Prabandhan Darpan - Journal of Management Studies, *Volume II (Issue I: January - April, 2026): Pages 1-13* *ISSN:3107-5983 (Online)*
Published on: May 29, 2026.



Prabandhan Darpan - Journal of Management Studies

Contents available at: *https://www.swamivivekanandauniversity.ac.in/jms/*

Can India's Tax Policy Nudge Sustainable Consumption? A Cross-Regime Analysis of GST and Direct Tax Incentives

Sujal Kumar Poddar[1]*

Abstract

This paper investigates the efficacy of India's fiscal architecture, specifically the Goods and Services Tax (GST) and direct tax incentives, in steering consumer behaviour towards sustainable consumption patterns, in alignment with India's Net Zero 2070 goals. The analysis is based on a mixed-methods approach, combining a primary survey of 500 Indian consumers with a cross-regime analysis of global and domestic fiscal policies. Statistical methods include descriptive analysis, cross-tabulation, and correlation to assess consumer price sensitivity, policy awareness, and willingness-to-pay. The study reveals a significant 'affordability-action gap', where high price sensitivity is the primary barrier to sustainable purchasing, overriding stated environmental intentions. Survey data indicates that a price reduction of just 10 percent for an electric two- wheeler can more than triple consumer preference. Furthermore, there is a pronounced disconnect between public support for green fiscal policies, with over 70 percent in favour, and awareness of existing schemes, which stands at less than 20 percent. The paper concludes that India's current green fiscal policy is fragmented and often transient. It proposes a dual-track strategy: implementing revenue-neutral GST rate differentiations for a broad basket of sustainable goods and services, and introducing targeted, time-bound direct tax rebates for eco-friendly capital expenditures by households. This approach leverages the demonstrated price elasticity of Indian consumers to create a market-driven shift towards sustainability, transforming consumption into a key pillar of India's climate action strategy.

Keywords: *Sustainable Consumption, Green Taxation, GST, Fiscal Incentives, Consumer Behaviour in India..*

1. Introduction

India stands at a critical juncture in its development trajectory, balancing the imperatives of rapid economic growth with the escalating challenges of climate change. The nation's commitment to the 'Panchamrit' goals, articulated at the 26th UN Climate Change Conference of the Parties (COP26), and its long-term objective of achieving Net Zero emissions by 2070, necessitate a fundamental reorientation of its economic and social systems (Ministry of Environment, Forest and Climate Change [MoEFCC], 2022). Meeting these ambitious targets requires an unprecedented mobilisation of financial resources, estimated at over US$10 trillion by 2070, and a strategic overhaul of both production and consumption patterns (Observer Research Foundation [ORF], 2025). While much of the policy discourse has rightly focused on supply-side transformations in energy, industry, and transport, the demand-side, driven by the consumption choices of over 1.4 billion people, remains a relatively underexplored yet potent lever for change. Fiscal policy, as the primary instrument through which the state influences economic activity, is central to this endeavour.

The Union Budget and the architecture of the Goods and Services Tax (GST) regime are not merely tools for revenue generation but powerful signalling mechanisms that can shape market behaviour (Ministry of Finance [MoF], 2025).

[1]* *Pursuing Graduation with Finance, CFA Candidate, Amity University, Kolkata, India. sujal.poddar@s.amity.edu*

The issuance of Sovereign Green Bonds and targeted production-linked incentives for green industries demonstrate a clear intent at the macroeconomic level. However, the challenge lies in translating these broad fiscal signals into granular incentives that influence the millions of daily purchasing decisions made by Indian households. This requires a nuanced understanding of consumer behaviour, which is often governed by a complex interplay of economic rationality, cognitive biases, and social norms.

A central paradox characterises the landscape of sustainable consumption in India: the 'intention- action gap'. Market research consistently reveals that a significant portion of Indian consumers express a willingness to purchase sustainable products and even pay a modest premium for them. Stated willingness to pay often ranges from 15 percent to 20 percent for products with demonstrable environmental benefits. Yet, the actual market share of these goods, from electric vehicles to organic foods and energy-efficient appliances, remains stubbornly low, typically below

5 percent. This gap is not merely a reflection of cognitive dissonance; it is an economic reality check. It signals that in a highly price-sensitive market like India, pro-environmental intentions are a necessary but profoundly insufficient condition for behavioural change. The primary research question, therefore, is not whether consumers want to be sustainable, but whether fiscal policy can effectively bridge the affordability gap that prevents them from acting on this intention.

This paper hypothesises that targeted, revenue-neutral fiscal incentives that directly reduce the price premium of sustainable goods will prove more effective in altering consumer behaviour in India than broad-based awareness campaigns or non-fiscal interventions. To test this, the study analyses primary data from a survey of 500 Indian consumers to quantify price elasticity and policy awareness, contextualising these findings within a global review of green fiscal models.

This research is positioned within the Observer Research Foundation's core themes of sustainable development, economic governance, and climate policy. It seeks to complement ORF's extensive work on macro-level green finance and the role of fiscal federalism in climate action by providing a micro-level, evidence-based analysis of consumer behaviour (Saran & Pangestu, 2022). By examining the intersection of public finance, behavioural economics, and sustainability, this paper aims to provide actionable, data-driven recommendations for designing a fiscal framework that can effectively nudge India's consumption patterns towards a more sustainable and climate- resilient future.

2. Literature Survey & Policy Context

A comprehensive understanding of how tax policy can influence sustainable consumption requires a dual analysis: an examination of established international models and a critical assessment of India's existing fiscal framework. This section reviews global best practices in green taxation, describes the current state of India's indirect and direct tax incentives, and grounds the discussion in the theoretical principles of behavioural economics.

Global Fiscal Models for Sustainable Consumption

Nations across the world have deployed a range of fiscal instruments to align consumption patterns with environmental objectives. These models can be broadly categorised into those that disincentivise pollution (the 'stick'), those that incentivise green choices (the 'carrot'), and hybrid systems that do both.

The most direct 'stick' approach is carbon taxation, pioneered by countries like Sweden. Introduced in 1991, the Swedish carbon tax is lauded for its simplicity and effectiveness. It is levied on the carbon content of fuels, making it administratively straightforward, and was implemented gradually, allowing households and industries time to adapt (Government of Sweden,

2025). This long-term, predictable price signal has been instrumental in decoupling Sweden's economic growth from its carbon emissions. A more localised disincentive is the use of emission or congestion zones. London's Ultra Low Emission Zone (ULEZ) provides a compelling case study. By imposing a daily charge on non-compliant vehicles, the ULEZ has achieved a 96.7 percent vehicle compliance rate and contributed to a significant 27 percent reduction in

roadside nitrogen dioxide levels in its first year of city-wide expansion, demonstrating the power of a strong, targeted financial penalty in altering mobility patterns (Mayor of London, 2025).

On the incentive side, the European Union has experimented with Value Added Tax (VAT) differentiation, applying reduced rates to environmentally preferable products. This 'carrot' approach aims to lower the retail price of green goods, thereby stimulating demand. However, the EU experience highlights several challenges: the difficulty of creating a clear, legally robust

definition of 'green', the risk of incomplete pass-through of the tax cut from retailers to consumers, and the administrative complexity of managing multiple tax rates (Copenhagen Economics, 2008). A more targeted incentive for the circular economy has been implemented in Sweden, where the VAT on repairs for items like clothing, bicycles, and white goods was significantly reduced. This innovative policy directly encourages reuse and repair over replacement, tackling a core tenet of unsustainable consumption (Starritt, 2016).

Perhaps the most sophisticated models are 'feebate' systems, which combine penalties and rewards. France's 'bonus-malus' scheme for new vehicles is a primary example. The system imposes a tax (malus) on vehicles with high emissions and provides a rebate (bonus) for the purchase of low-emission vehicles. The evolution of this policy offers critical lessons. Initially, its design with discrete emission thresholds ('steps') led to manufacturers 'gaming' the system by engineering vehicles to fall just below a threshold, causing budgetary shortfalls for the government. The subsequent shift to a continuous sliding scale for the malus has made the system more robust and effective, providing a constant incentive for improvement (Yang, 2018). Recognising the political challenges of new taxes, Singapore has implemented a revenue-neutral carbon tax. The revenue generated is explicitly recycled back into the economy to fund decarbonisation initiatives and provide grants and rebates to cushion the impact on businesses and households (National Climate Change Secretariat, 2025). This approach ensures that the policy functions as a price signal rather than a net fiscal burden, enhancing its social and political acceptability. Finally, the simplest nudges can often be the most effective. Ireland's plastic bag levy, introduced in 2002, is a classic example. A small, highly visible charge led to an immediate and dramatic behavioural shift, with per capita bag usage plummeting overnight from an estimated

328 to 21 (Government of Ireland, 2022).

India's Current Fiscal Landscape for Sustainability

India's fiscal approach to sustainable consumption has been characterised by targeted interventions rather than a systemic framework. The policy signals are present but are often fragmented, inconsistent, and limited in scope. In the indirect tax regime, the Goods and Services Tax (GST) Council has demonstrated a willingness to use rate differentiation. The most prominent example is the differential for vehicles, where Electric Vehicles (EVs) attract a GST of 5 percent, whereas Internal Combustion Engine (ICE) vehicles are placed in the highest slab of 18 percent and 40 percent for luxury ICE vehicles.

A similar concessional rate of 5 percent applies to solar panels and other specified renewable energy equipment. While this creates a significant price advantage and sends a clear policy signal, its impact is confined to a few high-value product categories. The GST framework currently lacks a broader, systemic logic for differentiating goods based on sustainability criteria. There is no overarching principle that extends this concessional treatment to other categories, such as energy- efficient appliances (rated by the Bureau of Energy Efficiency), products made from recycled content, or sustainable building materials, representing a significant missed opportunity to mainstream green consumption.

The direct tax regime has shown even greater inconsistency. The government introduced Section 80EEB of the Income Tax Act, which offered a deduction on the interest paid on loans taken to purchase an electric vehicle. This was a direct incentive aimed at reducing the cost of financing for consumers. However, the provision was allowed to lapse without a successor policy being announced. This transience undermines the long-term effectiveness of such incentives. For consumers making high-value purchasing decisions and for industries planning long-term capital investments, policy predictability is paramount. The stop-start nature of direct tax support creates uncertainty, blunting the instrument's potential to shape behaviour durably.

Theoretical Basis: Fiscal Nudges and Behavioural Economics in India

The limitations of India's current approach can be understood through the lens of behavioural economics, which posits that human decision-making is not always rational but is influenced by cognitive biases such as loss aversion, status quo bias, and present bias (Department of Economic Affairs [DEA], 2019). Public policy can leverage these insights to 'nudge' people towards better choices without restricting their freedom. A fiscal nudge works by altering the financial calculus of a decision in a way that makes the desired choice more attractive.

India has successfully applied behavioural insights in other policy domains. The Swachh Bharat Mission, for instance, used social norms and community-level engagement, alongside subsidies, to promote the adoption of toilets and change sanitation behaviours (Biju & Aparna, 2022). Similarly, the Beti Bachao, Beti Padhao scheme employed communication strategies to shift societal attitudes towards the girl child. These examples demonstrate that an understanding of human psychology can amplify policy effectiveness. The same principles can be systematically applied to tax policy. A small tax penalty (like the Irish plastic bag levy) can leverage loss aversion, while a visible tax rebate at the point of sale can overcome the status quo bias of choosing a familiar, less sustainable product. As argued in ORF analyses of GST rationalisation, the structure of indirect taxes has a profound impact on consumption choices and can be a tool for promoting both equity and efficiency (Ghosh, 2025). By systematically embedding behavioural principles into its tax architecture, India can design a fiscal framework that more effectively closes the intention-action gap.

3. Methodology

This study employs a mixed-methods, explanatory sequential research design. The quantitative phase involved a primary survey of Indian consumers to identify and measure key behavioural patterns related to sustainable consumption. This was followed by a qualitative phase, wherein the survey findings were interpreted and contextualised through a comprehensive analysis of domestic and international fiscal policy frameworks. This approach allows for empirical, data-driven insights to be grounded in a robust theoretical and policy context.

Primary Data Collection: Consumer Survey

An online, structured questionnaire was administered to gather primary data on consumer attitudes, awareness, and price sensitivity. The survey instrument consisted of 12 questions designed to capture demographic information and specific behavioural indicators.

The sampling method employed was purposive sampling, with the goal of achieving a diverse and representative cross-section of the Indian consumer base. A total of 500 complete responses were collected. The sample was stratified to ensure adequate representation across key demographic variables, including age, gender, monthly family income, and geographic location (classified as urban, semi-urban, and rural). This stratification is crucial for analysing how behavioural patterns may differ across various socio-economic segments.

While purposive sampling enabled the inclusion of respondents from diverse demographic and socio-economic backgrounds, it is important to acknowledge certain limitations associated with this approach. As a non-probability sampling technique, purposive sampling may not fully capture the heterogeneity of India's broader population and therefore limits the extent to which the findings can be statistically generalised at the national level. The results should consequently be interpreted as indicative of behavioural patterns and consumer tendencies rather than definitive population-wide estimates. Nevertheless, the diversity of the sample and the study's focus on behavioural responses to fiscal signals provide valuable insights for policy formulation and future research. Future studies may build upon these findings using larger probability-based samples to enhance external validity and generalisability. The questionnaire was designed to probe specific aspects of consumer decision-making:

Discrete Choice Experiments: A pair of questions presented a choice between a petrol and an electric two-wheeler, first at current market prices and then with a specified price reduction for the electric option. This was designed to measure the price elasticity of demand for a high- value, durable sustainable good. A similar experiment for organic versus regular vegetables tested the same principle for a low-value, high-frequency purchase.

Policy Awareness and Support: Question 10 directly assessed respondents' awareness of existing government tax schemes or subsidies for green products. Question 11 measured their normative support for such policies, allowing for a direct comparison of public awareness versus public sentiment.

Willingness to Pay (WTP): Question 12 utilised a 5-point Likert scale to quantify the stated willingness of consumers to pay a price premium for products certified as eco-friendly. This provides a quantitative measure of the 'green premium' consumers are consciously prepared to bear.

Neutral and Conditional Responses: Certain questions incorporated options such as

'Depends' or 'Not sure' to reflect realistic consumer ambiguity. This approach reduced forced-choice bias and captured more authentic attitudes, especially among respondents less familiar with sustainability-related terms or policies.

Data Analysis

The quantitative data collected from the 500 survey responses were subjected to rigorous statistical analysis.

Statistical Treatment: The primary mode of analysis involved descriptive statistics, including frequencies, means, and percentages, to summarise the overall distribution of responses. To explore the relationships between variables, cross-tabulation was extensively used. For instance, responses on policy awareness were tabulated against responses on policy support to identify patterns. The relationship between demographic variables (like income and location) and behavioural indicators (like WTP and price sensitivity) was examined to identify any significant correlations.

Visualisation: To present the findings in an accessible and impactful manner, the analysed data were used to generate a series of charts and tables. These visualisations, including bar charts, a heatmap, and a histogram, are embedded in the Results and Analysis section of this paper. All data processing and visualisation were conducted using standard statistical software packages.

Secondary Data Sources

The primary survey data were complemented by an extensive review of secondary sources. This included official publications from Indian government bodies such as the Ministry of Finance, the GST Council, and NITI Aayog (NITI Aayog, 2024). Reports and working papers from multilateral institutions, including the World Bank and the International Monetary Fund, provided a global perspective on green fiscal policy (Parry et al., 2017). The analysis also draws upon existing academic literature in the fields of public finance, environmental economics, and behavioural science, as well as relevant publications from policy research institutions.

The author acknowledges the use of statistical and visualisation tools to interpret anonymised survey data for this study.

4. Results and Analysis

The primary survey of 500 Indian consumers reveals several critical patterns in behaviour, awareness, and attitudes towards sustainable consumption. The analysis of this data provides an empirical foundation for assessing the potential impact of fiscal policy interventions.

Respondent Demographics

To establish the context for the behavioural findings, it is essential to understand the composition of the survey sample. The sample was designed to be diverse, encompassing a range of ages, locations, and income levels, reflecting a broad cross-section of the Indian consumer landscape. Table 1 provides a detailed breakdown of the respondent demographics. The sample shows a balanced distribution, with a significant representation from the core working-age population (26-

40 years), a near-even gender split, and a healthy mix of respondents from urban, semi-urban, and rural areas. The income distribution also reflects the Indian economic structure, with the largest cohort falling within the INR 25,000 to INR 100,000 monthly family income bracket.

Table 1: *Demographic Composition of Respondents (n=500)*

Characteristic	Category	Respondents (%)
Age Group	Under 18	**9.4**
	18-25 years	**32.6**
	26-40 years	**35.4**
	41-60 years	**15.2**
	> 60 years	**7.4**
Gender	Male	**54**
	Female	**45.2**
	Non-Binary	**0.2**
	Prefer not to say / Other	**0.6**
Location	Urban	**33.6**
	Semi-Urban	**23.8**
	Rural	**42.8**
Monthly Family Income	< INR 25,000	**46.2**
	INR 25,000-INR 50,000	**29.4**
	INR 50,000-INR 100,000	**18.8**
	> INR 100,000	**5.6**

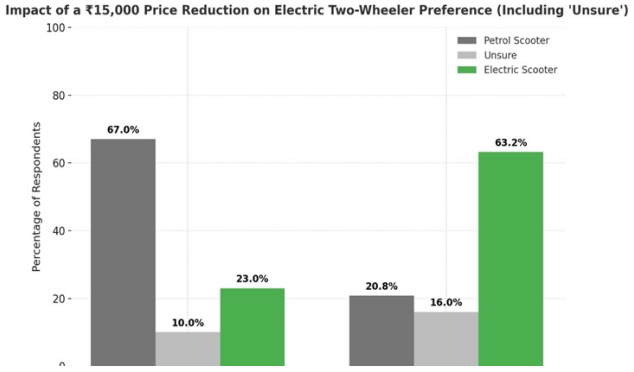
Source: Author's analysis using primary survey data, 2025.

Behavioural Elasticity 1: The Decisive Impact of Price on High-Value Goods

The survey presented respondents with a choice between a petrol two-wheeler priced at INR 110,000 and a comparable electric two-wheeler priced at INR 140,000. Subsequently, it measured how this choice would change if the price of the electric model was reduced by INR 15,000, matching the petrol model. The results, depicted in Figure 1, demonstrate an exceptionally high price elasticity of demand.

Initially, a substantial majority (69 percent) opted for the cheaper petrol scooter. However, the introduction of a mere 10 percent price reduction for the electric vehicle triggered a massive shift. Of those who initially chose the petrol model, 40 percent switched their preference to the electric alternative. This change almost tripled the overall preference for the EV, from 23 percent to 63.2 percent. This finding is a powerful indicator that for high-value durable goods, the upfront price differential is the single most significant barrier to adoption. A relatively modest fiscal incentive, equivalent to the proposed price drop, can overcome this barrier and unlock a disproportionately large segment of the market.

Figure 1: *Impact of INR 15,000 Price Reduction on Electric Two-Wheeler Preference*



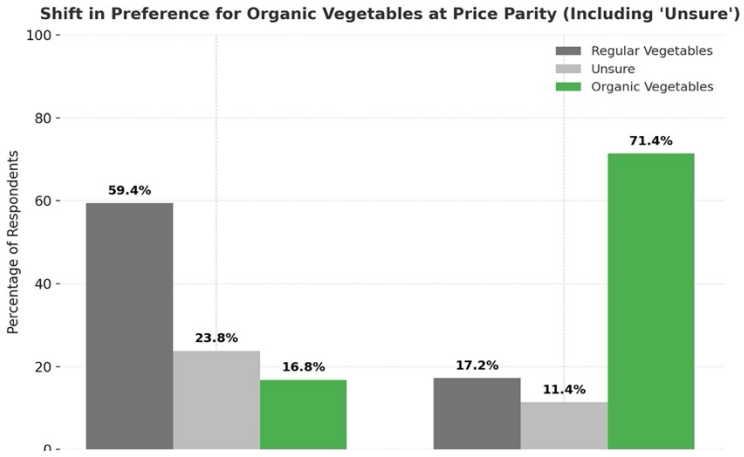
Source: Author's analysis using primary survey data, 2025.

Behavioural Elasticity 2: Price Sensitivity in Everyday Purchases

To test whether this high price sensitivity was unique to large capital expenditures, a similar experiment was conducted for a low-value, high-frequency purchase: vegetables. Respondents were asked to choose between regular vegetables and certified organic vegetables sold at a 65 percent price premium. They were then asked to reconsider their choice if both were offered at the same price.

As shown in Figure 2, the results mirror the pattern observed with vehicles. Initially, over 60 percent of consumers chose the more affordable regular vegetables. However, upon reaching price parity, an overwhelming 54 percent of these individuals switched their preference to organic. This demonstrates that the principle of high price sensitivity is not confined to specific product categories but is a fundamental characteristic of consumer behaviour in the Indian market. There is a strong, latent preference for products perceived as healthier or more sustainable, but this preference is suppressed by even small price premiums. When the economic penalty is removed, the underlying preference is revealed. The consistency of this behaviour across both high-value and low-value goods strengthens the case for a broad-based fiscal strategy that addresses price differentials across the consumer goods spectrum.

Figure 2: *Shift in Preference for Organic Vegetables at Price Parity*



Source: Author's analysis using primary survey data, 2025.

The Awareness-Action Paradox: High Support, Low Information

The survey sought to understand the relationship between public awareness of existing green fiscal policies and public support for the concept of such policies. The findings, visualised in the heatmap in Figure 3, reveal a stark and critical disconnect.

An overwhelming majority of respondents (70 percent) believe the government should reduce taxes on green products to make them more affordable. This indicates immense public appetite and political capital for green fiscal reform. However, awareness of any current schemes is alarmingly low, with only 16 percent of respondents stating they knew of any such government initiative. The most significant finding is that the largest single cohort of consumers (58 percent) falls into the 'Low Awareness, High Support' quadrant. This represents a crucial policy failure in communication and outreach. The government has a willing and supportive public but is failing to effectively disseminate information about its policies. This suggests that the impact of even well- designed fiscal incentives can be severely muted if they are not made salient and visible to the consumer at the point of decision.

Figure 3: *Consumer Awareness of Green Tax Schemes vs. Support for Them*



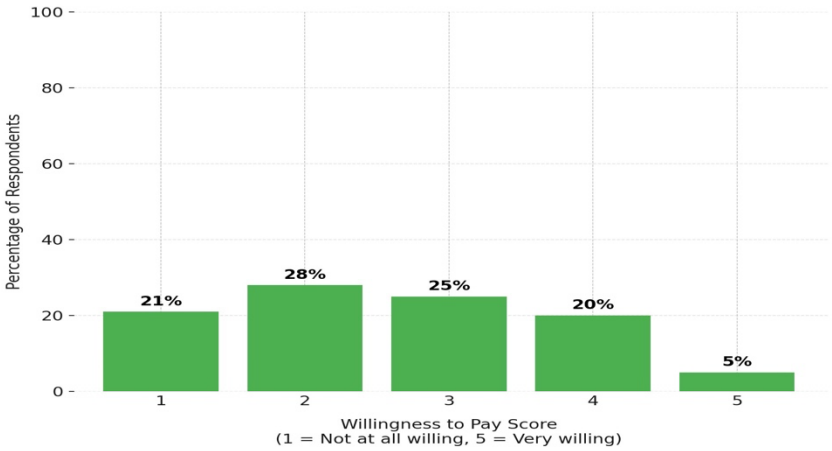
Source: Author's analysis using primary survey data, 2025.

Quantifying the 'Green Premium' Threshold

To further probe the affordability barrier, the survey asked respondents how willing they were to pay a premium for eco-friendly products on a scale of 1 (not at all willing) to 5 (very willing). The distribution of these responses, shown in the histogram in Figure 4, provides a quantitative measure of the 'affordability cliff'.

The data is heavily skewed towards the lower end of the scale. A combined 70 percent of respondents scored between 1 and 3, indicating a very low to moderate willingness to pay more. Only a small niche of consumers (25 percent) expressed a high willingness to absorb a significant green premium. This empirically challenges the narrative that a large, eco-conscious middle class is ready and waiting to drive the market for sustainable goods through premium pricing. For sustainable products to achieve mass-market adoption and move beyond a niche segment, achieving price parity or offering a clear price advantage is non-negotiable.

Figure 4: *Distribution of Willingness to Pay a Premium for Sustainable Products*



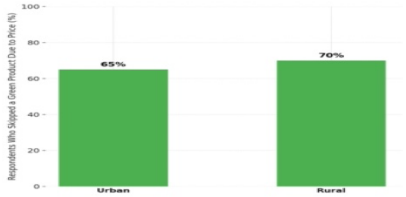
Source: Author's analysis using primary survey data, 2025.

Behavioural Segmentation: The Urban-Rural Dimension of Price Sensitivity

Finally, the analysis explored how price sensitivity varies across different geographic locations. Figure 5 compares the responses of urban and rural consumers to the question: "Have you ever skipped an eco-friendlier product just because it was more expensive?"

While price sensitivity is exceptionally high across all segments, the data indicates that it is marginally more pronounced in rural areas (70 percent answered 'Yes') compared to urban centres (65 percent answered 'Yes'). This finding underscores the critical equity dimension of green fiscal policy. Any policy that uniformly increases the cost of essential goods or services (such as a carbon tax on energy without compensatory rebates) would likely have a regressive impact, disproportionately burdening lower-income households, particularly in rural and semi-urban India. Conversely, fiscal instruments based on incentives, such as GST reductions or direct rebates, would be progressive in their effect, making sustainable alternatives more accessible to a wider population and helping to bridge the urban-rural sustainability divide.

Figure 5: *Price Sensitivity by Geographic Location: Urban vs. Rural*



Source: Author's analysis using primary survey data, 2025.

5. Discussion

The empirical findings from the consumer survey provide a clear and consistent narrative: in the Indian context, the path to sustainable consumption is paved with affordability. Interpreting these results through the lenses of behavioral economics and public finance reveals deeper implications for policy design, tax equity, and India's overall climate strategy.

The Primacy of Price: An Economic Choice, Not an Ethical One

The dramatic shifts in consumer preference for both electric vehicles and organic vegetables when price barriers are removed (Figures 1 and 2) confirm that affordability is not merely one factor among many; it is the dominant, and often decisive, determinant of choice. This is further reinforced by the WTP data (Figure 4), which shows a very limited appetite for a 'green premium'. For the vast majority of Indian consumers, purchasing decisions are governed by immediate economic considerations. Sustainable consumption is therefore framed less as an ethical or ideological choice and more as a pragmatic economic one. This reality contrasts with some developed economies were environmental awareness, brand identity, or social signalling can be stronger independent drivers of green purchasing. In India, while a latent desire for sustainable options exists, it is conditional upon economic feasibility. Any effective policy must therefore lead with price. Interventions that fail to alter the upfront cost calculus for the consumer are unlikely to achieve scale.

Deconstructing the Awareness-Action Gap: A Failure of Policy Salience

The chasm between overwhelming public support for green tax incentives and the dismal awareness of existing schemes (Figure 3) points to a structural failure rather than a mere behavioural paradox. It suggests a breakdown in the final and most crucial link of the policy chain: communication and salience. A tax incentive that exists on paper but is unknown to the consumer at the moment of purchase is functionally non-existent. This 'awareness gap' indicates that the government is failing to capitalise on significant public goodwill. The political risk often associated with fiscal reforms appears to be low in this domain; the challenge is not in convincing the public but in designing policies that are simple, visible, and effectively communicated. This implies that the impact of fiscal instruments could be significantly amplified by complementary

'nudge' mechanisms, such as clear labelling at the point of sale that makes the tax benefit tangible and immediate to the consumer.

Systemic Implications for Tax Equity and Climate Policy

The findings, particularly the heightened price sensitivity in rural areas (Figure 5), bring the issue of tax equity to the forefront. The design of green fiscal policy is not just a matter of environmental effectiveness but also of social justice. A policy framework that relies heavily on punitive measures, such as broad-based carbon taxes on energy or transport, risks being regressive. It would place the heaviest burden on lower-income households that have the least capacity to switch to more expensive, sustainable alternatives. This raises a critical question about opportunity cost: are tax concessions on high-value luxury goods, such as premium EVs, the most equitable or effective use of public funds? While such measures can spur technological adoption at the higher end of the market, the survey data suggests that fiscal support for making low-cost, high-frequency sustainable choices more affordable, such as reducing GST on energy-efficient fans, recycled packaging, or public transport, could have a greater aggregate impact on household carbon footprints and deliver more widely distributed social benefits. This aligns with the need to integrate climate priorities into India's broader fiscal federalism framework to ensure an equitable transition (Observer Research Foundation [ORF], 2025).

Comparing India with Global Experiences: The Need for a Hybrid Model Juxtaposing India's consumer behaviour with the global policy models discussed earlier provides a clear direction for policy formulation. The high price sensitivity and equity concerns prevalent in India suggest that models based purely on disincentives, while effective in the high-income contexts of Sweden or London, would face significant political and social headwinds. The Irish plastic bag levy was successful because it targeted a non-essential, highly visible item. Applying a similar logic to essential

goods like cooking fuel or basic mobility would be far more contentious. Therefore, a hybrid approach appears most suitable for India. A system that balances penalties with tangible rewards, akin to France's *bonus-malus* framework, could be effective, particularly if designed to be revenue-neutral. Similarly, Singapore's model of explicitly recycling carbon tax revenues to support households and businesses offers a template for ensuring that the green transition is perceived as fair and inclusive. The key lesson from international experience is that policy design must be adapted to the local socio-economic context. For India, this means a fiscal strategy that prioritises incentives, ensures rewards are visible and accessible, and carefully targets any disincentives to avoid regressive outcomes.

Valuable peer lessons can be drawn from Thailand, a developing Asian economy navigating comparable structural transitions and high consumer price sensitivity. In 2016, Thailand overhauled its automotive excise tax architecture, shifting the taxable baseline away from conventional engine displacement to prioritize carbon dioxide emissions and fuel efficiency metrics (Preece, 2016). Crucially, to bridge the policy awareness gap and enhance the market salience of these green differentials, the Thai government mandated point-of-sale "ECO Stickers" on all new vehicle windshields, translating complex fiscal codes into highly visible, transparent consumer information at the exact moment of purchase (Preece, 2016). Recent empirical modeling indicates that integrating this emission-linked tax framework with targeted monetary subsidies effectively mitigated structural usage barriers and accelerated green adoption pathways across diverse socio-demographic cohorts (Limpasirisuwan et al., 2024; Mani & Pollitt, 2024). This regional precedent underscores that emerging Asian markets do not require regressive, punitive carbon instruments to influence demand; instead, pairing systemic indirect tax differentiation with explicit point-of-sale behavioral signals can unlock latent pro-environmental consumer intent, providing a robust proof-of-concept for India's proposed GST reforms.

6. Policy Recommendations

Based on the analysis of consumer behaviour and international best practices, a strategic redesign of India's fiscal architecture is necessary to effectively nudge sustainable consumption. The following five actionable reforms are proposed to create a coherent, effective, and equitable green fiscal framework.

1. Introduce a Systemic, Differentiated GST Regime for Sustainable Goods

The current ad-hoc GST concessions for EVs and solar panels should be expanded into a systemic, economy-wide framework. The GST Council should be mandated to create a new, lower GST slab (e.g., 3 percent or 0 percent) or significantly expand the existing 5 percent slab to include a clearly defined and regularly updated basket of 'green' goods and services. Eligibility could be based on objective, pre-existing standards, such as products with a Bureau of Energy Efficiency (BEE) 5- star rating, items manufactured with a high percentage of certified recycled content, sustainable agricultural products with organic or fair-trade certification, and public transportation services. This reform directly leverages the high price elasticity demonstrated in the survey, using the powerful and broad-based GST mechanism to lower the price barrier for a wide range of everyday sustainable choices.

2. Revive and Redesign Direct Tax Incentives for Green Capital Expenditure

The transient nature of past direct tax benefits created policy uncertainty. A new, stable, and time- bound provision should be introduced under the Income Tax Act, for instance, a "Section 80GGE: Green Guard Expenditure." This section could offer a tax deduction of up to INR 50,000 per annum for specified household capital investments that promote sustainability. This could include the installation of rooftop solar systems, the retrofitting of homes with insulation, the purchase of home EV charging points, or the setup of rainwater harvesting systems. By providing a clear and predictable incentive, this policy would help overcome the significant upfront cost barrier associated with durable green technologies, encouraging long-term household investment in sustainability.

3. Implement GST Credits for Green MSMEs in the Circular Economy

To ensure that sustainable products are not only affordable but also widely available, supply-side constraints must be addressed. A targeted incentive should be created for Micro, Small, and Medium Enterprises (MSMEs) that form the backbone of the circular economy. This could take the form of enhanced GST input tax credits or a direct cash refund mechanism for MSMEs engaged in waste collection, segregation, recycling, and the manufacturing of products from

reclaimed materials. By lowering the cost of production and improving the financial viability of these green enterprises, this policy would boost the supply and market competitiveness of sustainable alternatives, creating a virtuous cycle of green production and consumption.

4. Mandate 'Behavioural Disclosure Labels' at Point of Sale

To bridge the critical awareness gap identified in the survey, a mandatory disclosure mechanism is proposed. A simple, standardised "Nudge Tax Index" label should be required on products in key categories like electronics, appliances, and vehicles. This label would not provide complex technical data but would translate the sustainability rating of a product into a clear, salient financial benefit for the consumer. For example, the label on a 5-star rated refrigerator could explicitly state: "Eco-Choice: You save INR 1,500 in GST with this 5-star model." This makes the fiscal incentive visible at the exact moment of decision-making, maximising its behavioural impact and directly linking the consumer's financial interest with the environmental benefit.

5. Integrate Green Budget Tagging for Transparency and Accountability

To ensure that these fiscal interventions are effective and aligned with national goals, the Ministry of Finance should formally adopt Green Budget Tagging (GBT). This involves systematically identifying, classifying, and reporting all climate-related expenditures and tax concessions (revenue foregone) within the Union Budget documents (World Bank Group, 2024). GBT would provide a transparent overview of the government's green fiscal efforts, enabling policymakers, researchers, and the public to assess the cost-effectiveness of different incentives. This mechanism for monitoring and evaluation is crucial for ensuring that the fiscal framework for sustainability is dynamic, accountable, and continuously optimised to achieve India's climate targets.

Table 2: Summary of Proposed Fiscal Reforms

Current Policy	Recommended Change	Expected Impact
Ad-hoc GST cuts for select goods (e.g., EVs at 5 percent).	Create a systemic, lower GST slab (e.g., 3 percent or 5 percent) for a broad basket of certified green goods (BEE 5-star, recycled content).	Drives mass-market adoption of sustainable products by leveraging high consumer price sensitivity.
Lapsed direct tax incentives (e.g., Section 80EEB).	Introduce a new, stable Income Tax deduction (e.g., Section 80GGE) for household green capital expenditure (solar, insulation).	Reduces the upfront cost barrier for durable green technologies and provides long-term policy certainty.
Limited support for the circular economy value chain.	Provide enhanced GST input tax credits or refunds for MSMEs in recycling and green manufacturing.	Increases the availability and price competitiveness of sustainable products by supporting the green supply chain.
No mechanism to communicate tax benefits to consumers.	Mandate a 'Nudge Tax Index' label at the point of sale, showing the direct monetary savings from the green tax differential.	Bridges the awareness gap, makes the fiscal incentive salient, and amplifies the nudge effect at the moment of choice.
Opaque tracking of green-related fiscal measures.	Adopt formal Green Budget Tagging (GBT) in the Union Budget to track all climate-related expenditures and tax concessions.	Enhances transparency, enables policy evaluation, and ensures fiscal alignment with national Net Zero goals.

Source: Author's compilation.

7. Conclusion

This paper set out to determine whether India's tax policy could effectively nudge consumers towards sustainable consumption. The evidence presented, drawn from a primary survey of Indian consumers and an analysis of global policy, leads to an unequivocal conclusion: fiscal policy is not just a viable instrument but likely the most powerful one available to the state for bridging the pervasive gap between green intentions and actions.

The core findings of this research paint a clear picture of the Indian consumer. They are not apathetic to sustainability but are constrained by affordability. Their choices are highly elastic to price signals, a behaviour observed consistently across both high-value and low-value goods. This price sensitivity, coupled with a strong latent support for green policies, creates a fertile ground for well-designed fiscal interventions. The primary obstacle is not a lack of public will but the fragmented, often transient, and poorly communicated nature of India's current green fiscal framework.

The significance of this research lies in providing empirical, India-specific evidence to a global policy discourse. It moves the debate beyond theoretical models to data-driven, contextually relevant recommendations tailored to the socio-economic realities of a developing nation. The proposed reforms, a systemic differentiation in GST, stable direct tax incentives, support for green MSMEs, behavioural disclosure labels, and transparent budget tagging, are not isolated tweaks. They represent the building blocks of a coherent and integrated fiscal strategy.

As India charts its course towards its 2070 Net Zero target, it cannot afford to overlook the demand side of the equation. By intelligently redesigning its tax system to make sustainable choices the default, affordable option, India can empower its 1.4 billion citizens to become active participants in its climate transition. In doing so, it can transform the immense power of everyday consumption from a potential liability into a formidable engine for building a sustainable and prosperous future.

8. References

Biju, A. V., & Aparna, A. S. (2022). *Behavioural nudges for public policies in India*. Vandana Publications.

Copenhagen Economics. (2008). *Study on the use of reduced VAT rates to promote changes in consumption and innovation*. European Commission.

Department of Economic Affairs, Ministry of Finance, Government of India. (2019). *Economic survey 2018–19* (Vol. 1, Chap. 2, *Policy for Homo sapiens, not Homo economicus: Leveraging the behavioural economics of nudge*). Government of India.

Ghosh, N. (2025, September 5). *GST reforms 2025: Ushering the era of GST 2.0*. Observer Research Foundation. https://www.orfonline.org/expert-speak/the-promise-of-a-rationalised-gst-regime-boosting-consumption-easing-compliance

Government of Ireland, Department of the Environment, Climate and Communications. (2022). *Plastic bag levy*. Government of Ireland.

Government of Sweden, Ministry of Finance. (2025). *Sweden's carbon tax*. Government of Sweden.

Limpasirisuwan, N., Champahom, T., Jomnonkwao, S., & Ratanavaraha, V. (2024). Promoting sustainable transportation: Factors influencing battery electric vehicle adoption across age groups in Thailand. *Sustainability, 16*(21), Article 9273. https://doi.org/10.3390/su16219273

Mani, M., & Pollitt, H. (2024). *Towards a green and resilient Thailand*. World Bank. https://doi.org/10.1596/42397

Mayor of London. (2025). *London-wide ultra-low emission zone: One-year report*. Greater London Authority.

Ministry of Environment, Forest and Climate Change, Government of India. (2022). *India's long-term low-carbon development strategy*. Government of India.

Ministry of Finance, Government of India. (2025). *Union budget 2025–2026: Framework for sovereign green bonds*. Government of India.

National Climate Change Secretariat. (2025). *Singapore's carbon tax*. Government of Singapore.

NITI Aayog. (2024). *SDG India index & dashboard 2023–24*. Government of India.

Observer Research Foundation. (2025). *India-led development financial institutions for global green finance* (Event report).

Observer Research Foundation. (2025, October 6). *Strengthening the role of fiscal federalism for climate change in India* (Event report).

Parry, I. W. H., Mylonas, V., & Vernon-Lin, N. (2017). *Reforming energy policy in India: Assessing the options* (IMF Working Paper No. WP/17/112). International Monetary Fund.

https://www.imf.org/en/Publications/WP/Issues/2017/05/03/Reforming-Energy-Policy-in-India-Assessing-the-Options-44853

Preece, R. (2016). Reforming automobile excise taxes in the ASEAN region for pro-growth and pro-environment outcomes. *World Customs Journal, 10*(1). https://doi.org/10.55596/001c.115308

Saran, S., & Pangestu, M. E. (2022, January 18). *Setting a path to green, resilient and inclusive development*. World Economic Forum. https://www.weforum.org/stories/2022/01/setting-a-path-to-green-resilient-and-inclusive-development/

Starritt, A. (2016, October 5). *Sweden is tackling its throwaway culture with tax breaks on repairs: Will it work?* World Economic Forum. https://www.weforum.org/stories/2016/10/sweden-is-tackling-its-throwaway-culture-with-tax-breaks-on-repairs-will-it-work/

World Bank Group. (2024). *Characterizing green and carbon-intensive employment in India* (Policy Research Working Paper No. 10156). World Bank. https://openknowledge.worldbank.org/server/api/core/bitstreams/6aad24f7-84b6-43e4-bbb5-0ec3563826eb/content

Yang, Z. (2018, March 12). *Practical lessons in vehicle efficiency policy: The 10-year evolution of France's CO_2-based bonus-malus (feebate) system*. International Council on Clean Transportation. https://theicct.org/practical-lessons-in-vehicle-efficiency-policy-the-10-year-evolution-of-frances-co2-based-bonus-malus-feebate-system/