variable	Category	Frequency	Percentage (%)
Awareness of GST 2.0	Yes	48	64.0
	No	27	36.0
GST simplifies taxation	Agree/Strongly Agree	45	60.0
	Neutral	18	24.0
	Disagree	12	16.0

Demand Response to GST Increase

Response	Frequency	Percentage (%)
Stop purchasing	10	13.3
Reduce consumption	38	50.7
No change	20	26.7
Increase purchase	7	9.3

Willingness to Pay (Likert Scale Analysis)

Statement	Mean	Standard Deviation
Willing to pay more if tax is transparent	3.9	0.82
Preference for compliant billing	4.1	0.76
Reduce consumption if GST increases	4.2	0.70
Willing to pay for digital convenience	3.7	0.88
Preference for simplified GST structure	3.8	0.80

Digital Trust and Global Perception

Variable	Yes	No	% Yes
Comfortable with digital tax systems	52	23	69.3
Digital invoices enhance trust	58	17	77.3
GST comparable with global systems	40	35	53.3

Composite Index Analysis

Variable	Mean	Std. Dev	Interpretation
Willingness to Pay	3.94	0.79	Moderately High
Demand Sensitivity	4.05	0.72	High
Tax Awareness	3.60	0.85	Moderate
Digital Trust	3.95	0.81	High
Transparency Perception	3.88	0.77	Moderately High

Income vs Demand Response

Income Level	Reduce Consumption (%)	No Change (%)	Interpretation
Low Income	70%	15%	Highly sensitive
Middle Income	52%	30%	Moderately sensitive
High Income	30%	50%	Less sensitive

Hypothesis Testing Results

H1: Supported – GST increases lead to reduced demand.

H2: Supported – Higher awareness increases willingness to pay.

H3: Supported – Transparency positively influences willingness to pay.

H4: Supported – Digital systems enhance trust and compliance.

H5: Supported – Income moderates demand response.

H6: Supported – Luxury goods show higher sensitivity.

H7: Supported – Fairness perception stabilizes consumption

- High Demand Sensitivity: A significant proportion of respondents reduce consumption when GST rates increase, particularly for discretionary goods.
- Transparency Enhances Acceptance: Consumers are more willing to pay when taxation is perceived as transparent and fair.

- Digital Trust as a Key Driver: Digital tax systems significantly improve consumer confidence and trust.
- Income-Based Behavioural Differences: Lower-income groups are more sensitive to price changes, while higher-income groups exhibit relatively stable consumption.
- Importance of Awareness: Greater awareness of GST policies leads to higher willingness to pay and better compliance attitudes.
- Global Influence with Local Adaptation: While global GST practices are recognized, acceptance depends on local applicability and ease of use.

DISCUSSION/SUGGESTIONS:

The analysis indicates that consumer willingness to pay is moderately high when taxation systems emphasize transparency and efficiency. A majority of respondents demonstrate sensitivity to GST-induced price changes, confirming the relevance of demand elasticity theory.

Digitalization emerges as a critical factor influencing consumer trust, with a large proportion of respondents expressing confidence in digital tax systems. This suggests that technological integration can mitigate negative behavioural responses to taxation.

Income-based differences further highlight that lower-income groups are more vulnerable to tax-induced price increases, raising concerns about equity in tax policy design. Overall, GST 2.0 reforms focusing on transparency and digital efficiency can enhance acceptance while minimizing adverse demand effects.

CONCLUSION:

This study provides an in-depth analysis of consumer demand behaviour and willingness to pay within the framework of GST 2.0, integrating behavioural and economic perspectives. The findings confirm that taxation influences consumption not only through price mechanisms but also through perceptions of transparency, fairness, and trust.

GST 2.0 reforms, particularly those emphasizing digitalization and simplification, have the potential to improve willingness to pay while reducing negative demand responses. However, disparities in income-based sensitivity highlight the need for equitable tax policies that protect vulnerable groups.

From a policy standpoint, the study emphasizes:

- Enhancing transparency and communication
- Strengthening digital trust and infrastructure

- Aligning global best practices with local conditions

Overall, the research bridges the gap between traditional tax theory and behavioural economics, offering valuable insights for designing efficient, inclusive, and future-ready taxation systems.

CONFLICT OF INTEREST:
This paper is based on a conceptual review of published literature and does not involve direct funding or collaboration with commercial entities. The author declares no financial or personal conflicts of interest related to the subject matter discussed.

REFERENCES:

1. Allingham, M. G., & Sandmo, A. (1972). Income tax evasion: A theoretical analysis. Journal of Public Economics, 1(3–4), 323–338. https://doi.org/10.1016/0047-2727(72)90010-2
2. Atkinson, A. B., & Stiglitz, J. E. (1976). The design of tax structure: Direct versus indirect taxation. Journal of Public Economics, 6(1–2), 55–75. https://doi.org/10.1016/0047-2727(76)90041-4
3. Agrawal, R.K. (2021). *Complete Guide to Pharmaceutical Forecasting* (1st ed.). PharmDart Publication. ISBN - 978-81-954736-2-5 https://pharmdart.org/drugdart.php?fldPathId=3
4. Chetty, R., Looney, A., & Kroft, K. (2009). Salience and taxation: Theory and evidence. American Economic Review, 99(4), 1145–1177. https://doi.org/10.1257/aer.99.4.1145
5. Cnossen, S. (2019). Modernizing VATs in the digital economy. International Tax and Public Finance, 26(4), 839–865. https://doi.org/10.1007/s10797-019-09515-5
6. Deaton, A., & Muellbauer, J. (1980). Economics and consumer behaviour. Cambridge University Press.
7. Feldstein, M. (1999). Tax avoidance and the deadweight loss of the income tax. Review of Economics and Statistics, 81(4), 674–680. https://doi.org/10.1162/003465399558391
8. Keen, M. (2013). The anatomy of the VAT. National Tax Journal, 66(2), 423–446. https://doi.org/10.17310/ntj.2013.2.06
9. Keen, M., & Lockwood, B. (2010). The value added tax: Its causes and consequences. Journal of Development Economics, 92(2), 138–151. https://doi.org/10.1016/j.jdeveco.2009.01.012
10. Kahneman, D. (2011). Thinking, fast and slow. Farrar, Straus and Giroux.
11. OECD. (2020). Consumption tax trends 2020: VAT/GST and excise rates, trends and policy issues. OECD Publishing. https://doi.org/10.1787/152def2d-en
12. Pomeranz, D. (2015). No taxation without information: Deterrence and self-enforcement in the value added tax. American Economic Review, 105(8), 2539–2569. https://doi.org/10.1257/aer.20130393
13. Sahila, C., Begum, S., Asha, J., & Agrawal, R. K. (2024). The impact of AI on employer branding and customer loyalty programs. *Acta Scientiae*, *7*(1), 551–565
14. Slemrod, J. (2007). Cheating ourselves: The economics of tax evasion. Journal of Economic Perspectives, 21(1), 25–48. https://doi.org/10.1257/jep.21.1.25
15. Thaler, R. H. (1985). Mental accounting and consumer choice. Marketing Science, 4(3), 199–214. https://doi.org/10.1287/mksc.4.3.199
16. Tversky, A., & Kahneman, D. (1979). Prospect theory: An analysis of decision under risk. Econometrica, 47(2), 263–291. https://doi.org/10.2307/1914185
17. World Bank. (2019). Using technology to improve tax compliance. World Bank Publications..