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Converting Invisible Tax Savings to Visible Wealth: GST 2.0 and Household Financial Empowerment in Middle-Class India

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ABSTRACT: Reforms in GST 2.0 that will become functional on 22 September 2025 introduced an unprecedented benefit to middle-class families: a type of silent benefit that lowers the monthly spending but it is not observed. To the vast majority of families these modest savings in bills are never saved and hence the money does not become real and long term wealth. The current paper examines how middle-class families with monthly incomes of approximately 35,000 to 50,000 are able to recognize these invisible savings, quantify them in a realistic manner and invest them in straightforward and low-value investments like Systematic Investment Plans (SIPs), recurring deposits and digital gold. The paper, based on consumer spending statistics and behavioral economics has estimated that an average family will be able to save in the range of ₹400-600 per month simply because of the GST 2.0 rate cuts on basic goods, financial services and products. When this sum is regularly invested over 15-20 years at moderate rates, the corpus will grow to about 3.8-5.3 lakh and policy-based tax relief will turn into tangible financial resources rather than more consumption. The paper suggests a four-stage model, which includes monitoring spending, measuring GST savings, segregating this money, and allocating it to a portfolio, besides implementing some practical challenges that include pass-through by retailers, financial illiteracy, and lifestyle inflation.

I. INTRODUCTION

The effects of tax cuts on basic commodities tend to manifest themselves in the form of slightly reduced prices at the cashier desk but only a few consumers sit down and declare that they have saved such a certain amount of money today. The additional money is just consumed in day to day spending: a more good quality of toothpaste, an additional pack of snacks or any other luxury item. The paper designates such invisible benefits as invisible savings and claims they are real, as well as meaningful to the middle-class households in India.

The most major restructuring of GST since 2017 is GST 2.0 that was sanctioned in the 56th GST Council meeting, 3 September 2025 and became effective on 22 September 2025. Reform reduced the previous four-rate system of 5, 12, 18 and 28 to a simpler form of mostly two-rate, 5 and 18, with a new top rate of 40, limited to luxury and sin items. This, in practice, meant that hundreds of the mundane products such as personal care, dairy, packaged foods, education materials, medicines and even insurance premiums became cheaper virtually overnight.

To a normal middle-income family, the net effect of such changes is not that any of them get rich instantly, but they do lead to the creation of tiny consistent amounts of savings in the number of purchases made monthly. The issue is not that we do not save money, the issue is that we do not have a mechanism in place so that we could spot, grab and invest them. The simple claim that is made in this paper is that in case families can systematically find even approximately 500 a month in GST 2.0 price cuts and use that amount over 15-20 years, their long-term financial security can indeed be enhanced quite substantially- without any increase or decrease in income or lifestyle sacrifices.



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II. GST 2.0: KEY CHANGES RELEVANT TO HOUSEHOLDS

GST 2.0 was aimed at eliminating the heavy taxes on basic consumer goods and maintaining the increased rates only on luxury and sin items. Almost every product previously taxed at 12 were shifted to 5 as well as most of the items which were in the 28 slab level moved to tax at 18, except that of cigarettes, carbonated beverages and luxury cars, which now carry a 40% tax.

From a household perspective, the most important categories are:

- Personal care products: Shampoo, toothpaste, soap, deodorant, hair oil, and shaving products disappeared 18% to 5% approximately an 11% decrease in tax.
- Dairy and packaged dairy: Butter, ghee and paneer were removed off 12% to 5% with UHT milk fully excused and ice cream 1805.

Packaged and processed foods: Biscuits, snacks, breakfast cereals, instant noodles, sauces, chocolates and pickles declined by 12 to 5%.

- Healthcare products and medicines: Drugs with life-saving properties were zero-rated and numerous medical equipment along with diagnostic and corrective glasses transitioned to the 5 percent slab.

Education materials: Notebooks, exercise books, pencils, erasers, charts, and maps: This category reduced outlays related to education directly by decreasing 12% to 0%.

- Consumer durables: Television, air conditioners, washing machines, and refrigerators decreased by 28% to 18, lowering the prices on purchases that were not as frequent, but were higher in the price bracket.
- Insurance premiums: Life and health insurance premiums were exempted to GST as it removed the previous 18 percent tax on such payments.

All these shifts reduced the effective cost of living, although it is not much seen by most households.

How Much Does a Typical Family Actually Save?

According to an analysis conducted by CRISIL of GST 2.0, eleven of the 30 biggest items in the average consumer expenditure attract reduced GST rates nowadays and these products combine to provide approximately third of domestic expenditure. Based on the average monthly income of the representative urban middle-class family (earning 35,000-50,000) the savings of GST 2.0 on the everyday expenditure alone are of the magnitude of 400-600 every month.

A realistic breakdown is as follows:

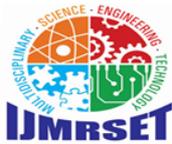
- Personal care: Monthly expenditure of 1200 -1500 with a 11 percent decrease is translated to about 130-165 savings.
- Dairy: ₹1,500-2,000 expenditure with a cut of 6-7 percent produces an amount of 90-125 savings.
- Packaged food: On an outlay of 2000-2500, savings are approximately 125-160.
- Healthcare: 100-150 can be saved by spending ₹400-500 monthly on the basic healthcare products.
- Education materials: In the case of a family having two or three school going children a 60-80 a month tax used before would be completely abolished.
- Premiums: Annual premiums of approximately 20,000 now are subject of a tax reduction of 3,600 which is approximately 300/month.

A combination of these would indicate that one can save up to ₹580-735 per month on the upper end; to make conservative assumptions, one can save 400-500 per month and make these assumptions sustainable. In case occasional buying of big-sized appliances is taken into account in a period of one year, the overall saving of the year might be 7000-12000. This is a significant amount according to the grocery bill of many families or even a mid-range laptop meaning that the amounts are not insignificant.

Why These Savings Stay Invisible

Most families are not aware or do not record these gains despite the fact that the figures are huge. There are a number of behavioral and practical reasons why GST 2.0 savings will still be invisible:

- Marginal price effect Individual price reductions of 5 on shampoo, 8 on biscuits, 12 on butter are small, and distributed across shopping trips, buying outlets, and weeks, and are difficult to identify singly.
- Weak price memory: Behavioural economics studies indicate that people have a poor recollection of the direct prices of certain products after time, and therefore there is no obvious index of pre-GST 2.0 against which to conduct comparison.



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- Pass-through confusion Likewise, the first few weeks of the reform saw not all retailers revising their prices at once; prices seemed to have dropped to consumers only by a minority in surveys like those of LocalCircles, and this created a doubt about whether savings were actually realised.
 - Mental accounting: Families are accustomed to budgeting their lives; grocery, children, transportation, etc. so when the budget of a category decreases, the money saved is regularly invested in more or better items of the same type instead of transferred to savings.
 - Lifestyle inflation: With the increase in purchasing power, the expenditure tends to increase, in general, faster than income; the availability of credit, BNPL, and EMIs leads to the desire to use any new category of the budget as consumption, not saving.
- These considerations imply that unless monitored and isolated, savings on GST 2.0 program just sink into normal consumption habits.

III. A FOUR-PHASE FRAMEWORK TO CAPTURE INVISIBLE SAVINGS

The thesis of this paper is that the hidden savings should be made visible to households, and at this point, they may then transform such into wealth. The suggested framework contains four phases.

Phase 1: Track Actual Spending (Weeks 1–4)

During a month, families document all their buying in classifications that are impacted by GST 2.0: personal care, dairy, packaged foods, household products, pharmaceuticals, and education materials. This can be accomplished with the help of a notebook, a spreadsheet or by a simple notes application by writing down the item, amount and category. Total spending in each category is calculated in the end of the month to form a baseline.

Phase 2: Estimate GST 2.0 Savings (Week 5)

Based on the available tax change, the families estimate their payment under the previous regime. The tax cut of personal care items by 5 per cent rather than 18 per cent means about 11 per cent reduction, and so does the tax cut of dairy and many packaged products, which is 12 per cent to 5 per cent, and education materials, which is 12 per cent to 0 per cent, represents an approximation. These cuts are typically brought to the monthly baseline (e.g. ₹5,000 spent on things which were hurt) to bring to about 400-500 a month. This figure is the target figure of the GST savings.

Phase 3: Isolate the Savings (Ongoing)

These savings have to be physically or digitally isolated to ensure that they are not recaptured back into normal spending. The best thing to do is to have an automatic transfer done on the salary day and transfer the estimated GST savings (say 500) in a separate savings account at the end of every month. By eliminating the necessity of willpower or decisions made on a monthly basis, this type of a pay yourself first system is consistent with behavioral interventions that are endorsed by a large number of individuals in the personal finance field.

Phase 4: Invest the Captured Amount

These have to be invested in appropriate instruments on small, frequent contributions once separated. It will be based on the preferences of risk tolerance, time, and familiarity with financial products.

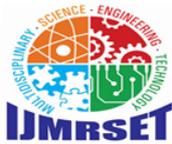
IV. INVESTMENT OPTIONS FOR SMALL MONTHLY AMOUNTS

Systematic Investment Plans (SIPs) in Mutual Funds

There has been a traditional history of equity mutual funds in India bringing returns of approximately 10-12 percent per annum over long-runs, but the prospects of the future are unpredictable. Suppose a family spends 500 a month and invests the sum over 20 years at a notional 10 percent growth rate, the corpus will be approximately 380,000 of which the family will only contribute 120,000 and the rest will come as a result of growth.

Bank Recurring Deposits (RDs)

RDs take a set monthly deposit between 100 to 500 and provide assured returns, which in the recent years range between 5.5-7%. They have no market risk and are easy to the households that are new to financial products, and they are therefore good to develop discipline and then transition into market-linked instruments.



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Digital Gold

Digitized gold applications such as micro-savings apps will enable small and regular gold purchases of 24-karat gold, round-up options on UPI payments. Although on the long term, the returns on gold have been lower and more fluctuating than equity, the asset is cultural friendly with regard to gold preferences and is a partial inflation hedge.

Public Provident Fund (PPF)

PPF has guaranteed interest (approximately 7.1 percent in recent announcements), tax allowance under Section 80C and 15-year lock-in that promotes long term saving. Its illiquidity however makes it a more suitable complement product, when families already have an emergency fund in place and are not afraid of an amount of their GST savings being locked away.

A Step-Up Strategy

The GST savings will be associated with a progressive increase with future income payable: in the first three years, the family is expected to start with 500 per month in the first year, increase to 700 in the second year and first five years, then 1,100 in the sixth year onwards, then 1,300. With reasonable assumptions on market returns, such a step-up SIP can form a corpus of c. 8 to 10 lakh in 20 years, beginning with amounts which initially were entirely a result of tax savings.

Real-World Constraints and Behavioral Challenges

The framework has great potential yet it is run within the context of reality. Retail pass-through is incomplete, the previous GST cuts have demonstrated that only a low percentage of consumers would initially experience full price cuts with some retailers holding onto a portion of the gain. The GST 2.0 also provided monitoring of key items, a GST Bachat Utsav communication campaign and consumer complaint mechanisms, which prompted households to shop around and, where necessary, change retailer or complain of non-compliance.

The other significant obstacle is financial literacy: research indicates that only between a quarter and a third of Indians are financially literate in any significant meaning, and a significant proportion of Indians have never invested in a mutual fund or online investment platform. In the case of such households, it will be a sensible journey to begin with basic products such as RDs and later progressively to index fund SIPs or balanced funds.

Psychological opposition to long term commitments where one works now but reaps in future is also present. This barrier can be reduced by automation (commitment devices) and by beginning with extremely small sums, such as ₹100 per month, and then developing the habit first. Reality will bring some further complication in the form of medical emergencies, change of jobs and family issues, that is why it is better to prepare a liquid emergency fund that will cover between 3 and 6 months of expenses before taking the long term investment plunge.

Broader Implications

Unless the majority of the tax relief merely contributes to an increase in consumption without improving household balance sheets, the reform will not be as effective as it could be in increasing financial security. A more tangible benefit would be achieved through better public communication, i.e. personalized saving estimates or integration with digital payment platforms that would indicate the total savings in GST monthly.

Financially speaking, GST savings should be used as a gateway to systematic investing as it may introduce millions of new participants to formal financial markets. In the illustration that 10 crore middle-class households would invest with just 500 per month out of GST savings, that would put about 5,000 crore per month or 60,000 crore per year of their savings and investments. This can over time intensify capital markets and diminish household vulnerability. At the intergenerational level, an accumulation of 4-5 lakh of corpus of invisible savings can be used to finance higher education, eliminate expensive borrowing, and give the next generation a more stable starting point.

Limitations and Scope for Future Research

The figures used in the current paper rely on the assumptions of a complete or close pass-through of GST reductions, an average consumption behavior, and generic brands; the amounts saved will not be exactly the same across cities, retailer behavior, and household characteristics. The projection is done based on the past performance average returns and is not sure, since the circumstances in the market may lead to underperformance. The suggested types of behavioral



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interventions also presuppose the availability of bank accounts, smartphones, stable income, and the level of simple digital literacy, which are not yet available to all households.

Future studies might follow families over the years as they apply this framework, compare the effects of different nudges (e.g., peer groups, goal visualization, or default options), explore regional differences, and investigate the impact of social networks on maintaining disciplined saving behavior.

V. CONCLUSION

GST 2.0 has just opened new space in the budgets of the middle classes of India by reducing taxation on basic needs, major services, and insurance products. Families paying careful attention can anticipate saving of about ₹400 to 600 during the monthly spending on regular items, and further alleviation can be obtained through the insurance payments and other infrequent and big purchases. These sums will not seem dramatic in a particular month, but after 1520 years they can be the cornerstone of an effective wealth-creation model provided that they are monitored, segregated, and systematically invested.

The households that gain the most as a result of GST 2.0 will not necessarily be households who may see a reduction in the prices at the check-out counter but rather households that will see the difference as an asset rather than the windfall. Middle-class families can transform a tax change of policy-making into long-term financial empowerment by making the invisible visible, by disentangling savings (that are invisible) with regular spending, and by putting the savings into action with the help of simple investment tools. The funds have already been in their monthly cash flows, it is only a matter of identifying it and purposeful redirection towards the creation of visible wealth.

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