

“Do GST cuts benefits consumers? A study on price pass-through in India”

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ABSTRACT:

This study is mainly aimed to study the new GST reforms of September 2025 where the 4 slab rates were reduced to 3 slabs. The products categorisation were as essentials, standard goods and luxury/sin goods. This study talks about the changes and the main objective is to analyse to what extent the consumers are benefitted from the tax cuts. The study is made using secondary research from government reports, websites, portals, newspapers and articles and using descriptive, analytical and comparative study approach.

The findings indicate that the passing of benefits of tax cuts to consumers are uneven and partial. The price pass-through calculations indicates that around 78% tax cut of essentials, 78-79% tax cut of standard goods and 100% tax hike of luxury sin goods are provided to consumers which shows that the tax cut is incomplete but the tax hike is complete. Though the change has been a success, it did not benefit the consumers fully. The study provides necessary recommendations to provide fair prices for consumers in the future.

Keywords: GST reforms 2025, Price Pass-through, Anti-Profiteering, Consumer benefits, Economic Growth, Tax cut and Tax hike.

INTRODUCTION

1.1 BACKGROUND OF GST IN INDIA

In India, GST was first proposed by the Kelkar Task Force on Indirect Taxes in the year 2000. This idea was proposed to abolish the complex tax structure and reduce cascading effects to promote economic integration. Then the Empowered Committee of State Finance Ministers released the First Discussion Paper in 2009. Later the Constitution Amendment Bill was introduced in the year 2011 but faced challenges.

The Constitution (122nd Amendment) Bill, 2014, was introduced in the Parliament after years of negotiation between State and Central Government. The bill was approved by both the Houses of Parliament and was ratified by the required number of states and received assent from the President on 8th September, 2016. This was enacted as the 101st Constitution Amendment Act, 2016. The GST Council was notified w.e.f. 12th September, 2016.

On 1st July, 2017, GST laws were implemented, replacing complex tax structure. Under the GST, goods and services were categorized into different tax slabs, including 5%, 12%, 18% and 28%.

1.2 RECENT 2025 GST SLAB: GST 2.0

The new GST system was introduced to simplify tax structure, reduce burden on citizens and boost growth in the economy.

The 56th GST Council meeting was held on September 3rd, 2025, in Delhi under the chairpersonship of Smt. Nirmala Sitharaman, Union Finance & Corporate Affairs Minister. The council rationalised the GST rate structure on September 22nd, 2025, from four GST slabs (5%, 12%, 18% and 28%) to a simplified structure that covers all registered businesses in India:

- a. **Merit rate: 5%**- for essential items and priority sectors.
- b. **Standard rate: 18%**- applicable to most goods and services.
- c. **Demerit rate: 40%**- applicable to sin goods and luxury items.

Table 1.1: OLD vs NEW GST SLABS

OLD SLAB	NEW SLAB	REMARKS
5%	5%	Essential items remain same
12%	18%	Many items moved to standard rates
18%	18%	Standard goods
28%	40%	Sin and luxury products

1.3 IMPORTANCE OF THE STUDY

GST rate changes are made to benefit the consumers. This study is important to determine whether the consumers are really benefitted through the GST slab reductions. Though the changes are made in GST slabs, the main thing relies on what extent the businesses have adjusted their retail prices. It also helps researchers and policymakers to identify the gap between the implemented rates and actual rates.

1.4 PROBLEM STATEMENT

The main problem is that, though there is reduction in slab rates, the retail prices have not always decreased. Businesses retain the tax cut portion as a profit to the company and limit the benefit to the consumers. This results in incomplete pass-through. Hence, it is important to analyse how the end-users are benefitted by the changes in GST.

1.5 OBJECTIVE OF THE STUDY

- To understand the effectiveness of new GST reforms.
- To evaluate the extent of price pass-through.
- To analyse the price pass-through levels' variations among different products.
- To identify the factors affecting the pass-through
- To suggest recommendations for ensuring GST rate reductions benefit the consumers.

1.6 RESEARCH METHODOLOGY

This study purely relies on **secondary data** collected from **government websites, portals, GST council notifications, newspapers, reports from industry, past studies on GST and price pass-through.**

NATURE OF STUDY:

- a. **Descriptive study:** This study gives a detailed explanation of the new GST reforms of September 2025.
- b. **Analytical study:** This study analyses the impact of GST slab reductions on consumer prices by calculating the price pass-through.
- c. **Comparative study:** This study compares pass-through of different product categories.

ANALYSIS APPROACH

- a. **Price-trend analysis**
- b. **Pass-through calculation**

1.7 SCOPE OF THE STUDY

This study focuses on the September 2025, GST slab reductions. Along with it also shows how changes in tax affects various sectors. It will help policy makers, researchers and even government to understand price and consumer behaviour, sectoral differences and price pass-through of different product categories.

1.8 LIMITATIONS OF THE STUDY

This study fully focuses on secondary data from government portals, websites, newspapers and articles. This limits the collection of real time retail prices' data which limits the precision of analysis.

2. THEORETICAL BACKGROUND: PRICE PASS-THROUGH

2.1 CONCEPT OF PRICE PASS-THROUGH

Price pass-through is a concept that defines to what extent the changes in tax is reflected in retail prices provided to the consumers. Understanding this concept is important to analyse the tax reduction and assess consumer benefits.

For example, the new GST reform has decreased the slab rates in order to reduce tax burden on consumers. But many businesses do not provide the reduced prices to consumers and use the tax for personal or other uses. Price pass-through concept studies on such cases and finds how much the consumers are benefitted from the reduction of tax rates or is the reduction is used by companies for their own use.

Types of price pass-through:

- a. **Full pass-through:** Here the complete tax reduction is reflected in the retail prices given to consumers.
- b. **Partial pass-through:** Here a part of the reduced tax is reflected in the prices.
- c. **Zero pass-through:** Here the entire tax reduction amount is not reflected in the prices.

2.2 DETERMINANTS OF PRICE PASS-THROUGH

The price pass-through of of GST reductions to consumer prices are influenced by many factors:

- a. **Market structure:** Higher pass-through is observed in competitive markets where the businesses reduce prices to attract customers whereas in less competitive markets there may be absorption of tax leading to partial pass-through.
- b. **Supply Chain and Production Costs:** Goods with complex supply chains or high intermediate costs may experience lower pass-through, since only part of the tax reduction can be absorbed at the consumer level.
- c. **Pricing strategies and behaviour of retailers:** Some retailers, in order to maintain profit margins or to use GST reduction as market advantage, may affect on the pass of tax cut.
- d. **Anti-profiteering:** GST laws states that the tax reduction must be passed through to the consumers. If there is any non-pass-through, the investigators check on the issue and corrects it.

These determinants help to analyse why some sectors delay in the pass-through of prices from tax reduction to consumers.

2.3 CALCULATION OF PRICE PASS-THROUGH

Formula:

$$\text{Pass-Through \%} = \frac{\text{Observed Price Change}}{\text{Expected Price Change from GST Reduction}} \times 100$$

Interpretation:

- **100% pass-through:** Full tax cut is reflected in prices.
- **<100% pass-through:** Partial tax cut is reflected in prices.
- **0% pass-through:** No tax cut is reflected in prices.

3. LITERATURE REVIEW

3.1 “IMPACT OF GST ON PRICE STABILITY IN INDIA”- STUDY BY JYOTI (2023)

This study includes the examination of prices of essential and non-essential commodities after the implementation of GST in the year 2017. This study used Consumer Price Index (CPI) and Wholesalers Price Index (WPI) to collect data on pre and post GST prices. It explains the changes in price of commodities and explains how cascading effect was eliminated after the implementation of GST.

Though this study focuses on price change after GST, it does not include the analysis of price pass-through of commodities. Also, this study was done in the year 2023 and it does not explain the present change in GST slab rates.

3.2 “ASSESSING THE IMPACT: INDIRECT TAXES Vs. GST ON THE INDIAN ECONOMY”- GITABEN RAMESHBHAI MAKWANA (2023)

This study involves the macro-level insights into the GST reforms. It compares the pre-GST indirect taxes with the post-GST indirect taxes. It describes how GST has abolished hidden taxes and eliminated inter-state conflicts on collection of tax. It also explains how GST implementation has contributed to the economic growth.

Though this study focuses on the entire economy related to GST, it does not provide details of how consumers are benefitted through GST and it does not have comparison of pre and post GST. Also, this study does not focus on current GST changes of September 2025.

3.3 “COMPARATIVE EVALUATION OF ADMINISTRATIVE CHALLENGES IN GST IMPLEMENTATION”- RATHOD ARVINDSINH ARJUNSINH (2023)

This study explains the burdens and problems faced by businesses in early days of GST. It explains various reasons for incomplete price pass-through. The reasons may be of technology related because of GSTN, difficulty in filing the credit, compliance issues and lack of knowledge which in turn leads to partial pass-through or no pass-through of benefits to consumers.

Though this study explains on reasons for incomplete pass-through, it doesn't explain the current situation of September 2025 GST slab reductions. Also, it just had false values for explanation rather than exact values which lacks precision.

3.4 “GST REFORMS SET TO REIGNITE CONSUMPTION GROWTH”-ECONOMIC TIMES (2025)

This article by Economic Times states the changes in GST slab rates. It gives details on the slab rates of essential commodities. It provides report on expectation of the economists on lower prices due to changes in GST rates. This article says that businesses in FMCG and automobile sectors are expected to pass around 60-70% of tax benefit to consumers.

This article provides information on current GST change but it focuses on future outcomes rather than analysing the current situation. It does not provide comparisons of prices and actual data.

3.5 “UNEVEN GST PASS-THROUGH”- CFO ECONOMIC TIMES SURVEY (2025)

This article is survey-based and shows sector wise changes in prices. This article says that profit margins, costs and market competition influence the pass-through. This explains that packaged foods and healthcare have significant changes whereas electronics and services did not see significant changes.

Though this article provides sector wise comparison, it does not study the whole sample. It is limited to very little sample size which might lead to lower precision.

4. ANALYSIS AND INTERPRETATION:

4.1 ANALYSIS

The purpose of analysis is to analyse the extent of pass-through with real-time data. The current GST slabs of 5%, 18% and 40% have made significant changes in the economy and consumer behaviour. Analysis of such changes in price and pass-through of benefits helps to understand how the prices are changed and in what percentage. It also helps to know if the consumers are really benefitted by the tax cut and to what extent.

4.1.1 PRICE TREND ANALYSIS

Price Trend Analysis helps to analyse the prices before the GST reforms of September 2025 and after the changes in September 2025. This section helps to find the average changes of price of few commodities from each sector and to what extent they have changed.

Table 4.1: Average Pre- and Post-GST Prices of Selected Products (2025)

Category	Product	Old GST Rate	New GST Rate	Avg. Price (Before GST Rationalisation – Aug 2025)	Avg. Price (After GST Rationalisation – Oct 2025)	Observed Change (%)
Essentials (5%)	Packaged Rice (5 kg)	12%	5%	₹320	₹300	↓ 6.3%
	Cooking Oil (1L)	12%	5%	₹150	₹138	↓ 8.0%
	Toothpaste (100g)	12%	5%	₹65	₹62	↓ 4.6%
	Medicines (strip)	12%	5%	₹100	₹97	↓ 3.0%
Standard (18%)	Smartphone	18%	18%	₹15,000	₹14,800	↓ 1.3%
	Refrigerator (200L)	28%	18%	₹21,000	₹19,500	↓ 7.1%
	Television (32")	28%	18%	₹17,500	₹16,300	↓ 6.8%
	Restaurant Meal (for two)	18%	18%	₹900	₹910	↑ 1.1%
Luxury / Sin Goods (40%)	Cigarettes (pack of 20)	28%	40%	₹200	₹225	↑ 12.5%
	Air Conditioner (1.5 ton)	28%	40%	₹36,000	₹40,000	↑ 11.1%

Chart 4.1: Average Price by GST Category

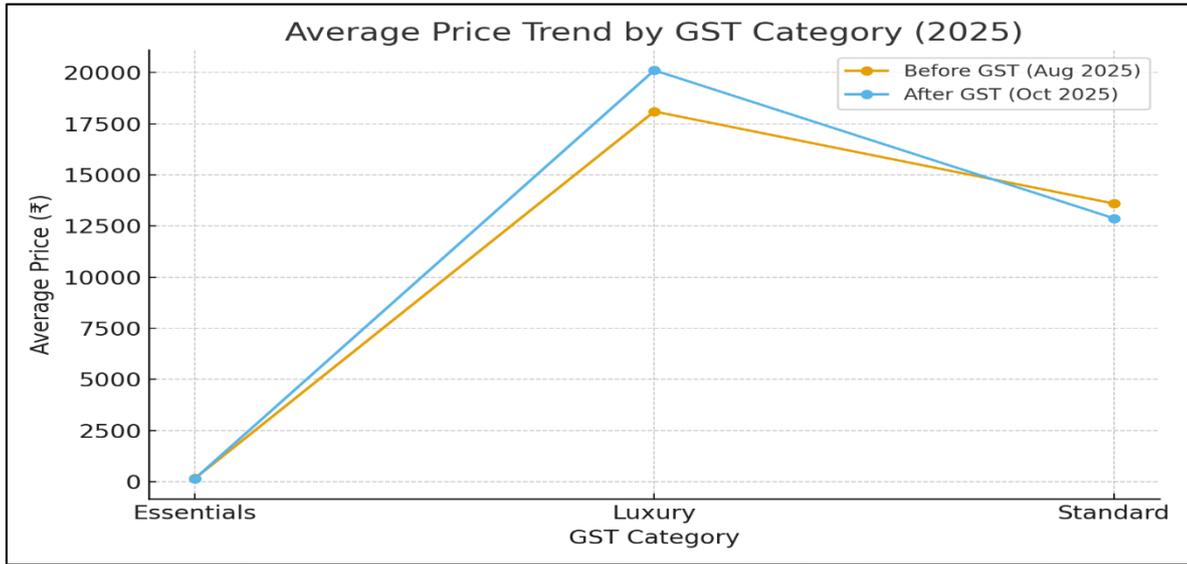
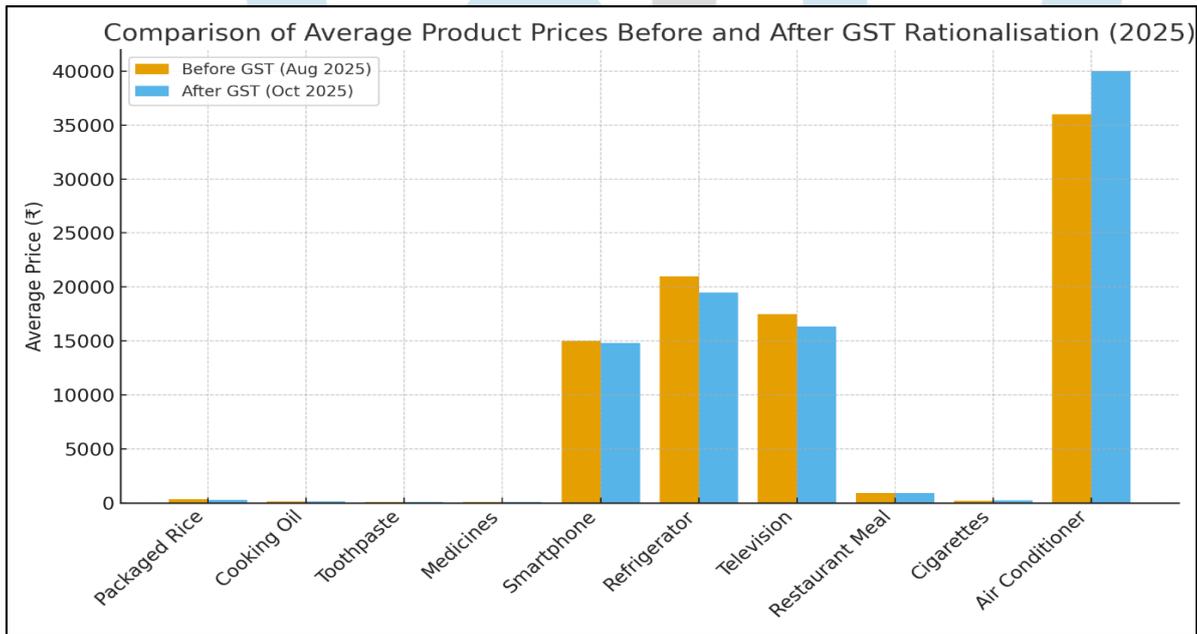


Chart 4.2: Before vs After GST Prices



INTERPRETATION:

Price Trend Analysis gave the following results:

- a. **Essential goods (5%):** The GST of such goods fell by an average of 3-8% which results in partial pass-through of benefits the consumers.
- b. **Standard goods (18%):** The items under this showed a average reduction of 6-7% which reflects an incomplete pass-through.
- c. **Luxury/ Sin goods (40%):** The prices were increased fully which showed a complete upward pass-through.

Overall, it is observed that there is an uneven distribution of tax benefits across different sectors where there is partial pass-through of tax benefits to consumers.

4.1.2 PRICE PASS-THROUGH CALCULATION

Price pass-through calculation or interpretation is very important to analyse if the changes in GST tax rates have really benefitted the consumers. It also helps to analyse to what extent and percentage the GST tax cut benefits are given to consumers. All these calculations are done using a formula to give precise and clear information rather than just using imaginary figures.

Price pass-through concept has always helped researchers, economists, policy makers and even governments to know if the commodities have gone through complete or incomplete pass-through and helps to take effective measures to help consumers enjoy the maximum benefit derived from such tax rate changes.

- Formula for calculation of price pass-through:**

$$\text{Pass-Through \%} = \frac{\text{Observed Price Change}}{\text{Expected Price Change from GST Reduction}} \times 100$$

- Here is the calculation of price pass-through for each sector:**

Table 4.2: Assumed Expected Change from GST Rate Revision

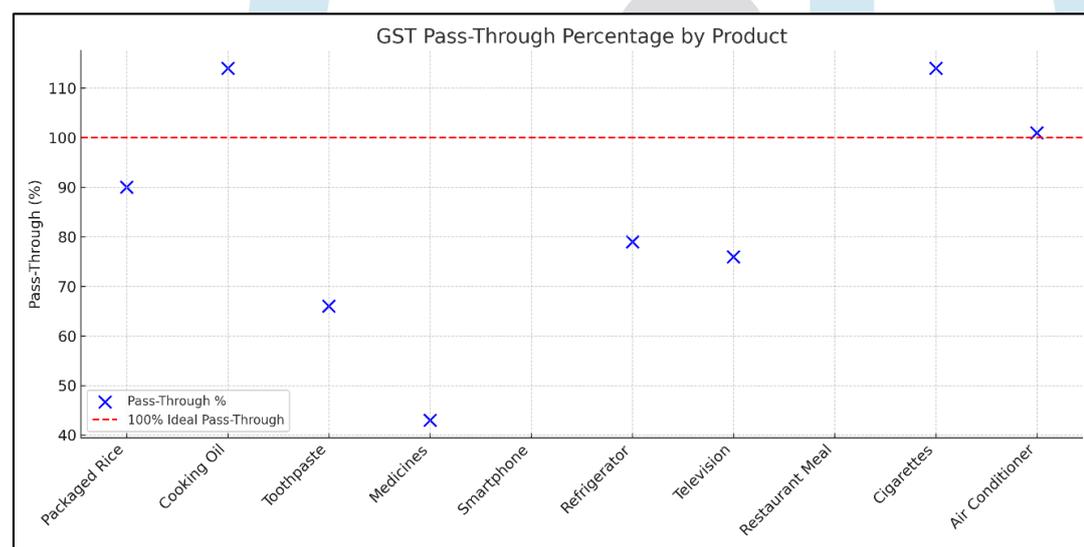
Old Rate → New Rate	Expected Price Effect (GST-only)
12% → 5% (Essentials)	↓ 6–7% (we'll use 7%)
28% → 18% (Standard Goods)	↓ 8–10% (we'll use 9%)
28% → 40% (Luxury Goods)	↑ 10–12% (we'll use 11%)
18% → 18% (No change)	0%

Table 4.3: Observed Price Change

Product	Category	Old GST Rate	New GST Rate	Observed Price Change (%)	Expected Change (%)	Pass-Through (%)
Packaged Rice	Essentials	12%	5%	↓ 6.3	↓ 7.0	90%
Cooking Oil	Essentials	12%	5%	↓ 8.0	↓ 7.0	114%
Toothpaste	Essentials	12%	5%	↓ 4.6	↓ 7.0	66%
Medicines	Essentials	12%	5%	↓ 3.0	↓ 7.0	43%
Smartphone	Standard	18%	18%	0	0	(No change)
Refrigerator	Standard	28%	18%	↓ 7.1	↓ 9.0	79%
Television	Standard	28%	18%	↓ 6.8	↓ 9.0	76%
Restaurant Meal	Standard	18%	18%	0	0	(No change)
Cigarettes	Luxury	28%	40%	↑ 12.5	↑ 11.0	114%
Air Conditioner	Luxury	28%	40%	↑ 11.1	↑ 11.0	101%

Table 4.4: Category-Wise Average Pass-Through Calculation

Category	Average Pass-Through (%)	Interpretation
Essentials	$(90 + 114 + 66 + 43) / 4 = 78\%$	Partial pass-through of benefits to consumers. Most of the benefits reached consumers.
Standard	$(79 + 76) / 2 = 78\%$	Moderate pass-through of benefits as companies retained a part of tax cut as margin.
Luxury	$(114 + 101) / 2 = 108\%$	Complete upward pass-through and taxes were increased fully on luxury items.

Chart 4.3: Visual representation of price pass-through:**INTERPRETATION:**

- Essential goods indicates that there is a high, partial pass-through where some commodities like cooking oil is fully passed through and others retained a part as profit margin.
- Standard goods showed less pass-through as most of the retailers and businesses focused on retaining the tax cut to maintain costs.
- Luxury and sin goods showed a complete upward pass-through as the prices were drastically increased and benefitted companies as they increased their prices as a part of profit-maximizing strategy.

5. FINDINGS

- The GST structure from 5%, 12%, 18% and 28% was simplified to 5%, 18% and 40% with the aim to reduce complexity and provide benefits to consumers.
- The prices of essential goods have decreased on an average of 3-8%, indicating a partial pass-through of benefits to the consumers.
- Less pass-through was observed in standard goods prices as the companies focused on retaining the tax cut and using it as a part of their profit making strategies.
- A complete upward pass-through of tax hike was observed in luxury and sin goods sector and category where consumers were priced more on luxury items.
- All the sectors did not show same level of pass-through. The pricing was based on each sector like the essentials showed around 78%, standard goods around 78-79% and luxury and sinful goods showed complete 100% pass-through of tax cut and tax hike to the consumers.

- Few competitive sectors showed great responses in passing on the maximum benefit of tax cut to the consumers. For example, FMCG and healthcare.
- Some durable goods like electronics and appliances showed less pass-through, as companies retained the tax cut as margins and to control costs.
- The overall pass-through of prices were imbalanced because the tax cut which showed a downward pass-through was incomplete whereas the tax hike which showed an upward pass-through was complete.
- It was proved that GST reduction helped keep prices under control at national level as the inflation fell by 1.5%.
- Though GST reforms achieved the aim of reducing the prices, it didn't fully benefit the consumers.
- Some small businesses face confusion in pricing of goods according to the new GST reforms.
- It is proved that market structure and competition influence the level of price pass-through.

6. SUGGESTIONS

- Government should check and make sure that the businesses pass the tax benefits to the consumers at a maximum rate.
- A special unit must be launched by the GST council or CIBIC to keep a check on the price changes after the changes or revision in tax reforms.
- Fines and penalties should be charged on the businesses that misuse the law and do not pass the benefits to the consumers.
- An online platform or a public app must be launched to show the prices of products so that the consumers will know if the prices have really reduced or not.
- Education on the new tax reforms must be provided to the small retailers and shopkeepers to keep them updated about the changes in economy due to tax cuts and hikes.
- Online billing of commodities helps the government to keep a track on the prices charged and how much benefit is provided to the consumers.
- The complete power must be given to the "National Anti-Profiteering Authority" to investigate and warn/punish organisations that do not provide the benefits to the consumers.
- Competition must be supported by the government in the market as higher competition will lead to a decrease in the prices of commodities providing full benefits for the end users.
- Feedbacks and reviews should be collected from the consumers to understand and verify if they are really benefitted or not.
- Audits must be introduced to each sector to find the true value of the real pass-through of prices.
- GST Council must talk to the industry experts and business people before making changes so that excess or very less changes do not take place.
- Research and in-depth studies must take place on GST reforms to benefit in planning the future GST requirements.

7. CONCLUSION

The September 2025 GST tax reforms have made huge changes in the pricing of commodities. The 4 slab rates of 5%, 12%, 18% and 28% were reduced to 5%, 18% and 40%. Most of the goods at 12% were moved to 5% and 18%. This change was made especially to overcome complexity in the structure of indirect taxes, to provide benefits to consumers and for the growth of our economy.

This study mainly concentrated on how the GST changes have benefitted the consumers. Though GST reforms were changed and the slab rates were reduced, it was observed that the tax cut benefits are not fully utilised by the consumers. This study includes the price trend analysis and price pass-through calculations so as to compare the pre and post GST prices and also to analyse on what extent the GST tax cut has been passed to the consumers in the form of retail prices. The main aim of this study is to identify the gaps of incomplete price passing to benefit consumers and provide necessary suggestions.

This study has analysed the incomplete passing of the tax benefits to the consumers through calculations and analysis. Through the analysis it was found that essentials are indicating a partial pass-through, standard goods are indicating less pass-through but the luxury/sin goods are showing a complete upward raise in price indicating an imbalance in tax cuts and tax hikes.

Overall, through this study we can see that the changes in GST is a success for the businesses but when it comes to consumer benefits it is still a question. There is a partial passing of benefit instead of full pass-through. The suggestions provided would help government and GST council in making further changes so that the benefits of tax cuts can be fully utilised by consumers.

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