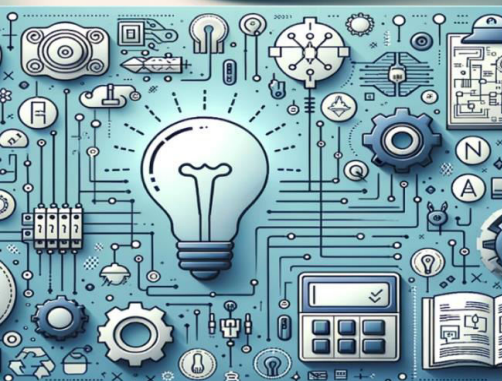


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Assessing the Fairness of India's Tax System: A Study on the Distribution of Tax Burden across Social Classes

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ABSTRACT: Taxation is an important element of economic policy that influences individuals and businesses from various socio-economic backgrounds. This research survey analyses opinions regarding tax justice, tax burden distribution, and tax policy effectiveness in India. Adopting a survey-based method, responses were gathered via Google Forms from students and corporate professionals to determine public sentiment towards tax fairness, belief in the government, and the rural-urban tax gap.

The results indicate that there are serious concerns over the middle class being disproportionately taxed, the poor not being sufficiently protected, and that tax policies help to widen income inequality. Respondents were also concerned about the government being able to use tax money effectively and mentioned tax complexity as a serious problem. The rural-urban divide is also investigated, with most indicating that urban centres are favoured in tax policies.

This study contributes to existing knowledge by accentuating public attitudes toward taxation in India and the most important areas of policy reform. The research emphasizes improving transparency, reducing the complexity of tax systems, and taking steps to achieve equitable tax allocation.

I. INTRODUCTION

A good tax system will help in the fair distribution of wealth and, therefore, economic development of a country. It determines how financial resources are generated and allocated and affects social welfare and economic growth. In many countries, the fairness of the tax system is often a point of discussion, especially in the way the tax burden is spread across different social groups and regions. India's tax system comprises direct and indirect taxes:

A. Direct Taxes:

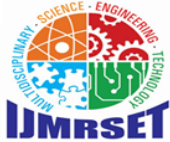
- o Income Tax: Levied on individuals, Hindu Undivided Families (HUFs), and corporations.
- o Corporate Tax: Imposed on domestic and foreign companies operating in India.

B. Indirect Taxes:

- o Goods and Services Tax (GST): A comprehensive indirect tax on the manufacture, sale, and consumption of goods and services.
- o Customs Duty: Levied on goods imported into India.
- o Excise Duty: Previously applied to goods manufactured in India, now largely subsumed under GST.

While the income tax system is designed to be progressive-to tax individuals according to their earnings-the broader structure, especially indirect taxes, has been criticized to disproportionately affect the poorer groups and regions. This is a cause for concern over whether the tax system is delivering overall fairness or reducing inequalities in the economy.

This research aims to check how fair it is to consider India's taxation system, with special focus on the apportioning of tax burden across different social classes and how such apportioning has implications for the urban-rural divide. As "tax policies have periodically been reformed with an intention to make them more inclusive, there is a lingering feeling that



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these efforts haven't been uniformly effective.". The differential distribution of tax privileges, infrastructure facilities, and official services between town and countryside areas may exacerbate the existing social differences. The paper will explore the progressive nature of direct taxes in India and the regressive impact of indirect taxes to see how these policies influence the gap between urban and rural areas. The study will also investigate whether tax reforms and welfare programs are addressing or inadvertently widening these disparities. The ultimate goal is to offer insights into how India's tax system can be restructured to achieve greater fairness and inclusivity.

II. REVIEW OF LITERATURE

- (Chandawat, 1999) measures the incidence of tax among different income groups and the regressivity and progressivity of taxes and government expenditure. The paper tests the extent to which taxation and government expenditure have been successful in reducing income inequality.
- (Gupta, 2013) issues relating to high tax burden on low income and medium income groups and low tax burden on high income groups are taken. Researcher concludes that there is still a need to have more reforms in income tax structure whatever in the form of broadening of exemption limits, reducing the tax rates, reorganization of prevailing tax slab rates or to make income tax structure so simple that all people could understand it and can follow the tax laws willing fully
- (rao, 2015) Against a best-practice framework, it examines changes in policy and in tax revenue trends at the Union and State levels to help identify the major shortcomings of India's tax system. This paper is an attempt to understand the challenges of overcoming tax evasion in the country.
- (Chakravarty, 2016) highlights that the introduction of GST is helping in simplifying and rationalising the tax system and increased compliance. At the same time, it states that the government should take steps to increase the direct taxes that could help in increasing the tax progressivity and reduce the unnecessary burden on the lower classes
- (singh, 2019) focusses on the history of the Indian tax reforms and the trends in the direct and indirect tax revenue in India while comparing it on an international scale. It also addresses all the changes in the tax policies in the Indian tax structure from 1970s to 2015. It concludes that India remains a largely tax non compliance society even after a significant increase in tax GDP ratios and the tax payer base.
- (rathore, 2023) The source mentions that due to a cut in the corporate tax rate in 2019 and an increase in excise duty in financial year 2021, the share of direct taxes witnessed a fall following 2019. In a progressive tax system, the share of direct taxes is higher than indirect taxes.

RESEARCH GAP

Prior studies of taxation in India have concerned themselves with tax policies, enforcement problems, and generating revenue. Less is known, however, about public opinions regarding tax fairness, especially on the perception that different income segments and urban and rural communities hold toward the tax regime. Whereas certain studies mention the distribution of tax burden, none delve into the psychological and behavioural elements of taxpayer attitude, such as government tax usage trust and the economic inequality impact perceived by the taxpayers. The level of awareness and problems individuals experience in comprehending tax regulations is also under-researched. This research seeks to fill these gaps by examining perceptions of tax equity among students and business persons, providing insights into public opinion, tax consciousness, and policy consequences.

III. RESEARCH METHODOLOGY

The objective of this study is to:

- Calculate the incidence of taxes and the benefits of government expenditure among various income groups. In other words, we aim to find who pays the taxes and who receives the benefits from government services.



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- Measure the contribution of various tax taxes and government expenditure to redistribution and thus to measure the regressivity and progressivity of taxes and government expenditures.
- To examine the reasons of the tax burden faced by certain groups of the society due to the exiting narrow tax base in India.

This research employs descriptive and analytical research design and uses both quantitative and qualitative approaches to assess the fairness of India's tax system.

Descriptive Analysis: Employed to analyse India's tax structure, tax rates, exemptions, and how they affect various income groups and regions.

Analytical Method: Aims at interpreting taxation policy data trends, comparing tax levels between urban and rural areas, and realizing the efficiency of tax reforms.

SAMPLING TECHNIQUE

This study employs a non-probability convenience sampling method to collect primary data. The survey was conducted using Google Forms, targeting two key respondent groups: students, businessmen and corporate professionals. The primary objective of this sampling approach was to assess perceptions and awareness regarding India's tax system across different social and economic segments.

- **Target Population:** Students (representing future taxpayers), businessmen and corporate individuals (representing salaried taxpayers).
- **Sampling Method: Convenience Sampling** – respondents were chosen based on accessibility and willingness to participate in the study
- **Sample Size:** 64
- **Survey Distribution:** The Google Forms link was shared via email, LinkedIn, WhatsApp, and professional/student networks to ensure diverse participation.

JUSTIFICATION FOR SAMPLING TECHNIQUE

The convenience sampling technique was chosen for the following reasons:

Ease of Collection of Data: Google Forms facilitated easy, inexpensive, and time-efficient data collection from various locations.

Specific Respondents: Students are future taxpayers, and corporate professionals are present income taxpayers, and thus they are pertinent to tax burden perceptions assessment.

Urban-Rural Representation: Although the research focused mainly on urban respondents because of ease of accessibility, attempts have been made to incorporate people with various socio-economic classes.

High Response Rate: Online surveys are likely to have faster responses, particularly when shared through professional and personal networks.

LIMITATIONS OF THE STUDY

Although this study offers important information regarding the fairness of India's tax regime and its effect on various social classes, it suffers from the following limitations:

Sampling Bias:

The research utilizes convenience sampling through Google Forms that might not reflect the whole population.

Most of the subjects are students and corporate professionals, who might miss out on insights from rural society, self-employed people, and workers in the informal sector.

Urban-Centric Focus:

Because of the distribution of surveys online, the responses are largely from urban regions, and the study is not able to reflect the tax burden differences experienced by rural communities.



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The rural-urban gap in taxation can be inadequately investigated because of low response rates from rural taxpayers.

Limited Scope of Data:

The study is based on self-reported information, which can be subject to personal biases, misinterpretation of tax policies, or unawareness.

The research does not take into consideration actual tax returns or official income distribution statistics, which might offer a better analysis.

Possible Non-Response Bias:

Because the survey was voluntary, respondents who have strong views on taxation would be more likely to reply, while others might have disregarded the survey and hence introduce a non-response bias.

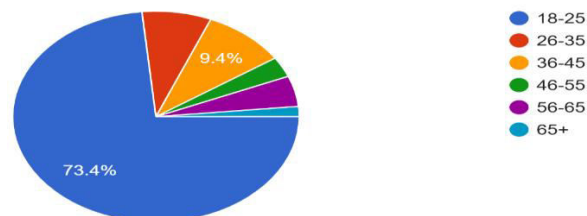
STATISTICAL HYPOTHESIS

This research hypothesizes that the Indian taxation system is thought to be unjust, specifically for middle-income segments, and is a causative factor of income inequality. Second, it is anticipated that cities are better benefitted with tax policies than towns. Third, the research questions whether or not there exists any considerable disparity in tax fairness perception among segments like income groups and place of residence.

1PRIMARY DATA ANALYSIS AND INTERPRETATION

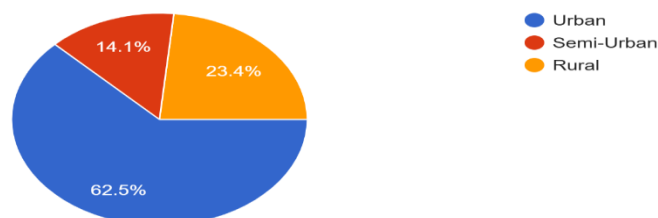
i.

AGE
64 responses



ii.

Location
64 responses



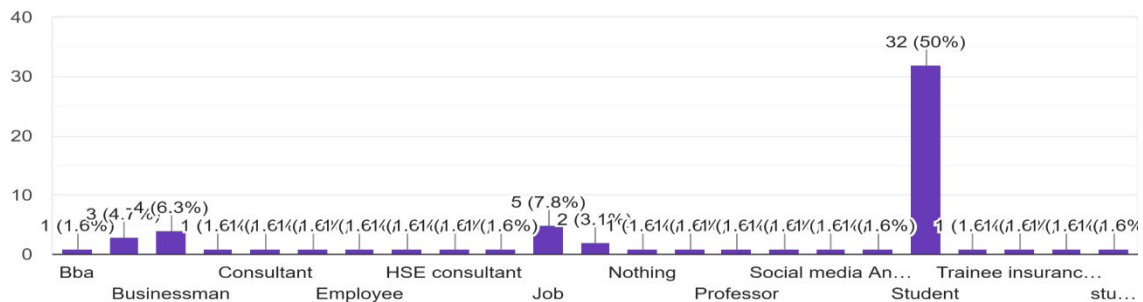
Interpretation- The majority (73.4%) of respondents are between 18-25 years, followed by 26-35 years (9.4%). This suggests that the opinions are largely influenced by younger individuals. 62.5% reside in urban areas, while 23.4% are in semi-urban and 14.1% in rural locations.



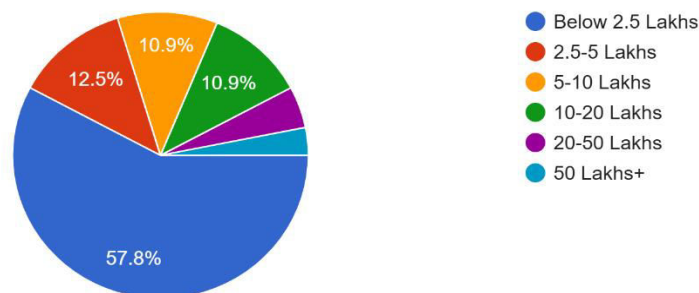
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Occupation
64 responses



Approximate Annual Income (INR)
64 responses



Interpretation- 50% of respondents are students, making the survey heavily skewed towards the youth population, potentially affecting perceptions about taxation. Other respondents include business professionals, consultants, employees, and freelancers, ensuring some diversity in professional experience. A major chunk (57.8%) earns less than INR 2.5 lakhs per year, most probably because of the large number of students. Just 7.8% earn more than INR 10 lakhs, restricting views from the upper-income segments

Category	Options	Frequency	Percentage
1. Is India's tax system fair?	Yes	7	35%
	No	7	35%
	Maybe	6	30%
2. Which type of tax is more fair?	Direct Tax	17	85%
	Indirect Tax	3	15%
3. Are income tax slabs equitable?	Yes	6	30%
	No	14	70%
4. Higher taxes for the super-rich?	Yes	17	85%
	No	3	15%
5. Aware of tax utilization?	Yes	8	40%
	No	12	60%
6. Are exemptions accessible to common people?	Yes	6	30%



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Category	Options	Frequency	Percentage
7. Is tax evasion a serious problem?	No	14	70%
	Yes	18	90%
	Maybe	2	10%
8. Make tax education mandatory in schools/colleges?	No	0	0%
	Yes	19	95%
	No	1	5%

- Only 15.6% find the system "Very Fair", while 45.4% believe it is "Unfair" or "Very Unfair". 48.4% believe the tax burden is not fairly distributed, while only 18.8% say it is fair.
- 64.1% agree that the middle class is taxed disproportionately high, reinforcing a common narrative that middle-income groups bear an excessive tax burden. 35.9% believe that the poor are not adequately protected from excessive taxation, while 34.4% think they are.
- 50% of people feel the tax system helps create income inequality, reinforcing fears that tax policies can increase economic disparities. 40.6% believe the tax system benefits specific social classes, while 26.6% disagree, indicating a split opinion.
- 54.7% believe that urban areas are favoured, while 17.2% say rural areas benefit more. 42.2% support using tax policies to address the urban-rural divide, though a significant 29.7% oppose this.
- 59.4% do not trust the government to use tax revenue effectively, with only 14.1% expressing strong trust. 39.1% struggle with understanding tax regulations, while 51.6% sometimes face difficulties, indicating a
- -65.6% see tax evasion as a major issue, implying a lack of trust in tax enforcement and compliance mechanisms.
- 31.3% believe rural areas do not receive a fair share of tax benefits, while 32.8% feel it is somewhat fair. 40.6% support different tax policies for urban and rural areas, reflecting concerns about unequal economic conditions.

IV. SECONDARY DATA ANALYSIS

As per the Economic Times, As of the fiscal year 2023-24, approximately **6.68%** of India's population filed income tax returns, equating to about 8.09 crore individuals. However, a significant portion of these filers reported zero taxable income. In the assessment year 2022-23, out of 7.4 crore filers, 5.16 crore (70%) had no tax liability, meaning only about 2.24 crore people, or roughly **1.6%** of the total population, actually paid income tax. This indicates that while the proportion of people filing for returns has increased the actual number of tax payers contributing to income tax has not increased.

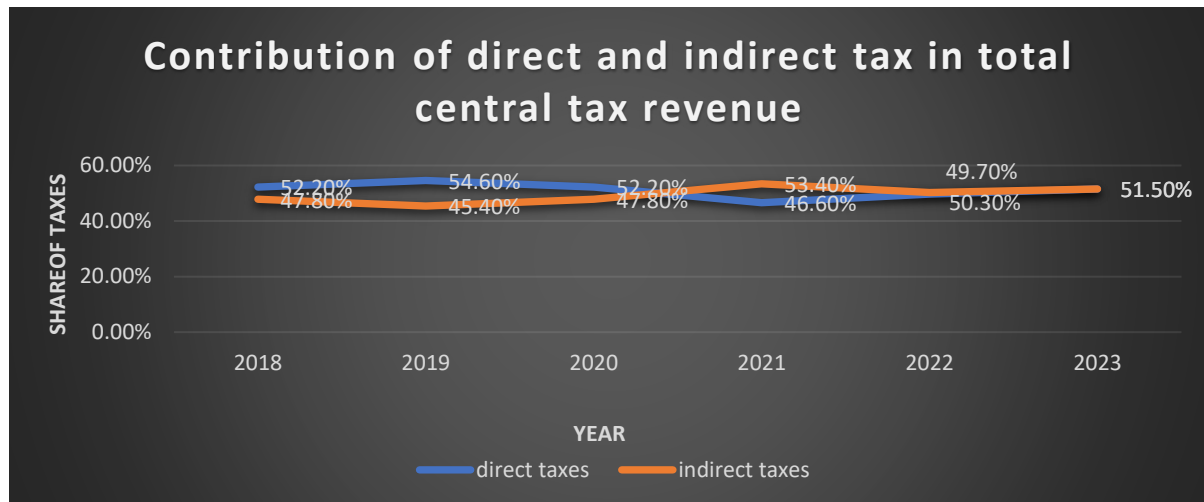
This disproportionate increase has resulted in the burden on salaried employees and compliant tax payers. Another reason for India's narrow tax base is the plethora of exemptions, concessions, and deductions in direct and indirect taxes, all justified in one way or the other by the multiple objectives of the tax system.

As per Indian Union Budget estimates for financial year 2023(refer chart below), direct taxes accounted for 51.5 percent and indirect taxes accounted for 48.5 percent of total central tax collection in India. The source mentions that due to a cut in the corporate tax rate in 2019 and an increase in excise duty in financial year 2021, the share of direct taxes witnessed a fall following 2019. In a progressive tax system, the share of direct taxes is higher than indirect taxes.



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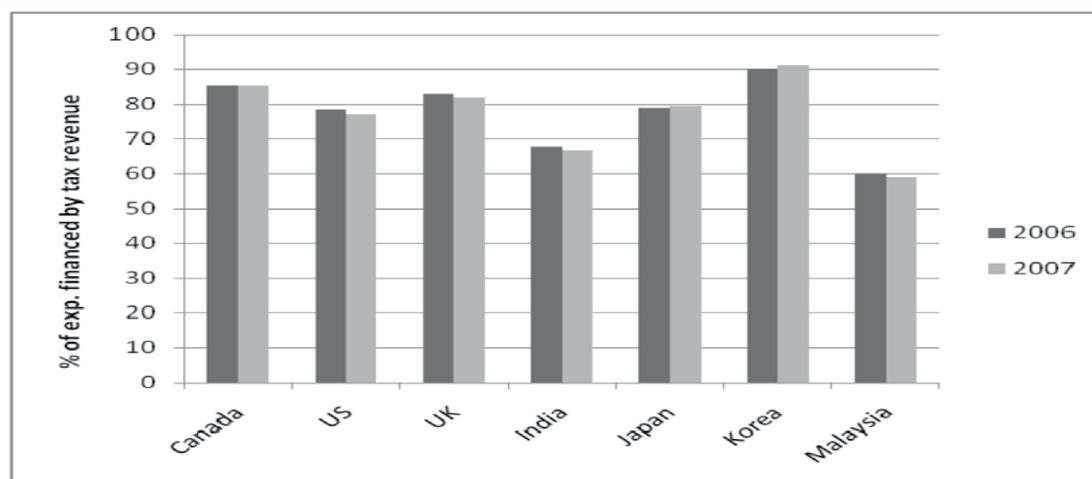


Source-Statista, economy and policy, December 14 2023

The regressive nature of the indirect taxes (GST, excise) in India is something that needs to be addressed. Indirect taxes cast a wide net over all consumers, irrespective of their financial standing. This indiscriminate approach disproportionately burdens lower-income households, who allocate a significant portion of their income to essential goods and services. As a result, the regressive nature of indirect taxation becomes starkly apparent, sparking widespread debate and concern. This regressive system traps poorer households in a vicious cycle, as high indirect tax costs on necessities limit their ability to save and climb the socioeconomic ladder. Several nations have effectively implemented measures to mitigate the regressive effect of indirect taxation. Through the imposition of lower or zero GST on necessities, such countries have shielded low-income groups from being overly burdened. Some have also enforced progressive consumption taxes, with increasing tax rates in relation to consumption, encouraging a more equitable distribution of the tax burden and improving economic equality.

India has a special chance to learn from international best practices and overhaul its system of indirect taxation. Direct taxation can be made stronger by a wider tax base, better compliance, and less evasion, which can reduce India's reliance on regressive indirect taxation. A move towards a more progressive tax system would not only reduce the burden of taxation on lower-income groups but also promote more equity.

A comparative analysis to assess the taxation between India and the other countries would suggest the following:



Source- : OECD Revenue Statistics 2009; Ministry of Finance, Govt. of Malaysia; Indian public Finance Statistics, 2008



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The above chart shows that the extent of government expenditure financed by taxes is comparatively low in India as compared to the developed countries of Canada, UK, USA and Japan. While this share (of government expenditure financed by tax revenues) goes up to 90 percent in case of South Korea, it has been close to 80 percent in Canada, UK, USA and Japan. However, in India, this share has been less than 70 percent. Thus, we need to question the policy priorities in India pertaining to resource mobilization. This we could say leads to broadening of the urban rural divide. Another important aspect to look into is the direct tax burden is spread across all income groups with significant contributions from high income earners whereas in India it is primarily borne by salaried middle class and higher income groups. 60% of the total tax revenues in India is from the indirect tax (GST, excise) affecting lower income groups whereas in the US less than 35% of the revenue comes from sales and excise taxes.

V. FINDINGS AND RECCOMENDATIONS

As mentioned earlier that indirect taxes create an uneven tax landscape as it accounts for nearly 40% of the government revenue and disproportionately impacts the lower income groups. This calls for certain economic reforms where we need to focus on increasing the direct tax base and consider implementing the below reforms:

- Widening the tax net and utilizing technologies such as data analytics to curb evasion will make the system more effective and equitable. Toughening penalties for non-compliance, enhancing tracking tools, and raising public awareness of tax obligation will also increase compliance and lessen dependence on indirect taxes.
- Simplifying GST rates by reducing taxes on necessities and raising them on luxuries would make taxation more equitable for poor and vulnerable groups.
- Lastly, enhancing tax administration through simplification of processes, elimination of bureaucracy, and capacity building for tax officials will increase compliance. Cross-border tax evasion cooperation at the international level can further increase revenue collection, ensuring more equitable resource allocation for inclusive growth.

VI. CONCLUSION

India's tax system is a contentious issue as far as its fairness is concerned, considering the wide inequalities in the distribution of tax burden between various social classes and regions. Although India's direct tax system is progressive in nature, the sheer dependence on indirect taxes like GST and excise duties has a regressive effect, disproportionately hitting the poor and rural communities. This imbalance contributes to economic inequalities, widening the urban-rural divide and placing a greater financial burden on salaried middle-class taxpayers. The report points out that India's narrow tax base with only around 1.6% of the population paying income tax contributes to these problems. A higher percentage of government revenue comes from indirect taxation, which puts a disproportionate burden on those with lesser incomes. On the other hand, developed economies like the USA are more dependent on direct taxes, guaranteeing a more even contribution by higher-income brackets. In order to have a more equitable and inclusive tax system, India will need to implement various reforms such as:

- Widening the tax base through higher compliance and lower evasion through digital monitoring and tighter enforcement.
- Rationalizing GST rates by cutting taxes on basic goods while raising them on luxury goods in order to cut the regressive impact on lower-income groups.
- Improving tax administration by making compliance procedures easier and eliminating bureaucratic inefficiencies to enhance transparency and trust in the system.

By adopting these reforms, India can minimize its dependence on regressive indirect taxes, foster economic equity, and make taxation a tool for inclusive growth instead of widening current social and economic inequalities. The effectiveness of these steps will decide whether India's tax system transforms into one that is genuinely equitable and equitable for all sections of society.



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