

ORIGINAL RESEARCH ARTICLE

Reconceptualising Fiscal Policy: A Behavioural Policy Framework for GST Reform, Household Welfare and Financial Resilience in India

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Abstract

The Goods and Services Tax (GST), introduced in India on 1 July 2017, represents one of the most transformative fiscal reforms since economic liberalisation. While existing literature extensively evaluates GST from the perspectives of revenue mobilisation, administrative efficiency, and macroeconomic performance, its potential as a behavioural public policy instrument remains largely underexplored. Building on fiscal reform theory, behavioural economics, behavioural finance, and nudge theory, this paper synthesises the GST and behavioural economics literature to conceptualise the mechanisms through which GST can influence household welfare, financial resilience, and livelihood security. The paper argues that GST has the potential to function as a policy "nudge" - a non-coercive fiscal instrument that aligns incentives with welfare-enhancing objectives by altering relative prices, reducing psychological and financial barriers to choice, and restructuring the decision architecture within which households make everyday economic decisions. The study develops the Behavioural GST Framework (BGF), a nine-stage conceptual model linking GST design, behavioural mechanisms, and household development outcomes. Policy directions for a behaviourally informed next-generation GST are proposed, repositioning indirect taxation as a citizen-centred instrument for inclusive development rather than merely a revenue collection mechanism.

1. INTRODUCTION

The Goods and Services Tax (GST), introduced on 1 July 2017, represents one of the most comprehensive fiscal reforms undertaken in independent India. By replacing a fragmented system of central and state indirect taxes with a unified destination-based consumption tax, GST fundamentally transformed India's fiscal governance, tax administration, and economic integration. Before GST, businesses and consumers operated under a complex regime comprising excise duty, service tax, value-added tax (VAT), central sales tax, octroi, entry tax, luxury tax, purchase tax, entertainment tax, and numerous state-specific levies — a multiplicity that resulted in cascading tax effects, increased compliance costs, impeded interstate trade, and fragmented the national market. GST sought to eliminate these distortions through a comprehensive value-added tax structure with seamless input tax credits, thereby promoting transparency, improving tax efficiency, facilitating ease of doing business, and creating a unified national market [Nayyar and Singh, 2018, Rao et al., 2019].

Since its implementation, GST has substantially improved tax administration, expanded the tax base, reduced cascading taxation, and strengthened cooperative fiscal federalism through the GST Council. Empirical evidence confirms that GST has positively influenced India's economic development through improved tax compliance, formalisation of economic activities, reduced logistics costs, and greater market integration [Singhal et al., 2022]. Despite these achievements, the present GST structure remains largely revenue-oriented, offering limited behavioural signals that encourage healthier consumption, prudent financial decision-making, or long-term household resilience. Its potential as a broader public policy instrument remains largely unexplored.

Behavioural economics provides an appropriate theoretical lens for addressing this gap. Contrary to the assumptions of traditional economic theory, behavioural research demonstrates that consumption, saving, borrowing, investment, and tax compliance are systematically influenced by psychological factors including loss aversion, present bias, mental accounting, framing, default effects, limited attention, overconfidence, and self-control problems. The emergence of behavioural public finance extends these insights to taxation: Congdon et al. [2011] argue that public finance should account for predictable behavioural biases alongside conventional market failures; Madrian [2014] demonstrates that simplification, defaults, reminders, framing, and commitment devices substantially improve policy effectiveness without restricting individual choice; and Farhi and Gabaix [2020] show that optimal taxation should jointly address externalities and behavioural internalities through integrated fiscal and behavioural interventions.

Against this background, the paper argues that GST has the potential to function as a policy “nudge” — a non-coercive fiscal instrument that aligns incentives with welfare-enhancing objectives. GST rate differentiation, exemption structures, and digital compliance systems can collectively operate as fiscal nudges by altering relative prices, reducing liquidity constraints, and lowering transaction costs across key consumption domains. The study evaluates how GST rate design alters price salience, reduces psychological and financial barriers to welfare-enhancing choices, and reshapes consumption contexts. Consequently, GST is conceptualised not merely as a mechanism for collecting government revenue, but as a behavioural policy architecture capable of influencing everyday economic decisions, producing welfare-enhancing outcomes through carefully designed incentives rather than compulsory regulation.

Although a growing body of literature examines GST from fiscal, administrative, legal, and macroeconomic perspectives, no comprehensive conceptual framework currently explains how GST can operate as a behavioural policy instrument linking tax architecture, behavioural responses, and household development outcomes. The present paper addresses this gap by developing the Behavioural GST Framework (BGF), an integrated conceptual model systematically connecting GST design, behavioural mechanisms, and household development outcomes within a unified theoretical architecture.

Accordingly, the study pursues four objectives: (i) to synthesise behavioural economics, behavioural public finance, and GST literature into an integrated theoretical framework; (ii) to examine the behavioural mechanisms through which GST influences household financial decision-making; (iii) to develop a conceptual model positioning GST as a behavioural policy instrument that promotes

household welfare, financial resilience, and livelihood security; and (iv) to propose policy directions for a behaviourally informed next-generation GST that aligns fiscal policy with broader developmental objectives. The principal contribution is the BGF itself, extending the conventional role of indirect taxation beyond revenue mobilisation by integrating behavioural finance, choice architecture, and public finance into a citizen-centred fiscal policy model.

2. BEHAVIOURAL FOUNDATIONS OF FISCAL POLICY

Traditional public finance is largely founded on the assumption that individuals are rational decision-makers who maximise utility by processing all available information efficiently. A growing body of behavioural economics research demonstrates that actual financial decisions frequently deviate from these rational predictions. Household consumption, saving, borrowing, investment, and tax compliance are systematically influenced by psychological biases, emotions, cognitive limitations, and contextual factors, transforming fiscal policy from a purely economic instrument into a behavioural mechanism capable of shaping individual decision-making.

The intellectual origins of behavioural public finance trace to Adam Smith's *Theory of Moral Sentiments* (1759), which recognised that economic behaviour is influenced by moral sentiments, emotions, and self-command rather than pure rationality, anticipating modern theories of self-control and present bias. Irving Fisher (1930) further argued that individuals exhibit varying degrees of impatience in consumption and saving decisions, while John Maynard Keynes (1936) challenged the rationality assumption through his concept of “animal spirits,” recognising that economic activity is frequently driven by confidence and fear rather than objective calculation. Simon [1955] established that individuals satisfice rather than optimise, selecting decisions that are satisfactory within the limits of available information and cognitive capacity — providing a foundational basis for behaviourally informed fiscal design.

The conventional foundation of household financial behaviour rests on the life-cycle hypothesis of Modigliani and Brumberg [1954], which postulates that individuals smooth consumption over their lifetime by saving during high-income periods and dissaving during retirement. Johnson et al. [1987] provided early experimental evidence that consumers make irrational consumption decisions due to an inability to correctly discount future income streams, demonstrating that bounded rationality necessitates models of choice departing from the life-cycle framework.

Kahneman [2003, 2011] established that most financial decisions are governed by System 1 — fast, automatic, and emotionally driven thinking — rather than by deliberate System 2 reasoning. Because heuristic tendencies are not under conscious voluntary control, financial behaviour cannot be reliably improved through information provision alone: the decision environment itself must be redesigned. Together with Amos Tversky, Kahneman developed Prospect Theory [Tversky and Kahneman, 1979], demonstrating that individuals evaluate gains and losses relative to a reference point and that losses are psychologically experienced more intensely than equivalent gains, a phenomenon with significant implications for tax framing and salience.

Thaler [1999] introduced Mental Accounting, demonstrating that individuals mentally separate money into different cognitive accounts and assign different spending rules to each. Thaler and Shefrin [1981] proposed that individuals contain two competing selves: a forward-looking “planner” concerned with lifetime utility and a myopic “doer” focused on immediate gratification. Short-term impulses frequently transform planners into doers, resulting in self-control failures that manifest in over-consumption, under-saving, and impulsive financial decision-making — behaviours that a behaviourally designed GST can address through commitment-compatible incentives and friction-reducing defaults. Shefrin and Thaler [1988] further demonstrated that money in one mental account is not a perfect substitute for money in another, violating the normative principle of fungibility: tax savings made visible in a separate behavioural account on invoices or digital platforms may be treated differently from general disposable income, encouraging households to redirect them toward saving. Thaler [1994] argued that inadequate saving is fundamentally a self-control problem, and that simple,

automatic saving schemes promote financial discipline, anticipating the behavioural GST principle of default-driven compliance systems. [Banerjee and Mullainathan \[2010\]](#) further demonstrate that GST rate design — lowering costs for essential goods while maintaining higher rates on temptation goods — can directly address the behavioural poverty trap, improving financial resilience among the most vulnerable households.

The practical application of these insights to public policy emerged through Choice Architecture and Nudge Theory. [Thaler and Sunstein \[2008\]](#) demonstrated that even apparently insignificant changes in how information is displayed, sequenced, or labelled produce major behavioural shifts. This principle of libertarian paternalism, whereby governments nudge rather than mandate, provides the philosophical foundation for behaviourally designed GST systems that guide households toward welfare-enhancing choices through environmental design rather than coercive regulation. These developments fundamentally reshape the understanding of fiscal policy: taxes function not only as instruments for generating revenue or correcting market failures, but as behavioural policy instruments capable of influencing household decisions through psychological mechanisms.

3. GST AS A PUBLIC POLICY INSTRUMENT: ACHIEVEMENTS, CHALLENGES, AND THE NEED FOR NEXT-GENERATION GST REFORM

Existing literature evaluates GST primarily in terms of revenue mobilisation, tax efficiency, compliance, and macroeconomic performance. [Nayyar and Singh \[2018\]](#) document GST's paradigm shift from a fragmented tax structure to a unified national system based on "One Nation, One Tax," substantially improving transparency and promoting interstate trade. [Rao et al. \[2019\]](#) provide a comprehensive theoretical and institutional analysis, confirming that GST has strengthened India's fiscal federalism while cautioning that multiple rate structures and input-credit inefficiencies dilute its potential. [Singhal et al. \[2022\]](#) provide panel regression evidence across 31 states confirming that GST has significantly improved tax compliance, expanded the taxpayer base, and strengthened government revenue. [Rao \[2022\]](#) argues that the next phase of GST reforms should focus on simplification, rationalisation of tax rates, improved digital governance, and stronger institutional capacity.

Despite these achievements, the literature identifies persistent structural challenges: multiple GST rate slabs increase classification disputes and compliance costs; small and medium enterprises face significant compliance burdens; and the input-output tax asymmetry — wherein agricultural outputs are largely exempt while inputs attract positive rates — creates hidden tax burdens and limits input tax credit benefits for smallholders and rural enterprises [[Singh et al., 2018](#), [Khan et al., 2018](#), [Kumar and Kumar, 2021](#)]. [Mehta and Mukherjee \[2021\]](#) identify procedural and legal challenges requiring simplification of rules, upgraded IT systems, and rationalised compliance burdens, objectives that the Behavioural GST Framework directly incorporates. [Bhattarai \[2017\]](#), using a dynamic computable general equilibrium model, confirmed that GST's distributional benefits depend critically on how tax rates are structured, underscoring the importance of behaviourally informed rate design.

Most critically from this paper's perspective, the current GST framework remains predominantly revenue-centric. Tax rate differentiation is largely based on administrative and commodity classifications rather than behavioural objectives, offering limited incentives for healthier consumption, prudent financial decision-making, or long-term household resilience. Advances in behavioural economics, behavioural public finance, and nudge theory suggest that this gap represents a significant missed opportunity: taxation can influence household decision-making through carefully designed incentives, simplified procedures, salient information, and improved choice architecture. The emerging vision of next-generation GST reform is therefore not merely one of administrative refinement but of behaviourally informed fiscal governance, the conceptual bridge to the subsequent sections of this paper.

4. BEHAVIOURAL ECONOMICS AND GST: TOWARDS A BEHAVIOURALLY INFORMED GST REFORM

The increasing integration of behavioural economics into public policy has fundamentally transformed the understanding of taxation from a purely fiscal instrument into a mechanism capable of influencing human behaviour. Traditional tax theory assumes that individuals respond rationally to changes in tax rates and financial incentives. However, extensive behavioural research demonstrates that taxpayers and consumers do not always behave as perfectly rational agents. This emerging perspective has given rise to the concepts of behavioural public finance and behavioural taxation, which seek to integrate behavioural economics into fiscal policy design.

4.1 Behavioural Public Finance

The behavioural public finance literature challenges the central assumption of conventional public finance that citizens consistently make welfare-maximising decisions when responding to taxes and government policies. Congdon et al. [2011] established that conventional public finance adequately addresses market failures but largely ignores behavioural failures arising from bounded rationality, limited attention, self-control problems, inertia, framing effects, and present bias. Their framework does not replace traditional public finance but extends it: public policy should address both market failures and behavioural failures simultaneously. Cilan et al. [2017] reinforce this view, demonstrating that psychological factors, including herd instinct, overconfidence, overreaction, and emotional biases, systematically distort financial decisions, confirming that fiscal policy should account for these predictable psychological tendencies rather than assuming rational responses to tax incentives.

4.2 Behavioural Taxation and Optimal Tax Theory

Madrian [2014] demonstrated that behavioural economics enhances public policy through three major channels: behavioural biases constitute a source of policy failure beyond conventional market failures; the effectiveness of traditional policy instruments depends heavily upon psychological factors; and behavioural economics expands the policy toolkit by introducing defaults, reminders, simplification, framing, and commitment devices. Applied to taxation, this framework suggests that tax systems should be designed not only to collect revenue but also to facilitate better financial decisions. Farhi and Gabaix [2020] provide the formal theoretical justification, demonstrating that taxation should correct not only externalities — costs imposed on others — but also internalities, namely, welfare losses that individuals impose upon themselves because of behavioural biases. Crucially, they demonstrate that taxes and nudges should be jointly designed rather than viewed as alternative policy instruments, together producing greater welfare gains than either instrument operating independently.

4.3 Choice Architecture and Framing in Tax Design

Münscher et al. [2016] developed a comprehensive taxonomy of choice architecture, classifying behavioural interventions into three categories: Decision Information, which modifies how information is presented; Decision Structure, which redesigns available options and defaults; and Decision Assistance, which helps individuals implement intended behaviour through reminders, planning aids, and commitment mechanisms. Applied to GST, decision information involves clearly communicating GST rates and highlighting tax savings on invoices and digital platforms; decision structure involves simplifying rate classifications and restructuring rates to encourage socially desirable consumption; and decision assistance involves automated filing reminders, simplified refund systems, and behavioural prompts integrated into GSTN platforms.

McCaffery and Baron [2004] demonstrate that citizens frequently evaluate identical tax policies differently depending solely on how those policies are described, with logically equivalent proposals receiving substantially different levels of support when framed differently. Gambetti et al. [2022] further confirmed that financial decisions across all decision-making styles can be positively influenced by default options, with decision-makers generally exhibiting a tendency to adhere to defaults.

Dolan et al. [2012] established that the most robust behavioural effects — salience, defaults, social norms, and commitments — operate through context modification rather than information provision, directly informing the design of Behavioural GST choice architecture. Alter and Oppenheimer [2008] additionally demonstrated that cognitive fluency substantially influences economic valuation, providing a rationale for GST rate rationalisation and simplified tax communication.

4.4 GST as Behavioural Policy Architecture

Mudzingiri et al. [2018] demonstrated that financial behaviour is shaped by cognitive abilities, psychological factors, and financial literacy, with low-literacy individuals exhibiting greater risk-loving, impatience, and overconfidence, implying that behaviourally designed GST platforms integrating financial literacy can address cognitive barriers preventing welfare-enhancing decisions.

Synthesising this literature, GST can be interpreted as a comprehensive choice architecture that structures the economic environment within which households make consumption and financial decisions. Accordingly, Behavioural GST is defined as follows.

Behavioural GST is a citizen-centred fiscal policy framework in which GST rates, compliance procedures, digital interfaces, tax communication, and institutional design are deliberately structured using behavioural economics and choice architecture to encourage household welfare, financial resilience, livelihood security, and sustainable development without restricting freedom of choice.

5. BEHAVIOURAL MECHANISMS THROUGH WHICH GST INFLUENCES HOUSEHOLDS: A CONCEPTUAL FRAMEWORK

Behavioural economics suggests that taxation affects individuals not merely through changes in disposable income but also by modifying the psychological environment within which financial decisions are made. This paper argues that GST influences household outcomes through a sequential behavioural pathway: rather than directly producing welfare improvements, GST first modifies household financial behaviour, which subsequently affects savings, borrowing, investment, financial resilience, and ultimately livelihood security.

GST Design → Behavioural Mechanisms → Household Financial Behaviour → Household Welfare → Financial Resilience → Livelihood Security

Figure 1. The Behavioural GST Framework — the original conceptual contribution of the paper.

5.1 GST and Household Consumption Behaviour

Because GST is imposed on the consumption of goods and services, it directly alters relative prices, thereby affecting purchasing decisions. However, behavioural economics suggests that consumers respond not only to objective price changes but to how price differences are perceived and interpreted. Salience is the primary mechanism: consumers are more likely to modify behaviour when tax differences are clearly visible. Gourville [1998] demonstrated that temporal reframing — presenting costs as small daily amounts rather than large annual sums — significantly reduces perceived expenditure magnitude and influences self-control, suggesting that transaction-level GST saving messages produce stronger behavioural responses than annual summaries. Framing also matters: identical GST reductions generate different outcomes depending on whether they are presented as “household savings,” “consumer benefits,” or “lower tax rates,” as McCaffery and Baron [2004] demonstrated through experimental evidence.

5.2 GST and Household Saving Behaviour

Saving decisions are influenced by mental accounting, present bias, and self-control rather than by income alone. Gerhard et al. [2018] established that psychological characteristics are stronger predictors of savings behaviour for lower-income households than for higher-income groups, implying that behaviourally informed GST interventions may produce larger welfare gains precisely among the most financially vulnerable. Clifton et al. [2020] further showed that saving behaviour is shaped by both individual socio-demographic characteristics and institutional factors, suggesting that behaviourally differentiated GST incentives may need calibration to the socio-demographic context. Soman and Gourville [2001] and Prelec and Loewenstein [1998] demonstrate that the timing and format of payment information influence consumption behaviour through the pain of paying: behaviourally designed GST invoices that make savings visible can restore price salience at the point of transaction. Epley et al. [2006] demonstrated that framing GST savings as “savings restored” rather than “concessions granted” activates loss-aversion and encourages households to preserve these funds. Fisher and Anong [2012] found that households enrolled in automated savings plans save most regularly, directly supporting GST-linked automated saving nudges where platform-visible savings are routed to designated instruments through opt-out mechanisms. Shafir and Thaler [2006] demonstrated that temporal separation between purchase and consumption leads individuals to adopt multiple mental accounting frames, complicating financial planning, supporting the design of clear temporal linkages between GST savings at the point of transaction and designated saving goals. Canova et al. [2005] demonstrated through hierarchical analysis of saving motives that psychological motivations, rather than purely economic ones, occupy the higher levels of the saving motive hierarchy, and that hedonic aspects of saving are more significant in determining saving intention than socio-demographic variables alone.

Reduced GST on essential goods increases disposable income by lowering routine household expenditure. If GST savings are made visible through invoices or digital applications, households may mentally allocate these savings toward emergency funds, education, insurance, or retirement planning, reflecting mental accounting dynamics [Thaler, 1999, Benartzi and Thaler, 2007]. Differential GST rates favouring long-term financial products could further address present bias by encouraging future-oriented financial behaviour.

5.3 GST and Borrowing Behaviour

Household borrowing reflects behavioural tendencies including optimism, overconfidence, present bias, and limited attention to future repayment obligations. Hoch and Loewenstein [1991] demonstrated that spending decisions occur when desire dominates willpower, and that interruptions, including payment friction, can redirect consumers from impulsive purchases. GST design, reducing financial pressure on essential expenditure, reduces the urgency that drives vulnerable households toward high-interest short-term borrowing. Soman and Cheema [2002] showed that consumers use credit limits as signals of future income potential, compounding debt accumulation. GST-induced reductions in essential expenditure therefore serve a protective function, reducing the perceived need for credit expansion. Additionally, GST may influence borrowing through loss aversion, as households become more motivated to preserve visible financial gains by avoiding unnecessary high-interest debt.

5.4 GST and Household Investment Decisions

Investment decisions are sensitive to ambiguity aversion, complexity, familiarity bias, and cognitive overload. Lower GST rates on renewable energy systems, electric vehicles, agricultural technologies, insurance products, and financial services reduce acquisition costs and increase behavioural attractiveness. Ariely et al. [2003] demonstrated that even fully informed consumers exhibit surprisingly arbitrary product valuations highly sensitive to framing, choice context, and psychological anchors — implying that behaviourally framed GST rate differentials function as valuation anchors as well as price signals. Chernev et al. [2015] showed that offering too many options creates choice overload,

leading to decision deferral and non-adoption: simplified GST rate structures and streamlined product menus reduce choice complexity, thereby encouraging rather than paralysing adoption of insurance, pension, and renewable energy products.

5.5 GST and Household Welfare

Household welfare extends beyond income to include financial security, consumption stability, access to essential goods and services, and overall quality of life. GST contributes by reducing the cost of essential consumption, increasing purchasing power, and improving access to education and healthcare. However, behavioural economics establishes that welfare improvements depend not only upon objective financial gains but also upon households' perceptions of those gains. Framing, salience, and mental accounting therefore become central mechanisms linking GST with household welfare. Behaviourally designed GST invoices displaying cumulative household tax savings may increase consumer awareness while reinforcing prudent financial behaviour.

5.6 GST and Financial Resilience

Financial resilience refers to a household's capacity to withstand economic shocks while maintaining acceptable living standards. Behaviourally informed GST contributes through multiple pathways: reduced expenditure on essential goods increases the potential for precautionary savings; simplified tax systems reduce financial uncertainty; behaviourally framed tax incentives encourage insurance uptake and retirement savings; lower GST on livelihood-supporting technologies enhances productive capacity; and transparent GST communication increases financial confidence. Behavioural interventions addressing present bias, self-control, and loss aversion further encourage households to prepare for future risks rather than focusing exclusively on immediate consumption.

5.7 GST and Livelihood Security

Livelihood security encompasses stable income generation, productive employment, sustainable enterprise development, agricultural viability, and resilience against economic shocks. GST contributes directly by reducing production costs, improving market efficiency, encouraging formalisation, and facilitating entrepreneurship. Behaviourally informed GST extends these benefits by encouraging the adoption of productive technologies, renewable energy systems, digital financial services, and skill-enhancing investments. *Powell and Ansic [1997]* found that women are systematically less risk-seeking than men in financial decision-making regardless of familiarity or framing, implying that GST communication and incentive design may need calibration across gender groups to achieve equitable welfare outcomes, particularly for female-headed households. Social norms further influence livelihood decisions: behavioural communication highlighting widespread adoption of GST-compliant or sustainable practices can encourage similar behaviour through normative influence.

5.8 An Integrated Behavioural Pathway

Drawing together these mechanisms, behaviourally designed GST activates a suite of behavioural levers — salience, framing, mental accounting, defaults, present-bias correction, self-control, loss aversion, cognitive ease, simplification, and social norms — which shape household financial behaviour across consumption, savings, borrowing, investment, and disposable income management. This produces intermediate outcomes, including improved financial planning, greater financial capability, reduced financial stress, and increased productive expenditure, ultimately delivering the final outcomes of household welfare, financial resilience, and livelihood security. This conceptual model extends existing GST literature by identifying the micro-level behavioural mechanisms connecting fiscal policy with household development outcomes.

6. THE PROPOSED BEHAVIOURAL GST FRAMEWORK: CONCEPTUAL ARCHITECTURE

The Behavioural GST Framework (BGF) positions GST as a behaviourally informed public policy architecture capable of shaping household financial behaviour through carefully designed fiscal incentives, information architecture, digital systems, and behavioural interventions. The central proposition is that GST does not directly improve household welfare; instead, it first modifies the behavioural environment in which households make financial decisions, subsequently influencing saving, consumption, borrowing, investment, and disposable income management, thereby improving financial capability, financial resilience, and livelihood security.

The BGF conceptualises GST as a multi-stage behavioural policy process comprising nine integrated stages: (I) Behaviourally Informed GST Policy Design, which generates (II) Behavioural Signals, structuring (III) Choice Architecture, which activates (IV) Behavioural Mechanisms, reshaping (V) Household Financial Behaviour, building (VI) Financial Capability, which enhances (VII) Household Welfare, strengthens (VIII) Financial Resilience, and ultimately delivers (IX) Livelihood Security.

6.1 Stage I: Behaviourally Informed GST Policy Design

Traditional GST reforms have focused on tax rates, compliance, revenue collection, input tax credits, and digital administration. Behavioural GST expands these dimensions by incorporating behavioural objectives into tax policy itself, consisting of six integrated components.

First, GST Rate Architecture should reflect behavioural objectives such as healthier consumption, financial resilience, environmental sustainability, and livelihood promotion, rather than being determined solely by commodity classification, with lower rates for health insurance, educational services, renewable energy, agricultural technologies, and financial literacy products, and relatively higher rates for environmentally harmful or temptation goods. Second, the GST Incentive Structure should encourage household savings, digital payments, insurance, pension participation, green technologies, and MSME formalisation, functioning as behavioural cues rather than merely fiscal concessions. Third, the GST Digital Ecosystem should integrate digital reminders, financial dashboards, GST savings calculators, AI-based nudges, and behavioural notifications into the GSTN. Fourth, GST Communication Architecture should transform invisible tax reductions into psychologically meaningful gains through consumer-facing messages. Fifth, GST Information Architecture should make tax information simple, transparent, comparable, visual, and behaviourally salient. Sixth, GST Compliance Architecture should rely upon defaults, pre-filled returns, automatic refunds, simplified filing, and behavioural reminders to reduce cognitive burden and improve voluntary compliance.

6.2 Stages II–V: Behavioural Signals, Choice Architecture, Mechanisms, and Financial Behaviour

Behaviourally Informed GST Policy Design generates behavioural signals — price salience, relative price effects, transparency, simplicity, and behavioural incentives — that people respond to beyond the objective price changes assumed by traditional tax theory. These signals structure a Choice Architecture, following [Münscher et al. \[2016\]](#), operating across three dimensions: Decision Information (understandable invoices, GST savings statements, digital expenditure summaries), Decision Structure (relative prices, affordability, transaction costs), and Decision Assistance (reminders, refund alerts, saving prompts). Choice architecture in turn activates the behavioural mechanisms — salience, mental accounting, present-bias correction, self-control, loss aversion, framing, defaults, cognitive ease, and social norms — which collectively reshape the five core household financial behaviours: consumption, savings, borrowing, investment, and disposable income management. [Thaler's \[2015\]](#) insight that liquid cash availability increases spending propensity directly supports the BGF design principle of routing visible GST savings toward less accessible mental accounts (dedicated savings instruments, insurance, or pension vehicles) rather than leaving them as undifferentiated disposable

income.

6.3 Stages VI–IX: Financial Capability, Welfare, Resilience, and Livelihood Security

Behavioural improvements gradually strengthen Financial Capability — budgeting, planning, risk management, financial literacy, digital capability, and informed decision-making — which serves as the central mediating variable connecting Behavioural GST with long-term welfare. Improved financial capability enhances Household Welfare through better purchasing power, food security, educational access, healthcare, and consumption stability. Financial Resilience — households' ability to withstand economic shocks — is strengthened by encouraging emergency savings, insurance uptake, lower indebtedness, diversified income, and prudent consumption. The final outcome, Livelihood Security, is advanced through lower production costs, greater entrepreneurship, formalisation, green technology adoption, digital participation, and sustainable employment. GST thereby becomes a development instrument rather than merely a tax.

6.4 Theoretical Contribution of the Behavioural GST Framework

The BGF makes four original theoretical contributions. First, it extends behavioural public finance into indirect taxation, broadening a literature focused mainly on income taxes and retirement savings. Second, it bridges macro-level fiscal policy with micro-level household behaviour, explaining the behavioural pathways through which GST influences consumption, saving, borrowing, investment, and financial planning. Third, it integrates behavioural economics, choice architecture, and nudge theory into a unified fiscal policy model demonstrating how tax rates, information design, digital governance, and compliance systems interact to shape household decisions. Fourth, it introduces household welfare, financial resilience, and livelihood security as the ultimate outcomes of GST reform, shifting evaluation beyond fiscal and administrative performance toward citizen-centred development — the paper's principal theoretical contribution.

7. POLICY RECOMMENDATIONS: TOWARDS A BEHAVIOURALLY INFORMED NEXT-GENERATION GST

The BGF suggests that future GST reforms should move beyond revenue mobilisation and administrative efficiency to become a citizen-centred policy instrument. The following recommendations provide a roadmap for implementing a behaviourally informed next-generation GST in India.

7.1 Behaviourally Differentiated GST Rate Architecture

The current GST structure classifies goods and services primarily according to commodity categories. A next-generation GST should adopt behaviourally differentiated tax slabs reflecting welfare-enhancing objectives: essential goods, educational services, preventive healthcare, insurance products, renewable energy technologies, financial literacy tools, and sustainable products should attract preferential rates, while products associated with unhealthy lifestyles, environmental degradation, or conspicuous luxury consumption attract relatively higher rates. A Healthy Food GST framework could differentiate rates according to nutritional value, motivating food manufacturers to reformulate products to qualify for lower categories. A Green GST should encourage renewable energy systems, electric vehicles, energy-efficient appliances, water conservation technologies, and environmentally friendly construction materials through concessional rates. [Ariely and Wertenbroch \[2002\]](#) confirm that individuals facing self-control problems willingly adopt commitment devices: GST-refund-linked retirement accounts or insurance contribution triggers can convert GST savings into durable financial commitments.

7.2 Behaviourally Framed GST Communication and Invoices

Tax communication itself should become a behavioural intervention. Rather than displaying only tax amounts, GST invoices should present consumer-centred messages such as: “You saved Rs. 320 this month because of reduced GST on essential goods” or “Choosing this energy-efficient product helped reduce both your electricity costs and GST burden.” Shiller [2003] established that the framing and presentation of financial information significantly influences behaviour, and that individuals prefer psychologically comfortable, non-threatening formats. Behaviourally framed invoices increase the salience of tax benefits, strengthen positive financial behaviour, and transform invisible tax reductions into psychologically meaningful gains, improving public understanding of GST reforms without altering statutory rates.

7.3 Behavioural GST Digital Infrastructure and AI-Enabled Nudges

The GST Network (GSTN) should evolve into a Behavioural GST Portal integrating intuitive dashboards, simplified compliance interfaces, personalised expenditure summaries, household GST savings calculators, behavioural prompts, and financial planning tools. AI-enabled GST systems could analyse household expenditure patterns and generate customised recommendations encouraging healthier consumption, energy-efficient purchases, insurance enrolment, retirement planning, and digital financial services while remaining advisory and thereby preserving individual autonomy. Automated reminders for return filing, ITC claims, refund eligibility, and insurance renewal should be integrated as default nudges, with opt-out rather than opt-in participation mechanisms.

7.4 GST-Linked Financial Literacy and Inclusion

GST reforms should be integrated with national financial literacy initiatives. Digital GST platforms, invoices, and mobile applications could incorporate short educational modules explaining taxation, budgeting, savings, responsible borrowing, digital payments, and investment planning, strengthening citizens’ financial capability while increasing public confidence in the tax system. Xiao et al. [2014] found that financial knowledge reduces risky financial behaviour, directly supporting GST-integrated literacy as a welfare instrument. Reduced GST on digital financial services, low-cost payment technologies, and financial counselling can further encourage formal financial participation, supporting economic formalisation and financial inclusion. Collectively, these recommendations reposition GST from a passive tax collection mechanism to an active behavioural public policy instrument capable of promoting sustainable household development.

8. IMPLICATIONS

8.1 Theoretical Implications

The BGF contributes to theory by extending the emerging field of behavioural public finance into indirect taxation. Existing behavioural taxation research has largely focused on income taxes, retirement savings, and tax compliance. This study broadens the literature by conceptualising GST as a behavioural policy architecture integrating behavioural economics, choice architecture, behavioural finance, and public finance into a unified framework. The BGF introduces a new conceptual relationship linking GST design to behavioural mechanisms, household financial behaviour, financial capability, household welfare, financial resilience, and livelihood security, a pathway extending conventional GST theory and offering a new interdisciplinary perspective for fiscal policy research.

8.2 Policy Implications

For policymakers, the BGF suggests that future GST reforms should evaluate success not only through tax collections and compliance but also through citizen welfare outcomes. Behaviourally informed GST policies can improve public health, financial inclusion, environmental sustainabil-

ity, household savings, and digital financial participation while preserving individual choice. The Behavioural GST Framework should become an integral component of India's broader social and economic development strategy, expanding GST from a purely fiscal instrument into a broader public policy tool capable of guiding consumer choices toward healthier, more financially resilient, and environmentally sustainable outcomes.

8.3 Research Implications

The BGF provides numerous opportunities for future empirical research. Researchers may examine how GST influences household consumption, saving, borrowing, investment, financial resilience, and livelihood outcomes across different socio-economic groups. Experimental studies can evaluate the effectiveness of behaviourally framed GST invoices, AI-based nudges, digital reminders, or differentiated GST rates. Comparative studies across countries may investigate how behavioural taxation can be integrated into broader fiscal policy reforms in comparable emerging economies.

9. CONCLUSION

Building on fiscal reform theory, behavioural economics, behavioural finance, and nudge theory, this paper has argued that GST should be reconceptualised as a behavioural public policy instrument capable of influencing household financial decisions through carefully designed fiscal incentives, behavioural signals, and choice architecture. Central to this reconceptualisation is the proposition that GST has the potential to function as a policy “nudge” aligning fiscal incentives with welfare-enhancing objectives not through mandates but by subtly restructuring the decision environment within which households make everyday economic choices.

The Behavioural GST Framework explains how GST can influence household behaviour through salience, framing, mental accounting, present-bias correction, self-control, defaults, cognitive ease, simplification, and social norms — mechanisms that shape consumption, saving, borrowing, investment, and financial planning. These behavioural changes strengthen financial capability, which subsequently enhances household welfare, financial resilience, and livelihood security. The framework also reconceptualises GST as behavioural architecture: tax rates, digital platforms, compliance systems, information design, and communication strategies become behavioural instruments capable of encouraging welfare-enhancing decisions while preserving individual autonomy, fully aligned with the principles of libertarian paternalism.

The principal contribution of this study lies in integrating GST literature with behavioural economics to develop a novel conceptual framework connecting fiscal policy with household development outcomes. By positioning GST as a behavioural policy architecture rather than merely a revenue collection mechanism, the paper opens a new interdisciplinary research agenda at the intersection of taxation, behavioural economics, public policy, and sustainable development. Future empirical research testing the proposed Behavioural GST Pathway across diverse household groups, sectors, and regional contexts will be essential to validate and refine the BGF, advancing both the theory of behavioural taxation and the practice of citizen-centred fiscal governance in India and comparable emerging economies.

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