

Is The Indian Taxation System A Burden on The Middle-Class Population of India

Sakshi Vijay Kharche¹, Shubham Maruti Adkar², Ritesh Deepak Deshpande³, Rutuja Dongre⁴

¹Dept of Computer Engineering

²Dept of Science

³Dept of Commerce

⁴Dept of Agriculture

¹Sinhgad Institute Of Technology, Lonavala, India

^{2,3}SSMA Sci. College Lonavala, India

⁴College of Agriculture Sonai, India

Abstract- *The purpose of this study is to examine the Indian tax system in detail, as well as how it affects the lives of the country's middle class and whether it is beginning to become a burden for them. Although the Indian tax system is essential for raising money, its effects on the middle class raise questions about economic justice and financial pressure. The economy's backbone, the middle class, bears the combined weight of indirect taxes (excise tariffs, GST) and direct taxes (income tax) with little respite. They make substantial tax contributions, yet their social security benefits pale in comparison to those of lower-income groups. The financial strain on middle-class individuals is further increased by high tax slabs, intricate filing processes, and inflationary pressures.*

The gap in discretionary income widens as a result of infrequent tax changes to reflect the increased cost of living. Furthermore, their savings and purchasing power are greatly impacted by indirect taxes on necessities.

Keywords- Tax, middle class, burden, GST, Indian tax system, cost of living, tax slabs, revenue generation, tax exemptions, income tax, indirect taxes, financial pressure, tax reforms, economic justice, disposable income, social security benefits, and taxation policy.

I. INTRODUCTION

Direct and indirect taxes make up the intricate structure of the Indian tax system, which is designed to bring in money for the government. The middle class is frequently disproportionately impacted by taxes, despite the fact that they are essential for national progress. This group finds itself in a challenging situation since they are neither wealthy enough to take use of sophisticated tax-saving tools nor impoverished enough to be eligible for government subsidies [3][4].

High income tax rates and a number of indirect taxes, such as the GST on petrol and necessities, are imposed on the middle class. Their financial strain is increased by the absence of sufficient tax relief measures, growing inflation, and a convoluted tax filing process [4][6][9]. The middle class has fewer support systems than lower-income groups, who are given targeted subsidies and social programs; this makes taxes appear more onerous [3][8].

When it comes to the lives of the middle class, the Indian tax system has long been a hot topic of conversation. The bulk of the nation's populace took notice of the Union Budget for the fiscal year 2025–2026 as soon as Mrs. Nirmala Sitharaman unveiled it on February 1, 2025 [7]. Social media was inundated with memes and viral images criticizing the Finance Minister after the budget was announced, bringing attention to the discontent among middle-class taxpayers.

A large number of these criticisms were very personal and expressed the annoyance of a sector of the economy that frequently feels overtaxed. The introduction of the Income Tax Bill 2025 accelerated the criticism and fueled discussions over whether the current tax laws are equitable for the middle class [7][10]. These issues affect all Indians, including those who pay taxes and those who do not; they are not merely a problem for the middle class.

Households making between ₹1,25,000 and ₹5,00,000 annually are classified as middle-class, according to Statista.com [1]. According to a Price360.in estimate, this demographic made up 31% of India's population as of January 2024 and is expected to increase to 38% by 2031 and 60% by 2047 [2]. In light of this quick expansion, maintaining a sustainable and equitable tax structure for the middle class is crucial for both social justice and India's economic stability. This essay aims to examine whether India's middle class is unfairly burdened financially by the country's existing tax

structure and what changes could be made to make it more equitable and sustainable.

II. LITERATURE REVIEW

A. *Overview of Middle-Class Taxation Issues in India:*

According to a number of studies, the high direct and indirect taxes in India disproportionately affect the middle class. The middle class sees little tax relief and growing living expenses, while higher-income groups have access to sophisticated tax-saving strategies and lower-income groups enjoy tax exemptions and subsidies [3][4][6][8].

B. *Studies on Direct Tax Burden on the Middle Class:*

Ajit Joshi (2020): Financial Stress and Individual Tax Awareness

According to the report, the majority of middle-class taxpayers are unaware of tax-saving options, which raises their tax obligations and lowers their discretionary income.

Planning and compliance are discouraged by the intricacy of tax filing procedures [3].

Parappagoudar, Sachin K. (2021): Inequitable Taxation Systems

Due to their lack of significant deductions and exemptions, middle-class taxpayers are disproportionately impacted by income tax slabs, as this study demonstrates. The middle class cannot efficiently use lawful tax avoidance tactics, unlike corporations or high-income individuals [4].

C. *Studies on Indirect Tax Burden (GST, Excise Duties, and Inflation Impact):*

GST and Its Impact on Middle-Class Consumers, Gurpreet Kaur (2022)

According to the study's findings, middle-class households' overall cost of living has gone up since the Goods and Services Tax (GST) was implemented.

The GST's levy on essential products and services has decreased middle-class people's purchasing power, which has an impact on their savings [6].

JETIR (2023): How Tax Reforms Affect the Purchasing Power of the Middle Class

The study compares the old and new tax regimes and concludes that although the new regime has lower rates, it eliminates important deductions (such as Section 80C, HRA, and LTA), which increases middle-class workers' tax obligations. Disposable income is further reduced by indirect taxes on food, petrol, and everyday essentials [5][10].

D. *Studies Comparing India's Taxation System with Other Countries:*

India, Finland, the United States, and Australia were compared in the Global Tax Burden Analysis (2024):

India: Low social security benefits and high indirect taxes (GST).

Australia and Finland have higher income taxes but provide generous welfare benefits (healthcare, education, and unemployment insurance).

USA: The middle class has more disposable money due to progressive taxation.

According to the analysis, hefty tax contributions in India are not adequately offset by social security benefits under the current tax structure [8][9].

E. *Summary of Key Findings from Literature Review:*

High taxes without sufficient relief: Taxpayers in the middle class pay high taxes without receiving perks like free healthcare or education [3][4][7].

Because GST and excise taxes raise living expenses, indirect taxes exacerbate financial strain [5][6][9][10].

Financial illiteracy: Many middle-class taxpayers do not know how to legally lower their tax obligations [3].

Global comparisons show that reform is possible: Middle-class taxpayers have greater financial stability in other nations [8][9].

F. *Research Gaps and Need for Further Study:*

Direct and indirect taxes are the subjects of most existing research, but there aren't many thorough studies that combine the two. Further study is required to determine how tax laws might be changed to lessen the financial strain on middle-class individuals. For India's tax system to be more equal, policymakers must take into account international best practices [4][8][11].

III. HYPOTHESIS

- A. The middle class in India is severely hampered by the country's tax structure.
- B. The Finance Ministry can yet make improvements to the tax system to improve the quality of life for middle-class people.
- C. The middle class in India has a heavy financial burden as a result of the tax system.
- D. Compared to direct taxes, indirect taxes—like GST—have a bigger effect on middle-class discretionary income.
- E. Middle-income earners' financial stress is exacerbated by the intricacy of tax filing and insufficient deductions.

- F. The middle class receives insufficient assistance from India's tax laws, which disproportionately benefit top earners.
- G. The middle class will have less financial strain if the tax system is reformed by expanding exemptions, deductions, and tax slabs.

IV. METHODOLOGY

Using a mixed-method approach that combines quantitative and qualitative research methods, this study will evaluate how the Indian tax system affects the middle-class people.

A. Research Design:

The research will employ a mixed-methods approach, combining qualitative (case studies, surveys) and quantitative (statistical analysis) techniques. Descriptive and analytical in nature, the study will assess how tax laws affect middle-class households financially..

B. Data Collection Methods:

•Surveys and Questionnaires for Primary Data Collection

Middle-class taxpayers across a range of income brackets will be surveyed both offline and online.

The questions will center on: Income and tax obligations for the year GST's effects on daily costs Knowledge of tax-saving possibilities and the perceived fairness of the tax system Taxation's impact on investments and savings Interviews Individual and collective interviews with: Paid workers Owners of small businesses Financial counsellors and tax consultants .The goal is to compile comprehensive information about financial planning, tax burdens, and compliance issues.

•Gathering Secondary Data

Governmental Documents and Guidelines Examination of official documents from the Indian Income Tax Department and the Ministry of Finance India's Reserve Bank (RBI) Announcements of the budget and changes to taxes Scholarly Studies & Journals examining research on middle-class taxation from academic publications, tax law reviews, and economic studies.

Databases & Statistical Reports Information from the National Sample Survey Office (NSSO), Statista Price360, and the Economic Survey of India Sampling Strategy.

Target Audience: Middle-class taxpayers (those whose annual income falls between ₹1,25,000 and ₹5,00,000) More than 500 people from various cities and income brackets make up the sample size.

Sampling Method: Stratified random sampling according to occupations and income brackets .

C. Data Analysis Techniques

Analysis of Quantitative Data, The mean, median, and standard deviation are examples of descriptive statistics. Analysis of the relative tax burden for various income brackets. Regression analysis to quantify the relationship between tax burden and income.

Analysis of Qualitative Data, Analysis of interview replies by theme An analysis of a case study that compares the tax burdens of various economic groups.

D. Comparative Analysis with Other Countries

Comparing Finland's progressive tax system with substantial social security benefits to India's tax system Australia (welfare support combined with moderate taxation) USA (more disposable income, lower taxes) assessing the potential for restructuring India's tax laws to improve financial sustainability.

E. Limitations of the Study

Potential bias in self-reported financial data responses changes in tax laws over time, necessitating ongoing revisions to the results, getting comprehensive government taxes datasets is difficult.

V. CASE STUDIES

A. Comparison of Tax on personal incomes of foreign countries and India:

The income taxes of Finland, Japan, the United States, Canada, Australia, Germany, Russia, the United Arab Emirates, and India are all examined in this case study. The following case study's comparative chart may be found below.

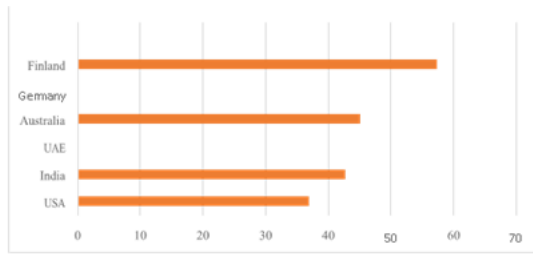


Figure 1: Comparison of Middle-Class Taxation Across Countries

Finland has the highest personal income tax rate, at 57.3%, according to this comparison chart. The UAE, however, has the lowest, at 0%. In contrast, Finland tops the world happiness index despite having the highest personal income tax in the world, according to a study of the World Happiness Index. This demonstrates the absence of oversight over the use of taxes collected in our nation, primarily from the middle class.

B. The Salaried Middle-Class Employee (Delhi, India):

High Tax Deduction: Rajesh pays taxes on a large percentage of his paycheck, placing him in the 20% tax bracket. **Limited Exemptions:** He is not eligible to deduct investments, medical insurance, or House Rent Allowance (HRA) under the current tax system.

Indirect Tax Burden: Because of GST, monthly costs for basic products, electricity, and fuel are high.

Financial Stress: Struggles to strike a balance between taxes, home loan repayment, and funds for children's education.

Effect on Monetary Stability

Depletion of Savings: A high tax liability and growing living expenses result in a decrease in disposable income.

Low Investment Capacity: A diminished capacity to make investments in tax-saving plans such as ELSS or PPF. **Comparative disadvantage:** Rajesh believes that taxes in India are more onerous than in other nations where middle-class taxpayers enjoy tax benefits.

Financial Burden on a Salaried Middle-Class Employee

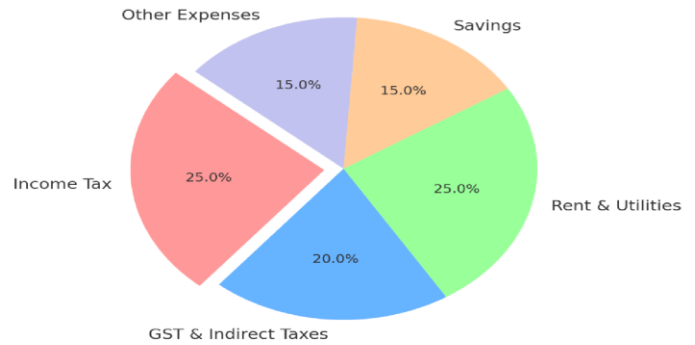


Figure 2: Financial burden on a salaried middle-class Employee

By showing the percentage of income spent on direct taxes, GST, rent, utilities, savings, and other expenses, a pie chart illustrates the financial strain on a middle-class salaried worker.

C. Small Business Owner (Mumbai, India):

Problems with GST Compliance Issues: Financial planning is challenging due to the frequently fluctuating GST rates.

Operational Costs Rise: Product prices rise due to high GST on raw materials, which lowers competitiveness.

Impact on Consumer Demand: Sales are impacted because consumers are reluctant to buy luxury apparel because of high indirect taxes.

Limited Tax Benefits: Small firms like Neha's do not receive substantial tax subsidies, in contrast to huge enterprises.

Effect on Monetary Stability

Declining Profit Margins: Lower earnings are the result of higher taxes.

Competitive disadvantage: The market is dominated by international brands and e-commerce sites with superior tax arrangements.

Risk to Business Survival: Small merchants face financial instability as a result of rising indirect taxes.

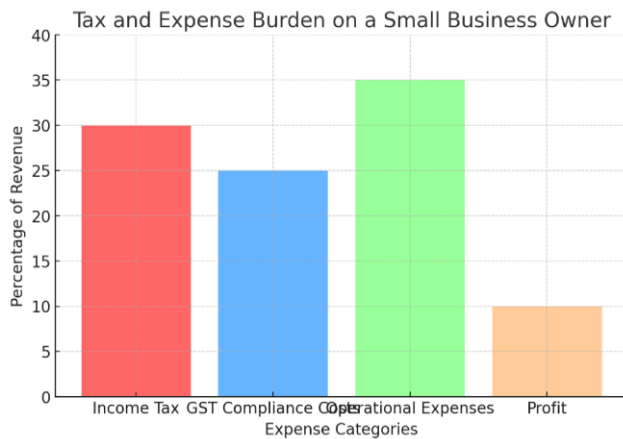


Figure 3 : Tax and expense burden on a small business owner

The tax and expense load on a small business owner is depicted in this bar chart. It highlights the financial strain on small business owners by demonstrating how a sizable amount of revenue is devoted to income tax, GST compliance, operating costs, and remaining profit.

VI. CONCLUSIONS

Despite being crucial for the country's progress, the Indian tax system poses serious financial difficulties for the middle class. This study emphasizes how middle-class taxpayers bear an unfair share of the tax burden because of high income tax rates, indirect taxes like GST, and a dearth of suitable financial assistance programs. The middle class is in a situation where taxes have a substantial impact on their discretionary income and financial security, in contrast to lower-income groups who get government subsidies and higher-income persons who take use of tax-saving tools.

It is clear from the examination of case studies that self-employed people, small business owners, and salaried workers must deal with growing tax obligations and few deduction options. The comparison with other international taxation systems emphasizes even more how middle-class Indian taxpayers pay more in indirect taxes while receiving fewer social security benefits. Their capacity to invest, save, and make a meaningful contribution to economic progress is hampered by this financial hardship. Policy changes like higher tax exemptions, updated GST rates on necessities, and streamlined compliance procedures are required for a more equal taxation system. Sustainable economic growth and social stability in India depend on a well-balanced tax system that ensures revenue generation while taking into account the economic realities of the middle class. This report urges more investigation into long-term policy initiatives that can improve financial inclusion, lessen middle-class tax burdens, and establish a more equitable, growth-oriented tax system.

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