

# Impact of Direct Taxes on Rural Market Buying Behaviour

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**Abstract**—Direct taxes—such as income tax, agricultural income tax in certain states, and other personal taxes—play an important role in shaping economic behaviour. Though rural households typically fall under lower tax brackets or are exempt due to agricultural income, recent expansions in rural entrepreneurship, non-farm employment, and digital tax administration have increased the relevance of direct taxation in rural markets. This paper investigates how direct taxes influence the disposable income, spending patterns, and overall buying behaviour of rural consumers. It further evaluates the degree to which tax awareness, compliance, and government redistribution affect consumption decisions in rural India.

**Index Terms**—Direct Taxes, Disposable Income, Tax Awareness, Government Redistribution Affect.

## I. INTRODUCTION

The rural economy constitutes a significant share of India's GDP and population. Buying behaviour within rural markets is greatly influenced by income levels, agricultural outputs, government policies, and socio-cultural factors. While indirect taxes have traditionally had a more visible impact on rural consumption due to GST on daily-use products, direct taxes—such as personal income tax, property tax, and capital gains tax—are now affecting rural consumers more than before due to changing income patterns.

With increasing rural employment in non-agricultural sectors, migration-linked remittances, and growth in small rural businesses, direct taxation is gradually affecting disposable income and expenditure choices in rural regions. This paper explores how these tax policies shape rural consumer behaviour toward essential goods, durable items, financial products, and lifestyle purchases.

## II. OBJECTIVES OF THE STUDY

1. To understand the relationship between direct taxes and rural consumer disposable income.
2. To analyze how taxation affects buying behaviour for essential and non-essential products.
3. To examine tax awareness levels among rural consumers.
4. To assess whether tax benefits and government schemes influence rural purchasing decisions.
5. To identify challenges faced by rural households regarding direct tax compliance.

## III. RESEARCH METHODOLOGY

The study is based on secondary data, including reports from:

- Government of India (Ministry of Finance)
- RBI and NABARD rural economy studies
- Research papers on taxation and rural development
- Articles on consumer behaviour and rural market trends

Qualitative analysis has been used to identify behavioural patterns and interpret the economic impact of direct taxes.

## IV. LITERATURE REVIEW

Previous studies highlight that:

- Rural consumers are highly price-sensitive due to irregular income cycles.
- Direct tax compliance remains low but is rising with digital initiatives.

- Increased tax deductions reduce disposable income but can improve long-term welfare if funds are redirected to rural development.
- Tax incentives and subsidies influence rural spending on agriculture, education, and health.

These findings provide the foundation for evaluating how direct taxes shape consumption behaviour in rural markets today.

## V. DIRECT TAXES APPLICABLE TO RURAL HOUSEHOLDS

Although agricultural income is exempt from income tax, many rural households are impacted by other forms of direct taxation:

### 5.1 Income tax on non-farm income

Rural households engaged in:

- small businesses
- rural industries
- transport services
- contract labour
- government or private jobs

are liable to pay direct taxes if income exceeds the basic exemption limit.

### 5.2 Property tax and land revenue

Rural landowners pay modest revenue taxes, which reduce their effective disposable income.

### 5.3 Capital gains tax

Applicable when rural individuals sell land (non-agricultural), buildings, or assets.

### 5.4 Taxes on rural entrepreneurs

Growing rural startups and self-employment ventures face bookkeeping and compliance requirements that influence business spending behaviour.

## VI. IMPACT OF DIRECT TAXES ON RURAL MARKET BUYING BEHAVIOUR

### 6.1 Reduction in Disposable Income

Direct taxes reduce the net income available to rural households, which directly affects consumption.

- Spending on non-essential items such as mobile phones, clothing brands, leisure, and durable goods declines.
- Priority shifts toward essential commodities such as food, healthcare, and agriculture inputs.

### 6.2 Increased Savings Behaviour

Rural consumers often respond to taxation by increasing their savings. Tax-saving schemes under Section 80C, PMJJBY, PMSBY, and other insurance products encourage rural families to divert funds from consumption to savings.

### 6.3 Changes in Product Preferences

Due to reduced surplus income, rural consumers:

- switch to economy brands
- prefer local goods over national brands
- delay purchases of costly items (e.g., motorcycles, household appliances)

### 6.4 Impact on Rural Entrepreneurship Purchases

Entrepreneurs reduce:

- investment in machinery
- inventory purchases
- marketing spending

The compliance burden sometimes discourages formalization of rural businesses.

### 6.5 Boost in Buying Behaviour During Tax Refunds or Subsidy Transfers

When farmers receive:

- PM-Kisan payments
- income-tax refunds
- government subsidies there is a temporary rise in spending on: fertilizers and seeds, household goods, education expenses. This creates a cyclical buying pattern linked to government financial flows.

### 6.6 Behavioural Changes due to Tax Awareness

Low awareness about direct taxes causes:

- fear or avoidance of formal financial systems
- preference for cash transactions
- hesitation to take loans or invest in formal channels

Tax literacy programs and digital tax simplification influence rural purchasing confidence.

## VII. CHALLENGES FACED BY RURAL CONSUMERS

- Low financial literacy results in misconceptions about taxation.
- Irregular income cycles make direct tax deductions seem burdensome.
- Complex tax filing procedures discourage compliance.
- Poor access to tax consultants in rural areas.

- Digital divide limits the use of online tax platforms.

These challenges indirectly affect buying behaviour by shaping perceptions about earnings and government policies.

#### VIII. RECOMMENDATIONS

1. Enhanced tax literacy campaigns tailored for rural populations.
2. Simplified tax filing processes with mobile-based vernacular support.
3. Special tax exemptions for rural entrepreneurs to promote rural industry growth.
4. Greater transparency in how tax revenue is reinvested in rural areas.
5. Incentives for digital transactions, improving financial inclusion.
6. Training programs for rural accountants and CSC operators.

#### IX. CONCLUSION

Direct taxes, although affecting a smaller portion of the rural population compared to urban regions, significantly influence rural market buying behaviour. They alter disposable income, shape preferences for essential versus non-essential goods, and affect entrepreneurial spending. With increasing rural incomes and diversification of occupations, direct taxation will play an even more important role in future rural market dynamics. Improving tax awareness and reducing compliance burdens can soften negative impacts and foster more stable and informed rural consumption patterns.

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