

## Who's Paying India's Bills? Tax System Decoded



### Context:

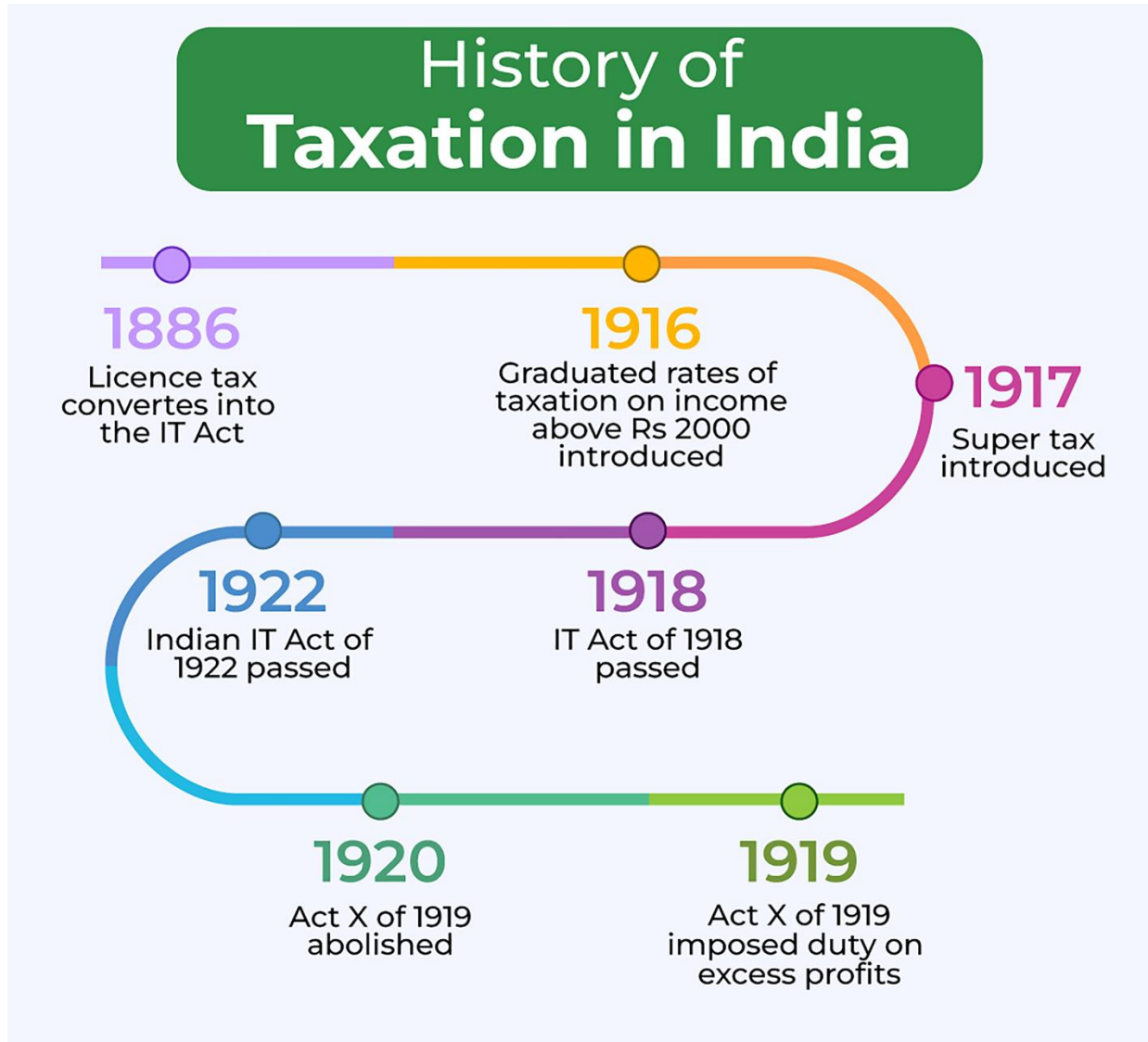
- There is an indication that a **new goods and services tax (GST) slab** will be introduced, in **addition to the existing four GST rates: 5%, 12%, 18%, and 28%**.
- The **Group of Ministers (GoM) in the GST council** has proposed increasing the **tax rates for tobacco and related products, as well as aerated beverages, to 35%**

## 1. What is the Tax System?

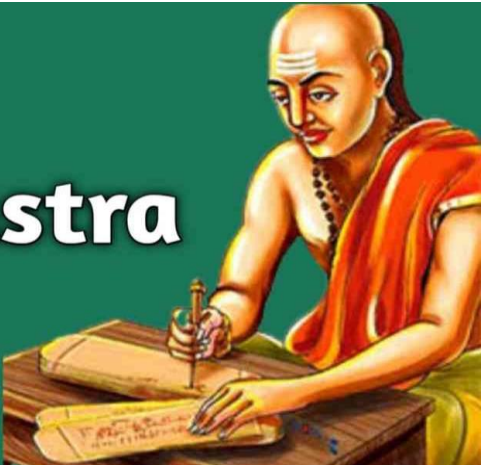


- A **tax system** refers to the set of **principles and policies** governments use to **collect revenue** from individuals and businesses.
- It is designed based on **tax policy principles** such as **equity, efficiency, and simplicity**, and can include **subsidies and tax expenditures** to influence taxpayer behavior and promote economic goals.
- **Taxes are levied by governments on their citizens** to generate income for undertaking projects to boost the economy of the country and to **raise the standard of living of its citizens**.
- The **authority of the government to levy tax** in India is derived from the Constitution of India, which **allocates the power to levy taxes to the Central and State governments**.
- **All taxes levied within India need to be backed** by an accompanying law passed by the **Parliament or the State Legislature**.

## 2. What is the history of Taxation in India?



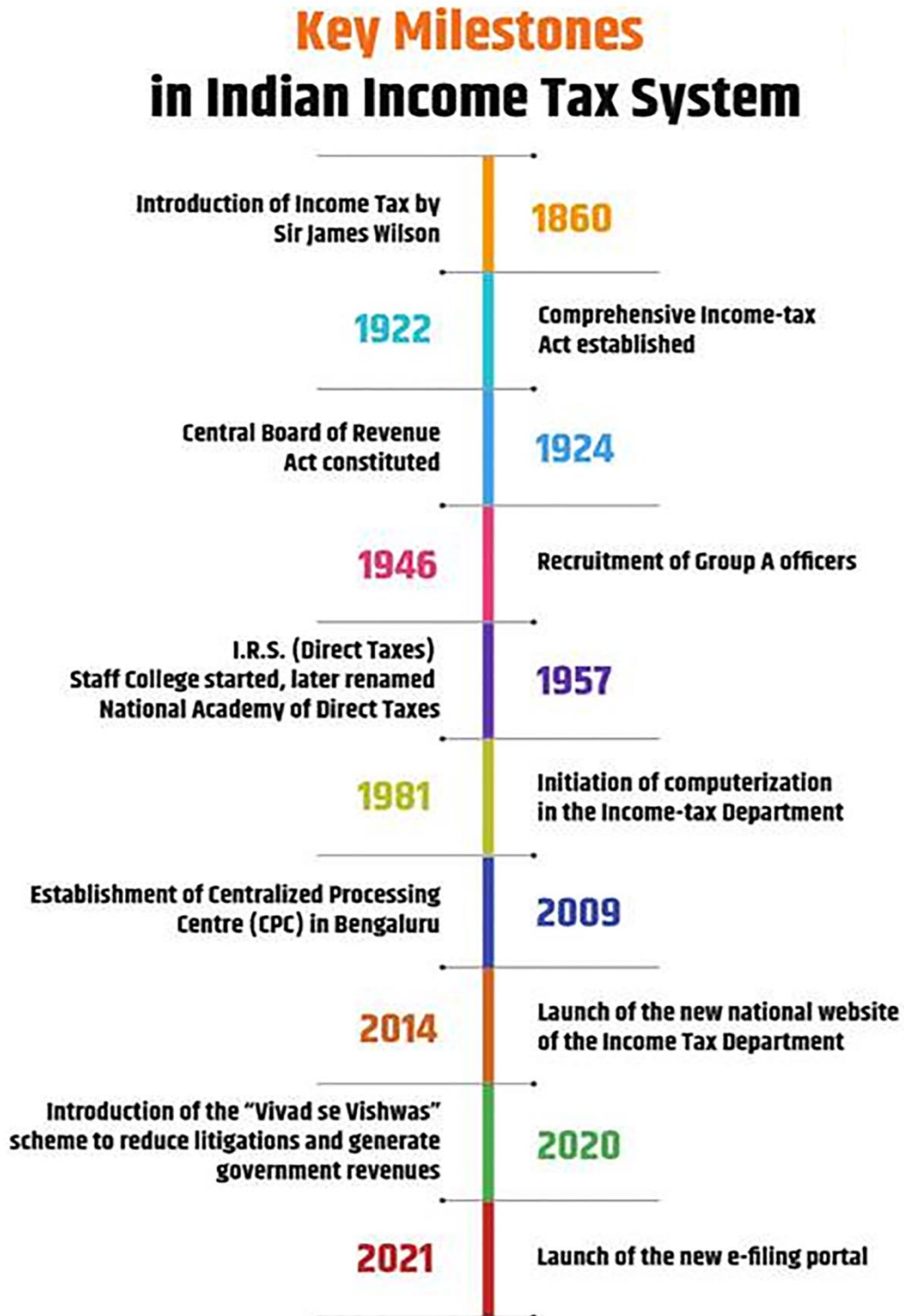
Events	Analysis
<p><b>Manusmriti and Arthashastra</b></p>	<ul style="list-style-type: none"> <li>• The earliest source of tax in India, <b>Manusmriti</b>, suggests the king collect and regulate taxes in a manner that is fair on the subjects.</li> <li>• As per provisions mentioned in it:             <ul style="list-style-type: none"> <li>▪ <b>Traders must pay 20% or 1/5th of their income</b></li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>▪ <b>Artisans must pay 20% or 1/5th of their income</b></li> <li>▪ <b>Agriculturists must pay 1/6th, 1/8th, or 1/10th of the crop produce, depending on the circumstances</b></li> <li>• Laid down in the 3rd century BCE, the <b>Arthashastra deals with the subjects of politics, economics, military and defence</b>, and state functioning, to name a few.</li> <li>• The book mentions that <b>the affluent pay high taxes as compared to the less privileged.</b></li> <li>• It also flattened the <b>tax rate for agriculturists at 1/6th of the land produce.</b></li> <li>• Moreover, it mentions taxes regarding the <b>import, export, tolls, and income tax during emergencies.</b></li> </ul> <div data-bbox="483 1045 1412 1507" style="text-align: center;">  <p><b>Kautilya Arthashastra</b></p> </div>
<p><b>Income Tax Act 1860</b></p>	<ul style="list-style-type: none"> <li>• <b>While ancient texts play a crucial role in the evolution of taxation in India, the income tax system as we know it today first came into the picture in the year 1860.</b></li> <li>• It was introduced by <b>Sir James Wilson during the British era</b> in the country.</li> </ul>

	<ul style="list-style-type: none"> <li>• The <b>taxation policies</b> were formed to compensate for the <b>loss to the British government</b> of the <b>time during the military mutiny of 1857</b>.</li> <li>• As per the Act, the <b>income was divided into four sections</b> - from <b>landed property, from trade and profession, from salary and pension, and from securities</b>.</li> <li>• Some of the <b>best tax-saving investments of today</b>, such as <b>life insurance premiums</b>, were exempted from <b>tax even then</b>.</li> </ul>
<p><b>Income Tax Act 1886</b></p>	<ul style="list-style-type: none"> <li>• In the year <b>1886</b>, the <b>Indian Income Tax Act</b> was <b>passed</b>.</li> <li>• Since then, the <b>tax laws have witnessed constant revisions</b> from time to time.</li> <li>• Under this, the <b>tax was levied on income from four sources including, income from salaries, pensions and gratuities, company net profits, interest</b> on securities, and from other sources.</li> </ul>
<p><b>Income Tax Act 1918</b></p>	<ul style="list-style-type: none"> <li>• A novel <b>Income Tax Act</b> was passed in <b>April 1918</b>, which <b>introduced several changes</b> to the previous Act.</li> <li>• Among the <b>various amendments, the deductions and receipts of casual or not recurring in nature</b> that occurred during business and professional transactions were also taken into <b>account while computing taxable income</b>.</li> </ul>
<p><b>Income Tax Act 1922</b></p>	<ul style="list-style-type: none"> <li>• A milestone that led us to the <b>current tax structure and laws</b> is the <b>Income Tax Act</b> passed in the <b>year 1922</b>.</li> </ul>

	<ul style="list-style-type: none"> <li>• It not <b>only provides flexibility</b> to the income tax structure in India but also helps build a proper administration system for tax in India.</li> <li>• <b>It remained in force until the year 1961.</b></li> </ul>
<p><b>Income Tax Act 1961</b></p>	<ul style="list-style-type: none"> <li>• After the innumerable amendments to the previous laws, the <b>Income Tax Act was passed in consultation with the Ministry of Law in 1961.</b></li> <li>• Applying to the whole of India, which includes Sikkim and Jammu and Kashmir, the Act was brought into effect from the 1st of April 1962.</li> <li>• Along with this, <b>the Central Board of Revenue was divided, giving birth to the Central Board of Direct Taxes (CBDT).</b></li> <li>• Currently, the <b>calculation of taxable income</b>, the tax slab, the taxes, and the tax-saving funds are <b>all determined as per this Act of 1961.</b></li> <li>• According to this Act, <b>presently, tax is imposed on income</b> belonging to five different heads:             <ul style="list-style-type: none"> <li>▪ <b>Income from Salary</b></li> <li>▪ <b>Income from Business or Profession</b></li> <li>▪ <b>Income from Capital Gains</b></li> <li>▪ <b>Income from House Property</b></li> <li>▪ <b>Income from Other Sources</b></li> </ul> </li> </ul>

### 3. Enlist key milestones in the Indian Income Tax System?



## 4. What are the attributes of Taxes?

Attributes	Analysis
It is mandatory	<ul style="list-style-type: none"> <li>• Since any form of tax is <b>imposed by the government</b> for the benefit of the country, <b>it is required by law to pay taxes.</b></li> </ul>
It is a contribution	<ul style="list-style-type: none"> <li>• <b>Tax is a contribution made by citizens</b> for the betterment of their country.</li> <li>• <b>The government of India provides basic healthcare, infrastructure, defence, etc.</b> with the money collected from taxes</li> </ul>
It is for public benefit	<ul style="list-style-type: none"> <li>• The purpose of <b>collecting taxes is for the benefit and upliftment</b> of the society in general.</li> <li>• <b>Taxes are not supposed to favour specific individuals.</b></li> <li>• <b>Disaster maintenance and rescue</b> is an important aspect of the money collected in the form of taxes</li> </ul>
It is paid out of income earned or wealth	<ul style="list-style-type: none"> <li>• <b>You pay tax only when you generate income.</b></li> <li>• If an <b>individual does not generate a minimum</b> threshold income (defined and modified from time to time by the government), they <b>need not pay some taxes like income tax.</b></li> </ul>
It boosts economy	<ul style="list-style-type: none"> <li>• <b>Boosting the economy</b> is one of the <b>most important aspects of collecting taxes.</b></li> <li>• Since the government provides for infrastructure in the <b>form of roads, trains, power stations, dams, etc.,</b> it utilizes the tax revenue for economic growth of the nation.</li> </ul>



**5. Enlist different types of taxes in India?**



Types of Taxes	Analysis
<b>Direct Taxes</b>	<ul style="list-style-type: none"> <li>● <b>Income Tax:</b> <ul style="list-style-type: none"> <li>▪ This tax is imposed on the income earned by individuals and businesses.</li> <li>▪ It is calculated based on the respective income slabs and rates.</li> </ul> </li> <li>● <b>Corporate Tax:</b> <ul style="list-style-type: none"> <li>▪ Companies are subject to corporate tax on the profits it generates.</li> <li>▪ The business structure and turnover of the company influence the tax rates.</li> </ul> </li> </ul>

	<ul style="list-style-type: none"><li>• <b>Capital Gains Tax:</b><ul style="list-style-type: none"><li>▪ <b>Capital gains tax</b> is due on the <b>profit from the sale of capital assets</b>, such as stocks or property, by individuals or businesses.</li></ul></li></ul>
<b>Indirect Taxes</b>	<ul style="list-style-type: none"><li>• <b>Service Tax:</b><ul style="list-style-type: none"><li>▪ <b>Service providers charge this tax on specific services</b> rendered to customers.</li><li>▪ It has <b>now been replaced by the Goods and Services Tax (GST)</b>.</li></ul></li><li>• <b>Goods and Services Tax (GST):</b><ul style="list-style-type: none"><li>▪ <b>GST</b> is a thorough duty that <b>subsumes different roundabout charges</b>.</li><li>▪ It is <b>assessed at each stage of production and distribution on the supply of goods and services</b>.</li></ul></li><li>• <b>Stamp Duty:</b><ul style="list-style-type: none"><li>▪ <b>Stamp duty is payable on the execution of certain documents</b> such as property agreements, loan agreements, and share transfers.</li></ul></li></ul>

## 6. Enlist rates for different types of taxes in India?

Taxes	Rates																												
<p><b>Income Tax</b></p>	<div style="background-color: #00bfff; padding: 10px; border: 1px solid black;"> <p style="text-align: center; margin: 0;"><b>BUDGET 2024: TAX REGIME</b></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="background-color: #00bfff; color: white; padding: 5px;">New</th> <th colspan="2" style="background-color: #00bfff; color: white; padding: 5px;">Old</th> </tr> <tr style="background-color: #000000; color: white;"> <th style="padding: 5px;">Income Tax Slab</th> <th style="padding: 5px;">Tax Rate</th> <th style="padding: 5px;">Income Tax Slab</th> <th style="padding: 5px;">Tax Rate</th> </tr> </thead> <tbody> <tr> <td style="padding: 5px;">0-3L</td> <td style="padding: 5px;">0%</td> <td style="padding: 5px;">0-2.5L</td> <td style="padding: 5px;">0%</td> </tr> <tr> <td style="padding: 5px;">3-6L</td> <td style="padding: 5px;">5%*</td> <td style="padding: 5px;">2.5-5L</td> <td style="padding: 5px;">5%**</td> </tr> <tr> <td style="padding: 5px;">6-9L</td> <td style="padding: 5px;">10%*</td> <td style="padding: 5px;">5-10L</td> <td style="padding: 5px;">20%</td> </tr> <tr> <td style="padding: 5px;">9-12L</td> <td style="padding: 5px;">15%</td> <td rowspan="3" style="padding: 5px; vertical-align: middle;">10L+ **Tax Rebate u/s 87A upto Rs 5 lakh</td> <td rowspan="3" style="padding: 5px; vertical-align: middle;">30%</td> </tr> <tr> <td style="padding: 5px;">12-15L</td> <td style="padding: 5px;">20%</td> </tr> <tr> <td style="padding: 5px;">15L+</td> <td style="padding: 5px;">30%</td> </tr> </tbody> </table> <p style="font-size: small; margin-top: 10px;">*Tax Rebate u/s 87A upto Rs 7 lakh</p> </div>	New		Old		Income Tax Slab	Tax Rate	Income Tax Slab	Tax Rate	0-3L	0%	0-2.5L	0%	3-6L	5%*	2.5-5L	5%**	6-9L	10%*	5-10L	20%	9-12L	15%	10L+ **Tax Rebate u/s 87A upto Rs 5 lakh	30%	12-15L	20%	15L+	30%
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<p><b>Corporation Tax</b></p>	<ul style="list-style-type: none"> <li>• The <b>corporate tax rate</b> applicable to <b>domestic companies in India is 25%</b>, effective from <b>AY 2024-25</b>.</li> <li>• However, for foreign companies, the <b>corporate tax rate is 35% (previously 40%)</b>.</li> </ul>																												
<p><b>Securities Transaction Tax (STT)</b></p>	<ul style="list-style-type: none"> <li>• With effect from <b>1 October 2024</b>, the <b>Securities Transaction Tax (STT)</b> on futures is <b>proposed to be increased from 0.0125% to 0.02%</b>, and the <b>STT on options</b> has been proposed to be <b>increased from 0.0625% to 0.1%</b>.</li> </ul>																												

**Capital Gains Tax**

## THE NEW CAPITAL GAINS TAX STRUCTURE


Type of asset	Existing tax rates	Proposed tax Rate	Period of holding
Sale of STT paid listed equity shares/units of equity oriented mutual fund	10% (subject to exemption of Rs 1 lakh)	12.5% (subject to exemption of Rs 1.25 lakh)	Holding period for considering long term remains same at 12 months
Immovable Property	20% with indexation	12.5% without indexation	Holding period for considering long term remains same at 24 months
Bonds and Debentures	Listed - 10% without indexation.	Listed bonds and debentures - 12.5% without indexation	Listed Bonds and debentures - Holding period for considering long term remains same at 12 months.
	Unlisted - 20% without indexation.	Unlisted debentures and Bonds - at slab rates and will be considered as short term irrespective of period of holding	Unlisted bonds and debentures - Will be considered as short term irrespective of period of holding


**GST**

### GST Slab Rates, 2024: All You Need To Know

- 0%** Milk, Salt, Jaggery, Lassi, Coconut Water, Prasad, Honey, Fresh Vegetables
- 5%** Coal, Raisins, Agarbatti, Specs, Cashew Nuts, Footwear (< Rs. 500), Apparels (< Rs. 1000), Milk Food for Babies
- 12%** Ghee, Butter, Almonds, Pickles, Processed Food, Jam, Muraba, Chutney
- 18%** Mobiles, Computers, Printers, CCTVs, Staplers, Toothpaste, Ice cream, Cornflakes
- 28%** Luxury cars, Motorbikes, Cigarettes, Sugar, Chewing gum, Cocoa Butter, Refrigerators, Air conditioners

## 7. Enlist revenue authorities in India?

Revenue Authorities	Description
<p><b>CBDT</b></p>	<ul style="list-style-type: none"> <li>• The <b>Central Board of Direct Taxes (CBDT)</b> is a part of the <b>Department of Revenue</b> under the <b>Ministry of Finance</b>.</li> <li>• This body provides <b>inputs for policy and planning of direct taxes in India</b> and is also responsible for <b>administration of direct tax laws through the Income Tax Department</b>.</li> </ul> 
<p><b>CBEC</b></p>	<ul style="list-style-type: none"> <li>• The <b>Central Board of Excise and Customs (CBEC)</b> is also a part of the <b>Department of Revenue</b> under the <b>Ministry of Finance</b>.</li> <li>• It is the <b>nodal national agency</b> responsible for administering customs, <b>central excise duty and service tax</b> in India.</li> </ul>
<p><b>CBIC</b></p>	<ul style="list-style-type: none"> <li>• Under the GST regime, the <b>CBEC</b> has been renamed as the <b>Central Board of Indirect Taxes &amp; Customs (CBIC)</b> post legislative approval.</li> </ul>

	<ul style="list-style-type: none"> <li>• The <b>CBIC</b> would supervise the work of all its field formations and directorates and assist the government in policy making in relation to GST, <b>continuing central excise levy and customs functions.</b></li> </ul> 
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## 8. Enlist key trends of the Indian taxation system?

Trends	Analysis
<p><b>Growth in Tax Compliance</b></p>	<ul style="list-style-type: none"> <li>• In <b>FY12</b>, <b>31 million</b> people paid income taxes.</li> <li>• By <b>FY23</b>, this number <b>doubled to 71 million.</b></li> <li>• <b>Personal income tax rates for the highest</b> income earners have <b>steadily increased.</b></li> <li>• In <b>2015</b>, the rate was <b>33.99 per cent.</b></li> </ul>

	<p><b>TAX</b> <b>MORE TAX COMPLIANCE</b>  <b>MORE PROGRESS</b> <b>Tax Return</b></p> <p><b>TAX</b> <b>TAX</b></p> <p>Record number of Income Tax Returns (ITRs) filed  <b>8.18</b>          CRORE ITRs filed for AY 2023-24*</p> <p>*Till 31st December, 2023</p> <p>₹ <b>14.97</b>  <b>LAKH CRORE</b>          Gross GST collection  <b>12% YOY GROWTH</b>          (APRIL-DECEMBER 2023)</p> <p>% <b>TAX</b></p>
<p><b>Tax to GDP ratio</b></p>	<ul style="list-style-type: none"> <li>• The <b>tax-to-GDP ratio</b> shows <b>how well taxes are collected relative</b> to the economy's size.</li> <li>• In <b>FY23</b>, it fell slightly to <b>11.2 percent</b> from <b>11.5 per cent</b> in <b>FY22</b>.</li> <li>• The revised estimate for <b>FY24</b> is <b>11.6 percent</b>, mainly <b>due to income tax</b>.</li> <li>• For <b>FY25</b>, it's expected to rise to <b>11.7 percent</b>.</li> </ul>
<p><b>Direct vs Indirect taxes</b></p>	<ul style="list-style-type: none"> <li>• The <b>contribution of direct taxes to total tax revenue</b> climbed to <b>56.72 percent</b> in 2023-24, the <b>highest in 14 years</b>.</li> <li>• Since <b>FY22</b>, <b>direct taxes have been higher than indirect taxes</b>.</li> </ul>

- For FY2025, the **direct tax-to-GDP ratio is 6.7 percent**, while the **indirect tax-to-GDP ratio is 5 percent**.

### PLAYING IT SAFE

	FY24 BE (₹ trn)	FY24 RE (₹ trn)	% chg over FY24 BE	FY25 BE (₹ trn)	% chg over FY24 RE	% chg over FY24 BE
Corporation tax	9.23	9.23	0	10.43	13.02	13.02
Personal income tax	9.00	10.22	13.52	11.56	13.07	28.36
Customs duty	2.33	2.19	-6.19	2.31	5.77	-0.77
Union excise duty	3.39	3.04	-10.44	3.19	5.00	-5.96
CGST	8.12	8.12	0	9.18	13.06	13.06
GST cess	1.45	1.45	0	1.50	13.07	13.07
<b>Total tax</b>	<b>33.61</b>	<b>34.37</b>	<b>2.27</b>	<b>38.31</b>	<b>11.45</b>	<b>13.98</b>

CGST: Central goods and services tax; BE: Budget Estimates; RE: Revised Estimates; Individual taxes will not add up to total because small taxes such as service tax have not been included  
Source: Interim Budget for 2024-25

## DIRECT TAX-TO-GDP RATIO AT ALL-TIME HIGH

Fiscal year	Direct tax to GDP ratio		Cost of direct tax collection	
	Tax-GDP ratio (in %)	Collection (in Rs cr)	Expenditure (in Rs cr)	Cost of collection (in %)
2014-15	5.55%	6,95,792	4,101	0.59%
2015-16	5.47%	7,41,945	4,593	0.61%
2016-17	5.53%	8,49,713	5,578	0.66%
2017-18	5.86%	10,02,738	6,087	0.61%
2018-19	6.02%	11,37,718	7,074	0.62%
2019-20	5.23%	10,50,681	6,952	0.66%
2020-21	4.78%	9,47,176	7,223	0.76%
2021-22	5.97%	14,12,422	7,479	0.53%
2022-23	6.11%	16,63,686	8,452	0.51%
2023-24	6.64%	19,60,166	8,634	0.44%



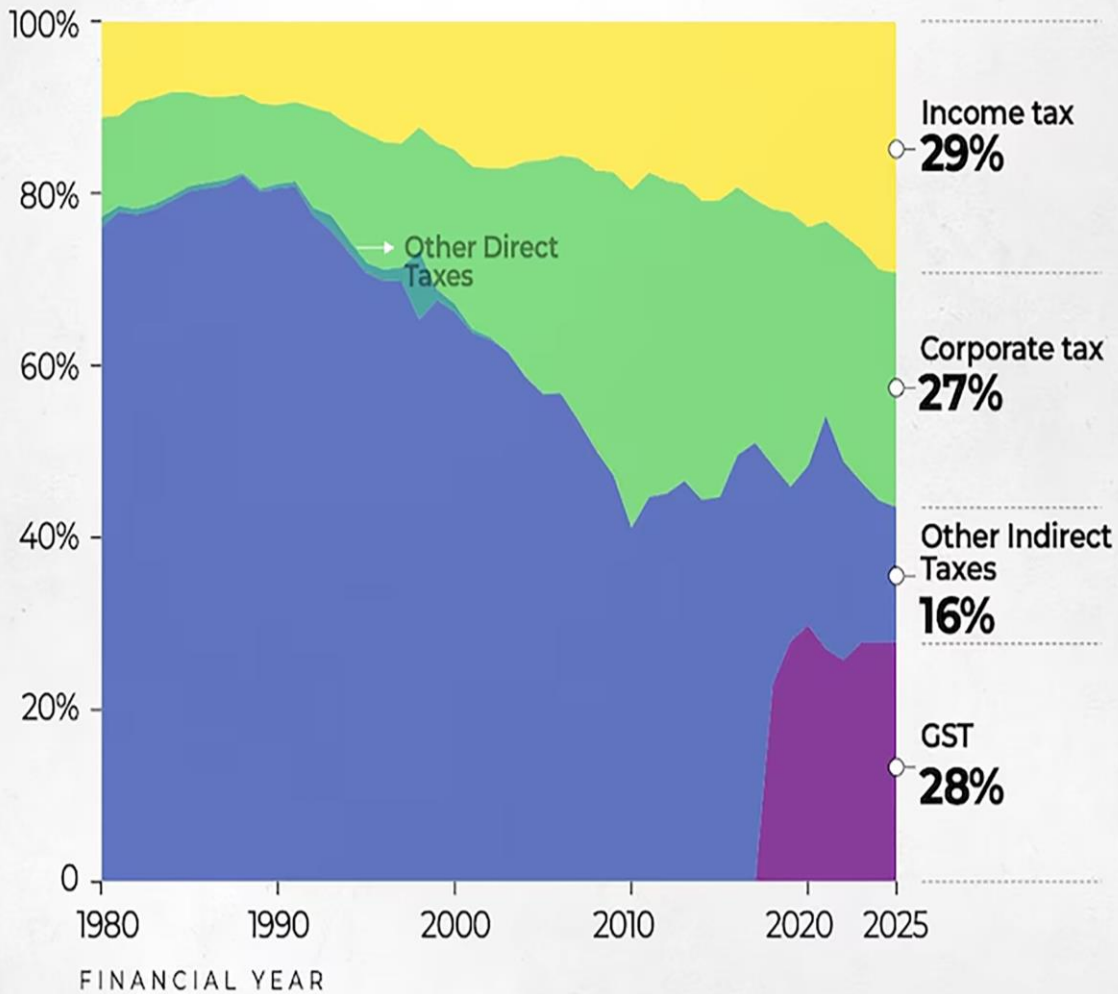
## 9. How has India's tax structure shifted over the years?

- **Tax collection** trends have **changed over the years.**

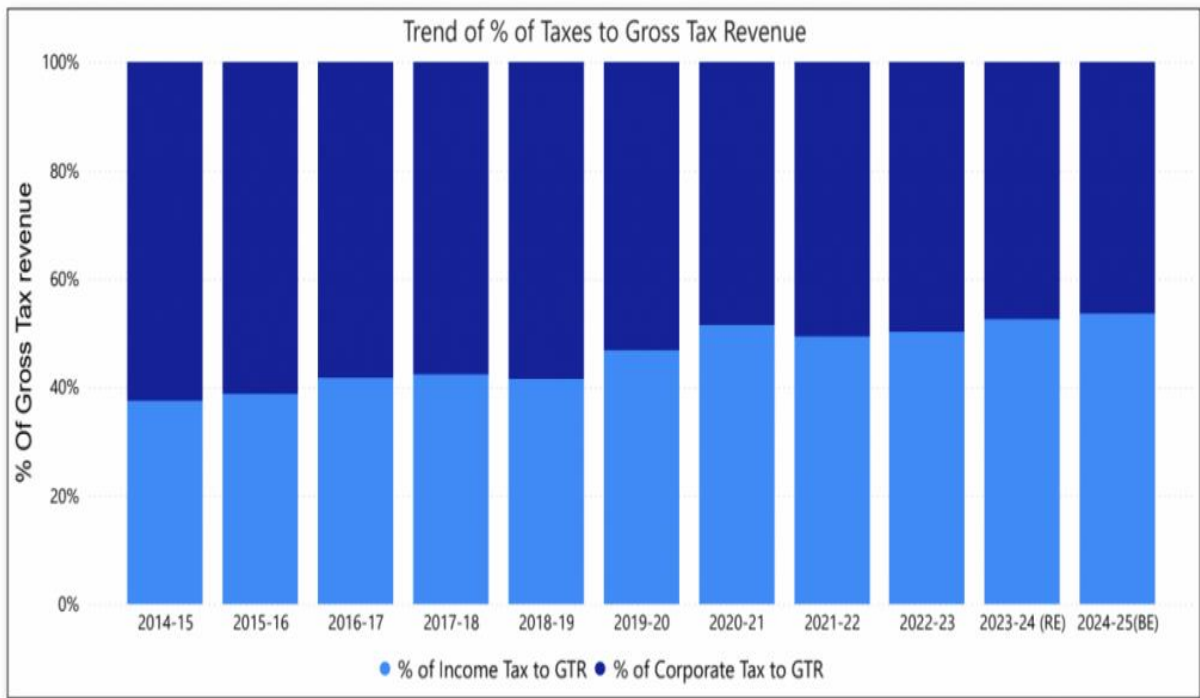
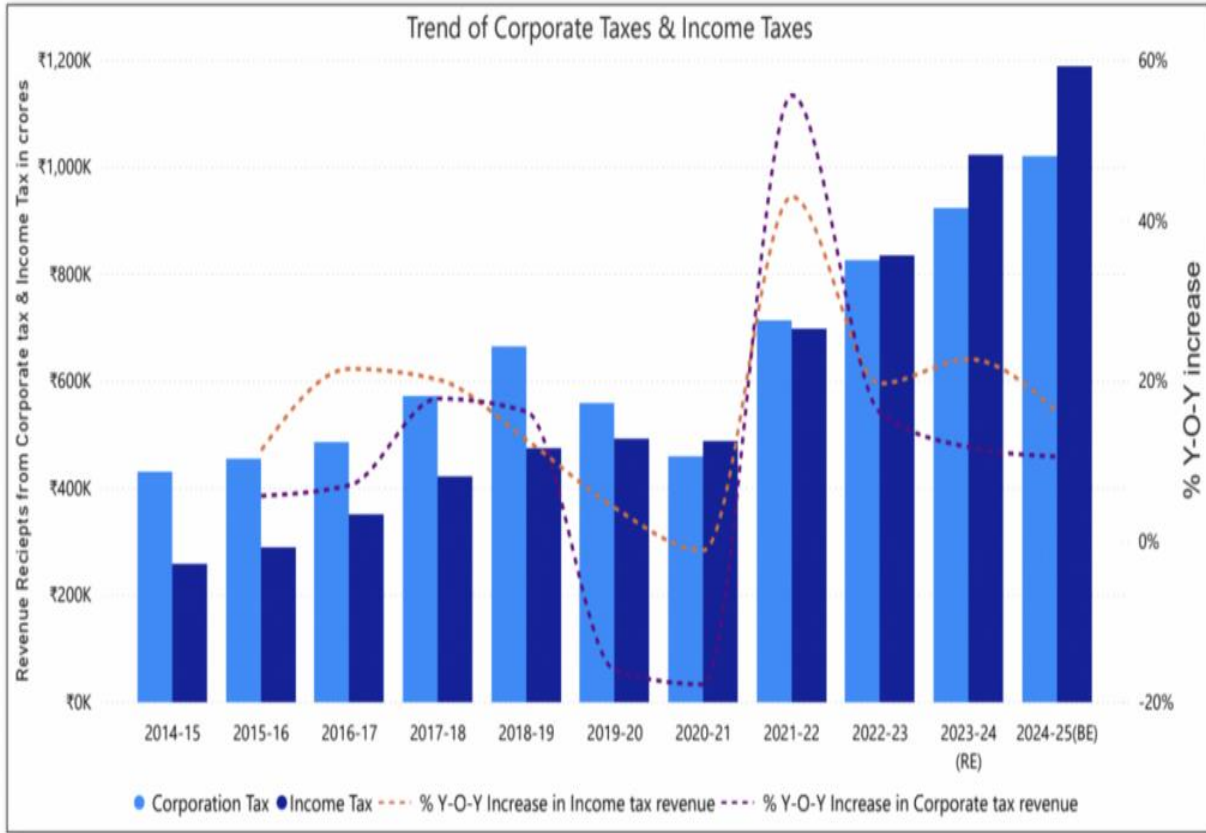
<b>Year</b>	<b>Tax collection</b>
<b>1980</b>	<ul style="list-style-type: none"><li>• For every <b>Rs 100</b> collected, <b>Rs 11</b> came from <b>income tax</b>, <b>Rs 12</b> from <b>corporate tax</b>, Rs 1 from other direct taxes, and Rs 76 from other indirect taxes.</li></ul>
<b>2000</b>	<ul style="list-style-type: none"><li>• For every <b>Rs 100</b> collected, <b>income tax</b> contributed <b>Rs 15</b>, <b>corporate tax</b> <b>Rs 18</b>, other direct taxes Rs 1, and other indirect taxes Rs 66.</li></ul>
<b>2020</b>	<ul style="list-style-type: none"><li>• <b>After GST</b>, the <b>government</b> collected <b>Rs 24</b> from <b>income tax</b>, <b>Rs 28</b> from <b>corporate tax</b>, Rs 30 from GST and the remaining from other taxes.</li></ul>
<b>2025 (Estimated)</b>	<ul style="list-style-type: none"><li>• For every <b>Rs 100</b> collected, <b>Rs 29</b> will come from <b>income tax</b>, <b>Rs 27</b> from <b>corporate tax</b>, <b>Rs 28</b> from <b>GST</b>, and the remaining Rs 16 from other taxes.</li></ul>

**BUDGET 2024**

# How India's Tax Structure Has Shifted Over the Decades



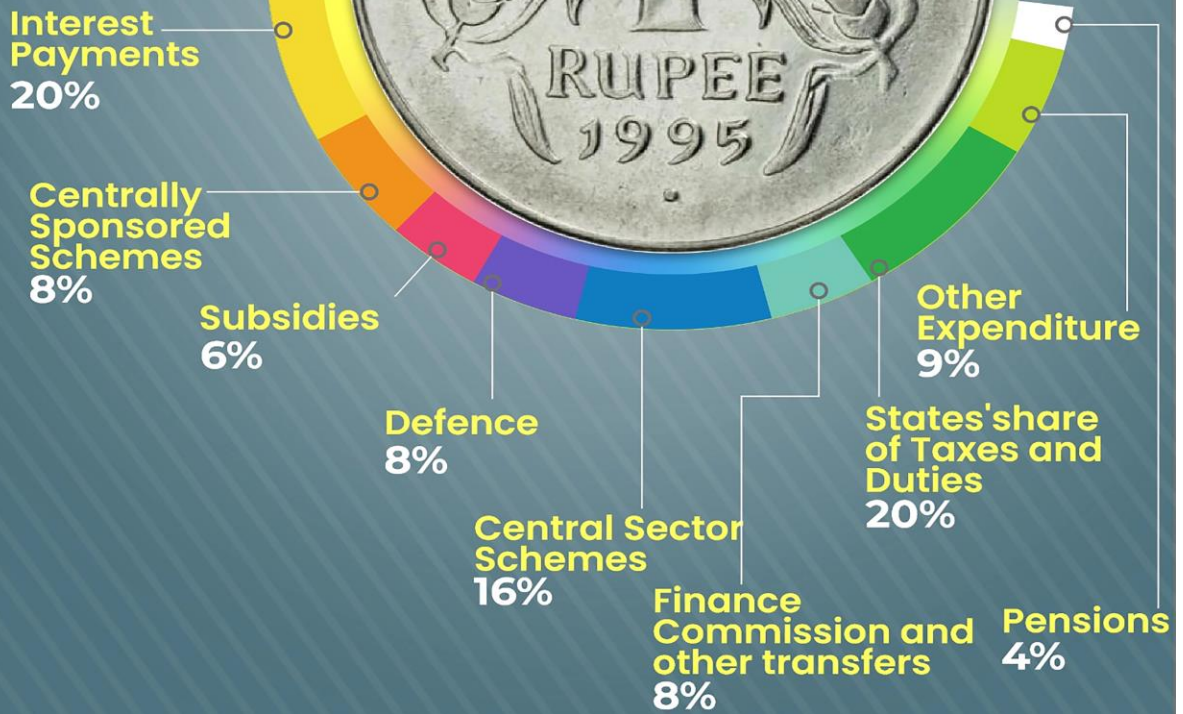
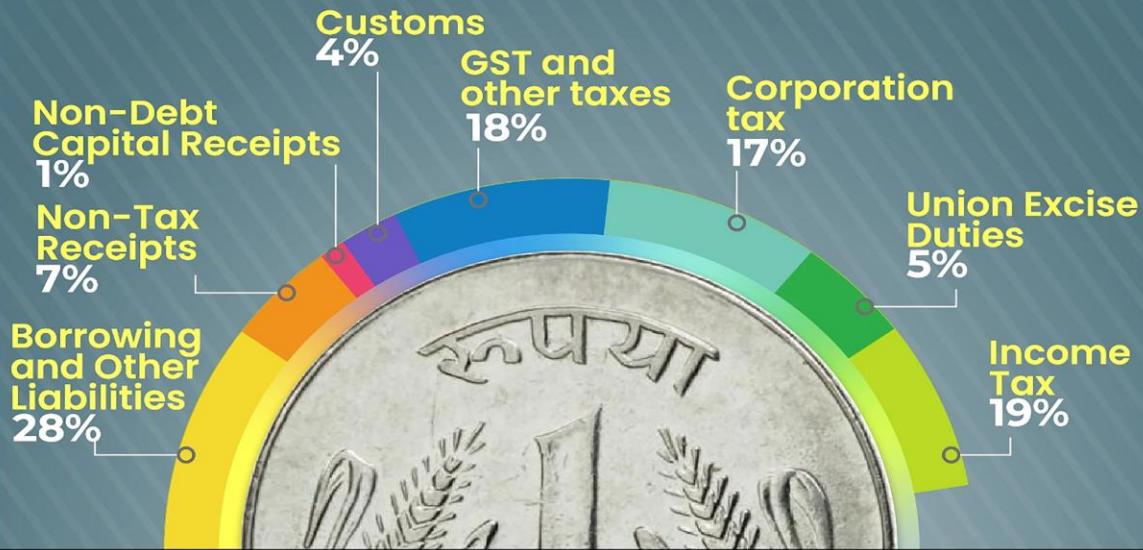
Note: FY 2025 data are Budget Estimates (BE) and FY 2024 are Revised Estimates (RE)





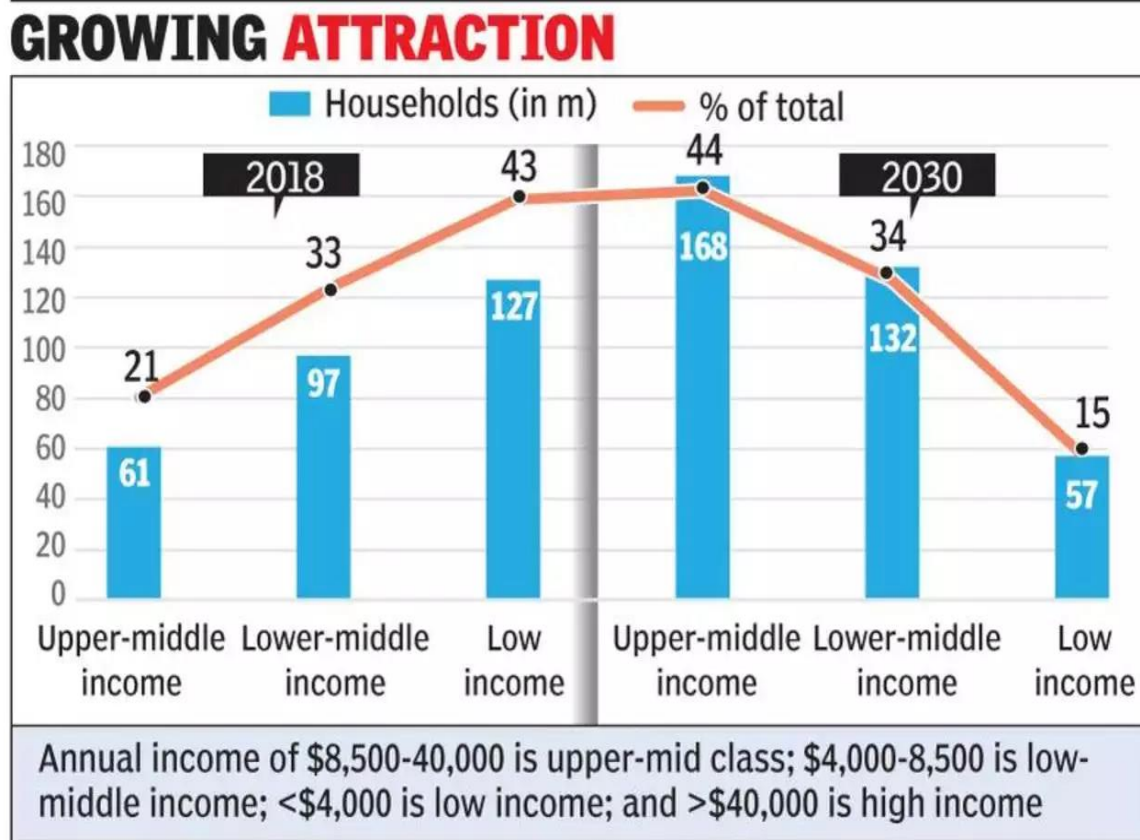
# BUDGET-2024

## Rupee Comes From



## Rupee Goes To

## 10. What is the definition of middle class?



- **Finance Minister Nirmala Sitharaman's** recent comments about the **Indian middle-class** has sparked talk about this **famed category** of people.
- The debate for definition of middle class triggered after **Finance Minister Nirmala Sitharaman recently identified** herself as a **member of the middle-class and understood the pressures it faced.**
- The problem, however, is that there is **no universal definition of the middle-class** not just in terms of **income thresholds**, but **even whether income** should be used as a parameter.
- The **definition of middle class in India** varies by source, but **generally refers to households** with a certain income range:

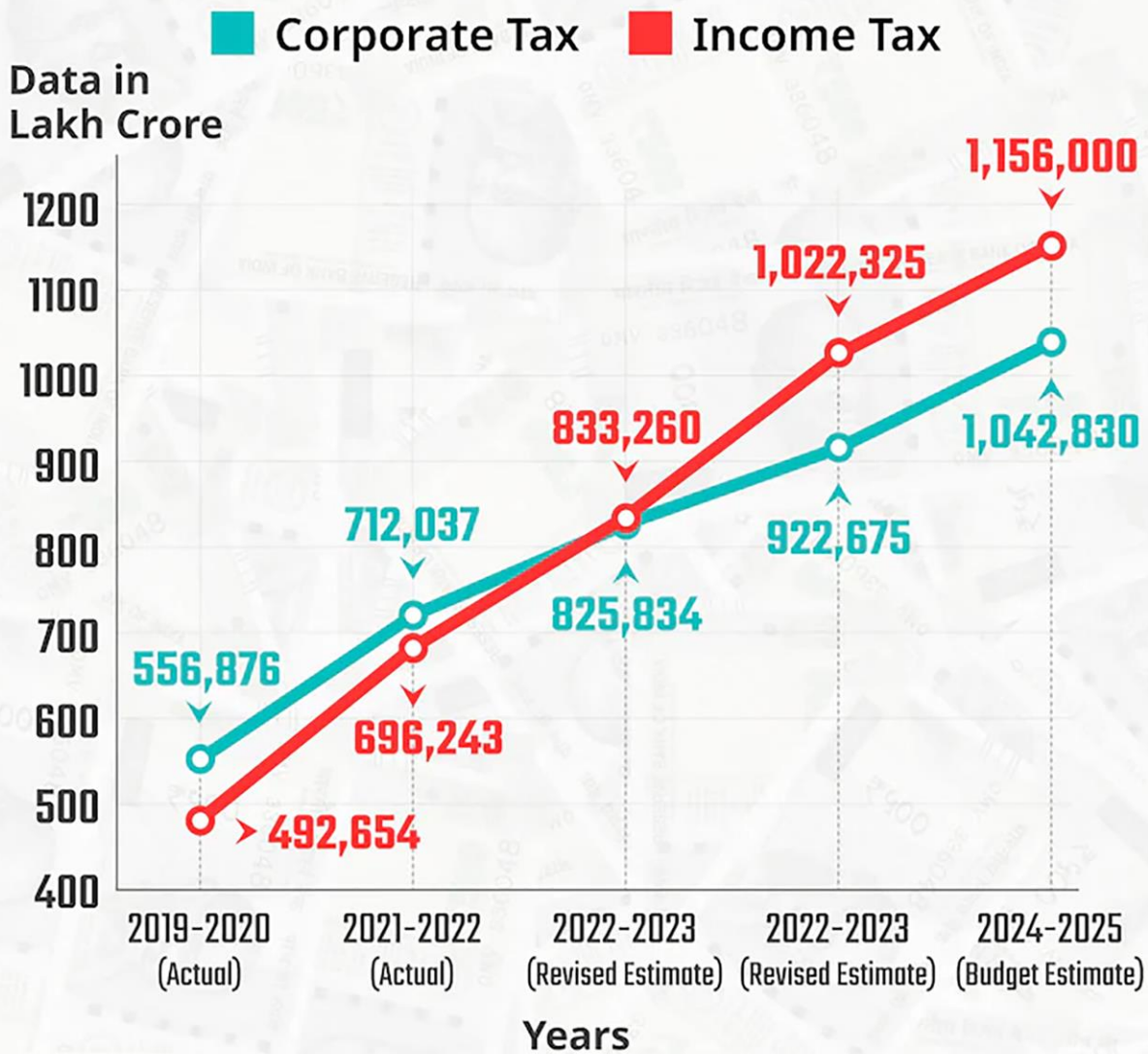
Sources	Definition
Theprint	<ul style="list-style-type: none"> <li>The <b>middle class is defined</b> as households earning between <b>Rs 5 and Rs 10 lakh</b>, with the <b>lower-middle</b> class earning between <b>Rs 2 and Rs 5 lakh</b>, and the <b>upper-middle class</b> earning between <b>Rs 10 and Rs 20 lakh</b>.</li> </ul>
People Research on India's Consumer Economy (PRICE)	<ul style="list-style-type: none"> <li>The <b>middle class is defined</b> as households earning between <b>Rs 5 and Rs 30 lakh</b>.</li> <li><b>PRICE</b> also defines other income categories as <b>affluent (over Rs 30 lakhs annually)</b>, <b>aspiring (Rs 1.25-5 lakhs)</b>, and <b>destitute (below Rs 1.25 lakhs)</b>.</li> </ul>
The National Council of Applied Economic Research (NCAER)	<ul style="list-style-type: none"> <li>The <b>middle class is divided</b> into two categories: seekers with an <b>annual income between Rs. 200,000 and Rs. 500,000</b>, and strivers with an <b>annual income between Rs. 500,000 and Rs. 1000,000</b>.</li> </ul>

## 11. How is the tax system overburdening the middle class in India?

- From **pocketing tax-break profits** to **freezing real wage growth** to **paying less tax** than individuals, **big corporations are getting it all unlike the middle class**, which is seeing little salary hike.

# WHY TAXES ARE MORE PERSONAL IN INDIA

Revenue Receipts (In Rs Crore)





Dimensions	Analysis
<p><b>Freezing of wages hitting consumption</b></p>	<ul style="list-style-type: none"> <li>• <b>Despite 15-year-high profits, the corporates haven't increased wages, which beat inflation growth.</b></li> <li>• <b>Ironically, these are mostly the tax-paying middle-class, who are paying more in taxes than the corporates.</b></li> <li>• <b>India grew at 5.4% in the July-September quarter and the consumption component has been seeing lower growth in the last four-five quarters.</b></li> <li>• <b>The FICCI-Quess Corp report shows that the compounded annual wage growth rate (CAGR) of wages between 2019 and 2023 was between 0.8% and 5.4%.</b></li> </ul>



	<ul style="list-style-type: none"> <li>• <b>Chief Economic Advisor Nageswaran</b> had in early December highlighted how the profitability of <b>Nifty 500 companies</b> as a percentage of the <b>GDP was at a 15-year-high in FY24, at 4.8%</b>, but the staff costs were coming down.</li> </ul>
<p><b>Dramatic increase in direct tax</b></p>	<ul style="list-style-type: none"> <li>• <b>Personal income tax collections</b> have seen a dramatic increase, <b>nearly quadrupling from Rs 2.66 lakh crore in FY15 to Rs 10.45 lakh crore in FY24.</b></li> <li>• This growth has been <b>attributed to improved compliance, the expansion of the formal economy, and enhanced tax administration measures</b>, including the extensive use of technology to monitor and process tax payments.</li> </ul>
<p><b>Corporate profits up, taxes down</b></p>	<ul style="list-style-type: none"> <li>• In <b>2019</b>, the government <b>slashed corporate tax rates</b>, resulting in an <b>annual revenue loss of Rs 1.44 lakh crore.</b></li> <li>• Meanwhile, data from the <b>Economic Survey shows that corporate profits quadrupled between FY20 and FY23.</b></li> <li>• While <b>corporate profits have soared</b>, corporate tax revenues have <b>declined as a percentage of total receipts.</b></li> </ul>
<p><b>The middle-class conundrum</b></p>	<ul style="list-style-type: none"> <li>• <b>Every Budget season, the middle class looks to the government with hopes of tax relief.</b></li> <li>• The <b>middle class pays both income tax on earnings and Goods and Services Tax (GST) on spending.</b></li> </ul>

- Despite **comprising only about 2% of the population**, the **middle class contributes significantly to the country's infrastructure growth and welfare schemes.**

## **COMPARING CHARGES!**



**VS**



### **USA Markets**

- Brokerage
- Exchange charges

### **Indian Markets**

- Brokerage
- STT
- Stamp Duty
- Clearing charges
- SEBI charges
- Exchange transaction fee
- GST + annual maintenance charges

## 12. Why is the Indian Middle Class Suffering?

Office of the State Tax Officer,  
?. Dated: 17.12.2024

### Summons to appear in person and to produce documents

(Issued under the provisions of Section 70 of the Tamil Nadu Goods and Services Tax Act, 2017 and the Central Goods and Services Act, 2017)

To, Notice to Panipuri Vendor

\*\*\*

Whereas, based on the reports received from RazorPay and Phonepe, you have received UPI payments for outward supply of Goods/Services, and the payments received for the years 2021-22, 2022-23 and 2023-24 are as below:

Year	Payments Received
2023-24	Rs. 40,11,019/-

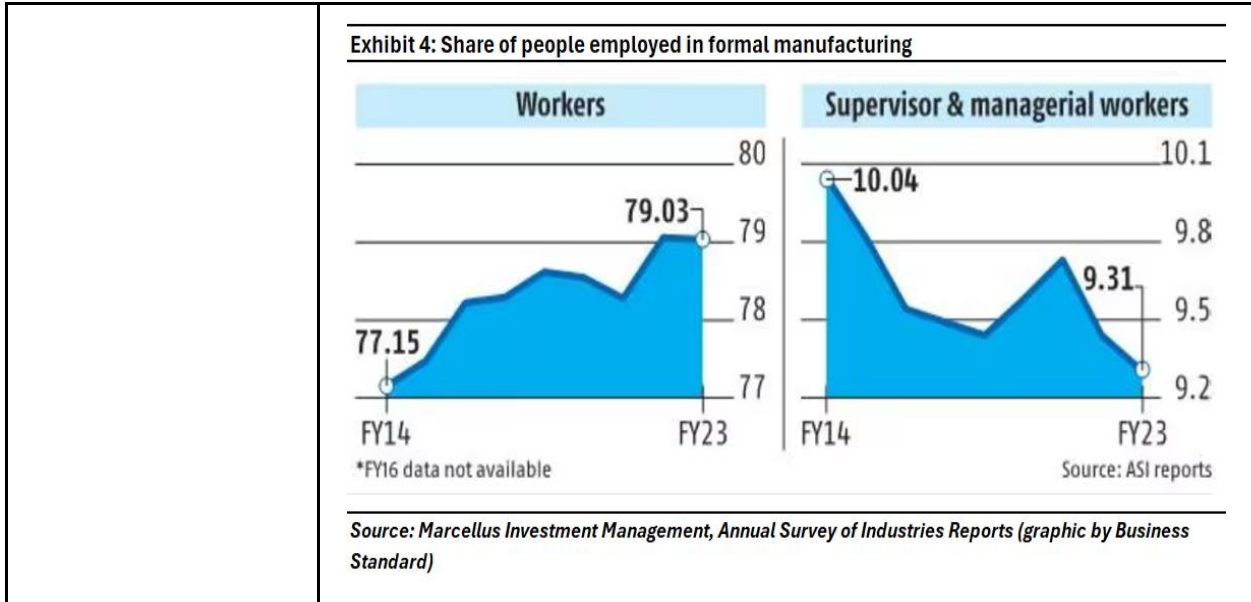
2. Whereas, further analysis shows that you have not registered under the provisions of the TNGST Act, 2017 read with relevant CGST Act, 2017.

3. Whereas the statutory provisions relevant to registration provisions under TNGST/CGST Act, 2017 is shown as below:

*As per subsection (1) of section 22 of the TNGST / CGST Act, 2017, every supplier with aggregate turnover of Rs.20 lakhs in a financial year shall be liable for registration. Further, as per sub-section (2) of section 23 of the TNGST/CGST Act, 2017, the Government, by notification have exempted any person, upto Rs.40 lakhs, who is engaged in exclusive supply of Goods from obtaining registration.*

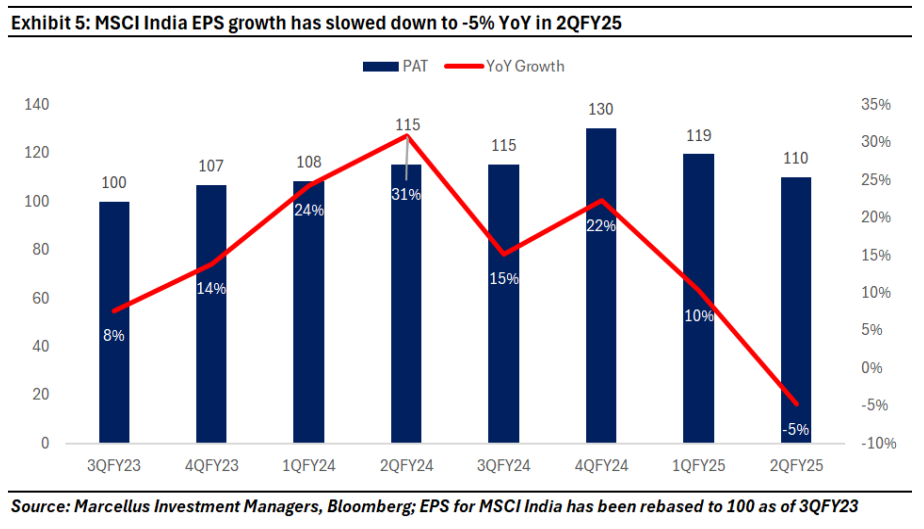
*Furthermore, supplying goods/services without obtaining GST registration even after crossing the threshold limit is an offence, liable to be penalised under section 122(1)(xi) of the TNGST Act, 2017 that extends to Rs.10,000 or 10% of the tax due, whichever is higher.*

Reasons	Analysis																												
<p><b>Technology is replacing human labour in jobs that are routine and repetitive</b></p>	<ul style="list-style-type: none"> <li>• <b>Starting in the 1980s</b>, new technologies appeared to <b>help both low-skilled and high-skilled</b> workers at the same time <b>but workers with middling skills did not appear to benefit at all.</b></li> <li>• In many economies, <b>if you took all the occupations</b> and arranged them in a long line from the <b>lowest-skilled to the highest-skilled</b>, over the <b>last few decades</b> you would have often seen the <b>pay and the share of jobs</b> grow for those at <b>either end of the line</b>, but <b>wither for those near the middle.</b></li> <li>• This phenomenon is known as <b>‘polarization’ or ‘hollowing out’.</b></li> </ul> <p><b>Exhibit 3: Percentage point change in share of total employment [1995-2015]</b></p> <table border="1"> <caption>Estimated data for Exhibit 3: Percentage point change in share of total employment [1995-2015]</caption> <thead> <tr> <th>Region</th> <th>low-skilled</th> <th>middle-skilled</th> <th>high-skilled</th> </tr> </thead> <tbody> <tr> <td>Southern Europe</td> <td>4.5</td> <td>-11.5</td> <td>6.5</td> </tr> <tr> <td>Northern Europe</td> <td>2.5</td> <td>-10.5</td> <td>7.5</td> </tr> <tr> <td>Western Europe</td> <td>2.5</td> <td>-9.5</td> <td>7.5</td> </tr> <tr> <td>Central Europe</td> <td>-1.5</td> <td>-3.5</td> <td>6.0</td> </tr> <tr> <td>North America</td> <td>1.5</td> <td>-6.5</td> <td>5.0</td> </tr> <tr> <td>Japan</td> <td>2.5</td> <td>-5.0</td> <td>2.5</td> </tr> </tbody> </table> <p><i>Source: Marcellus Investment Managers, 'A World Without Work: Technology, Automation, and How We Should Respond' by Daniel Susskind (2020); - Copyrights of the book are exclusively reserved with Author/Publisher of the book.</i></p> <ul style="list-style-type: none"> <li>• If we were to look at the recently published data in the <b>Annual Survey of Industries</b>, the number of <b>supervisors employed in manufacturing units</b> (as a % of all employed) in <b>India has gone down significantly.</b></li> </ul>	Region	low-skilled	middle-skilled	high-skilled	Southern Europe	4.5	-11.5	6.5	Northern Europe	2.5	-10.5	7.5	Western Europe	2.5	-9.5	7.5	Central Europe	-1.5	-3.5	6.0	North America	1.5	-6.5	5.0	Japan	2.5	-5.0	2.5
Region	low-skilled	middle-skilled	high-skilled																										
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**A cyclical downturn, although less worrying, is another factor weighing on middle-class consumption**

- The Indian economy is undergoing a cyclical downturn after three years of bumper economic growth (FY22, 23 & 24) post-Covid.
- The force of this cyclical downturn can be seen in the potency of the slump in corporate earnings.



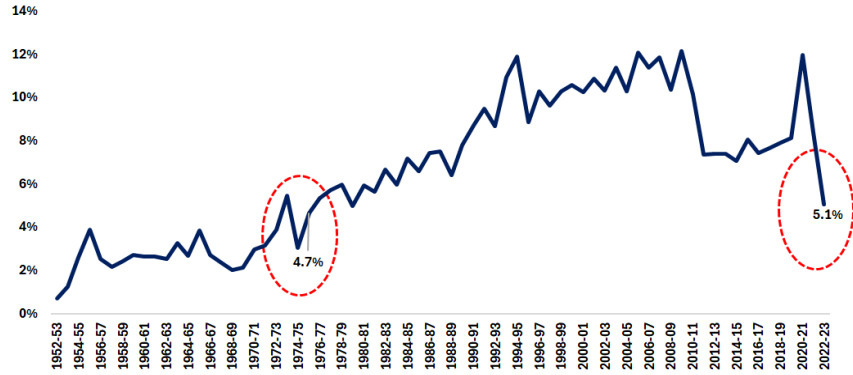
**Net household savings are at the lowest level seen in the last**

- As per RBI data, net household financial savings as a % of GDP are at their lowest since 1976.

**50 years**

- A key point of distinction here, though, is that **gross household saving (as a % of GDP) hasn't fallen that much and is steady at 10-11%** (barring the covid year when it shot up to 16%).

Exhibit 6: Net financial savings (as a % of GDP) for households have dipped down to levels not seen since 1975-76



Source: Marcellus Investment Managers, RBI; underlying net financial savings and GDP figures in Rs. Bn terms; area marked in dotted red circle corresponds to the period in history when net financial savings were lower than where they have reached in 2022-23 (also marked with another dotted red circle)

**3% DIRECT TAXES**

**3% DIRECT TAXES ABOUT**

**CORPORATE COMPANIES IN DIRECT TAXES**

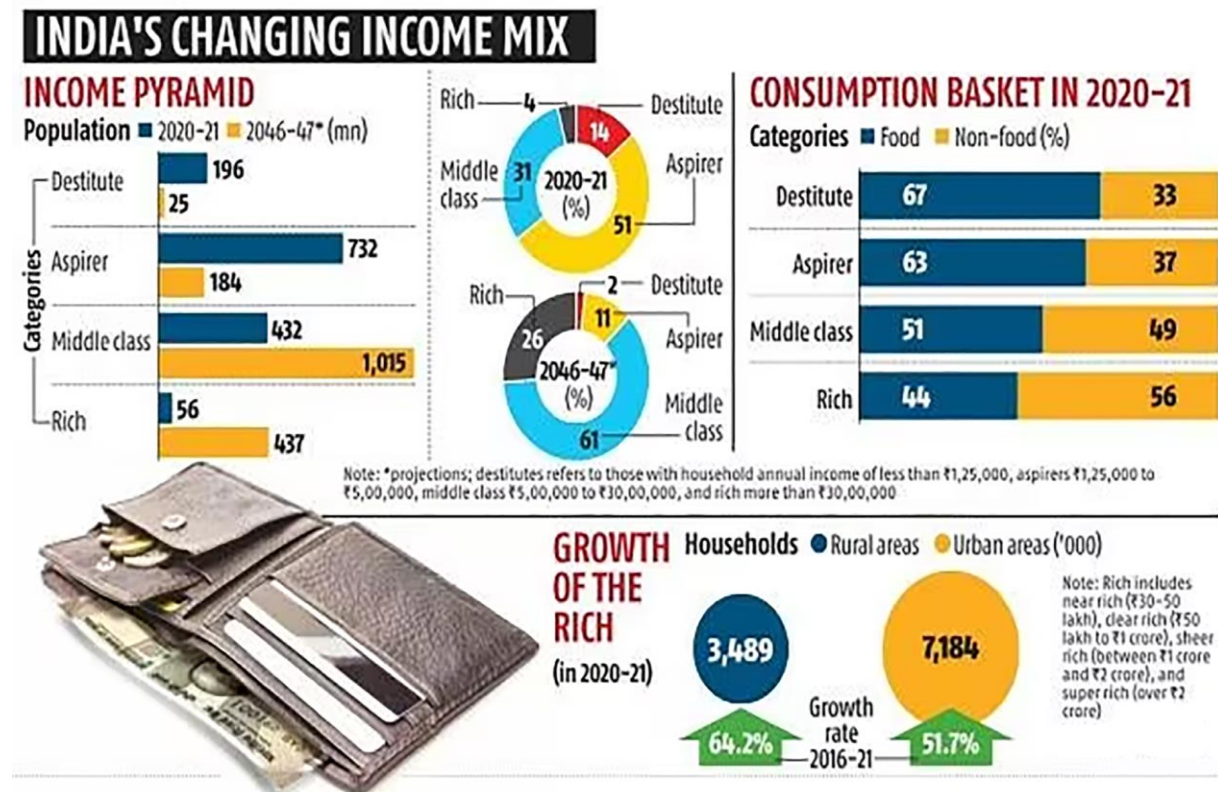
**Act of FRAUD : 3% of India's middle class population is paying more in direct taxes than all the corporate companies in India altogether.**

**DIRECT TAXES**

**Dr Rakesh Varma ex-IAS**

INDIA

### 13. How will the middle class play the hero in India's rise as a world power?

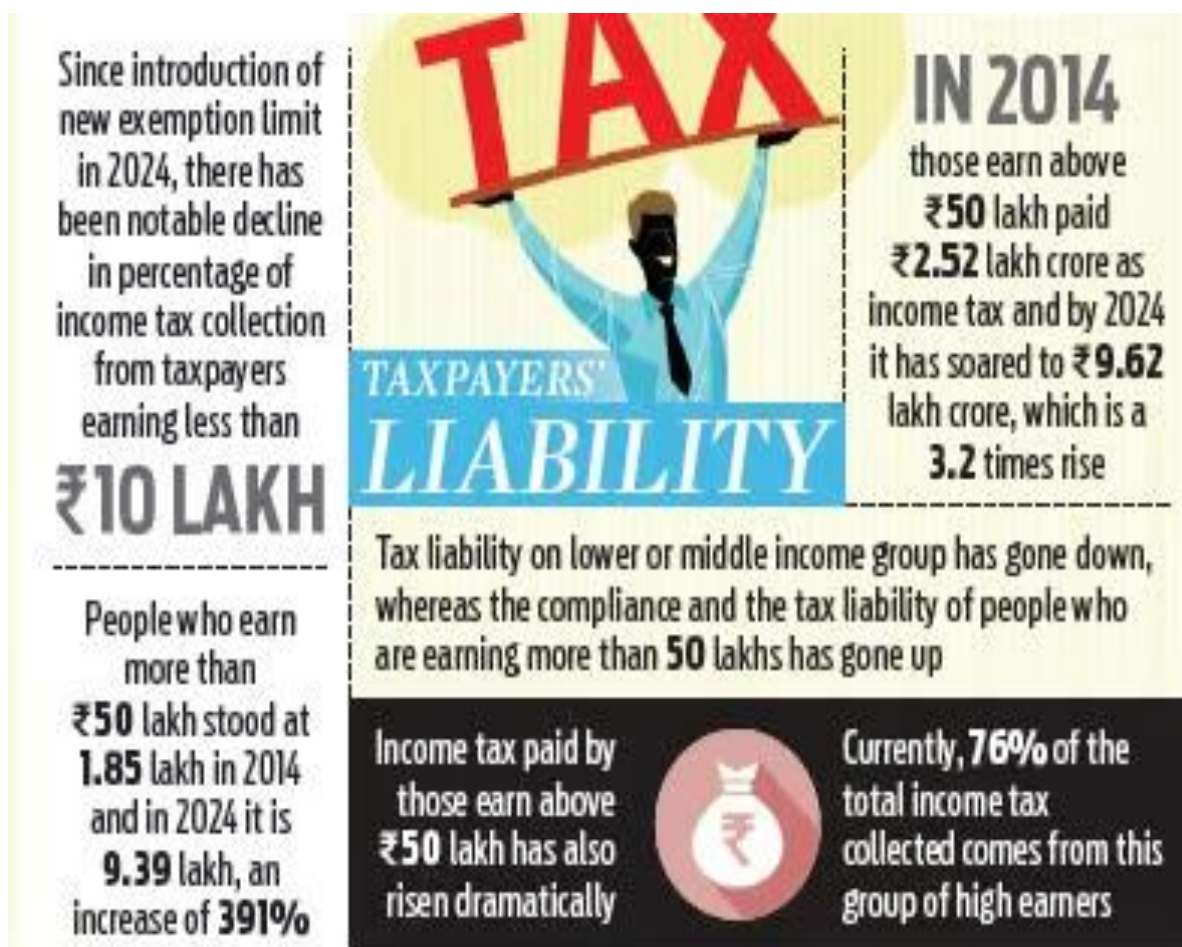


- The **middle class** is the **fastest-growing major segment** of the Indian population in both percentage and absolute terms, **rising at 6.3 percent per year between 1995 and 2021**.
- It now represents **31 percent of the population** and is expected to be **38 percent by 2031 and 60 percent in 2047**.
- The strength of the middle class is **expected to rise from 432 million people in 2020-21 to 715 million (47 per cent) in 2030-31 to 1.02 billion** of India's projected population of **1.66 billion in 2047**
- The **People Research on India's Consumer Economy (PRICE)**, an independent, **not-for-profit think tank** and facts tank, collected primary data in **2014, 2016 and 2021, covering over 40,000 households, both rural and urban from 25 states, for its PRICE ICE 360° surveys**.

- According to the survey, by the **end of this decade the structure of the country's demographics will change from an inverted pyramid, signifying a small rich class and a very large low-income class, to a rudimentary diamond, where a significant part of the low-income class moves up to become part of Middle Class.**

## 14. What is the government's view on the tax burden on the middle class?

- According to government sources **Tax burden on the middle class has come down noticeably over the last 10 years.**
- Since the introduction of the **new exemption limit in 2024**, there has been a **notable decline in the percentage of income tax collection from taxpayers earning less than Rs 10 lakh.**





## 15. Are Indians paying more tax than those in other countries?

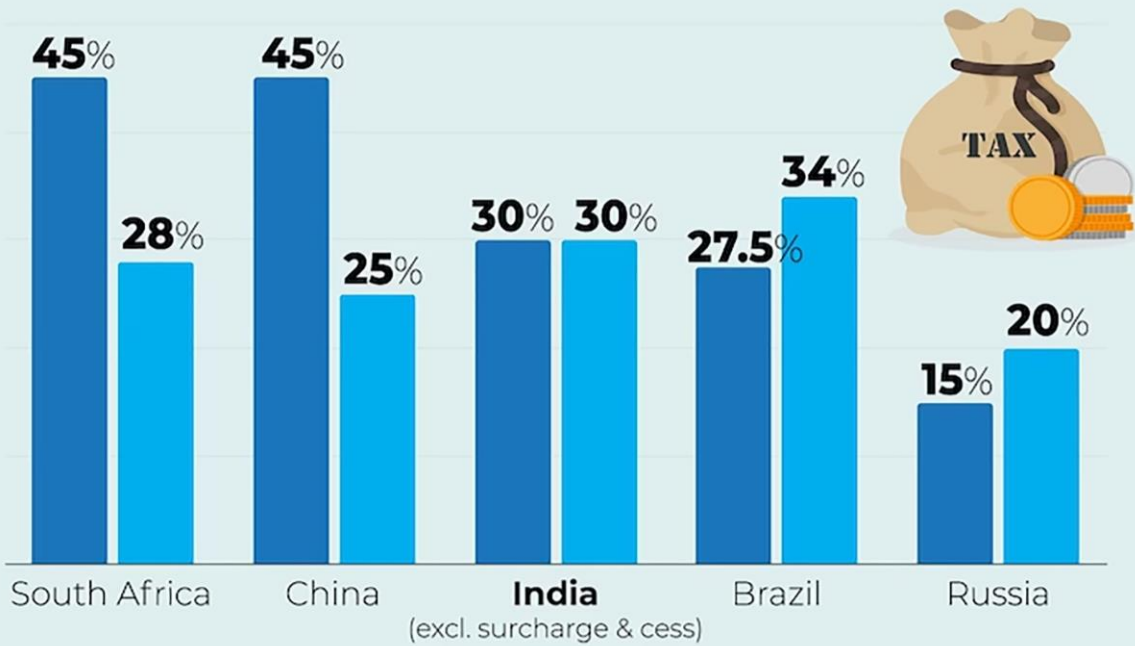
### 1. Comparison of Direct Taxes:

- **15 out of 20 countries** in the intergovernmental forum **G20** have a **maximum personal income tax rate higher than India**.
- On the other hand, **India has the third highest maximum corporate tax rate of 30 percent** among G20 nations.
- **Surcharges can go up to 25 percent** of the tax liability in case of personal tax.
- Among the **five BRICS nations**, **China and South Africa** have a **maximum income tax rate of 45 percent**, much higher than that in India.



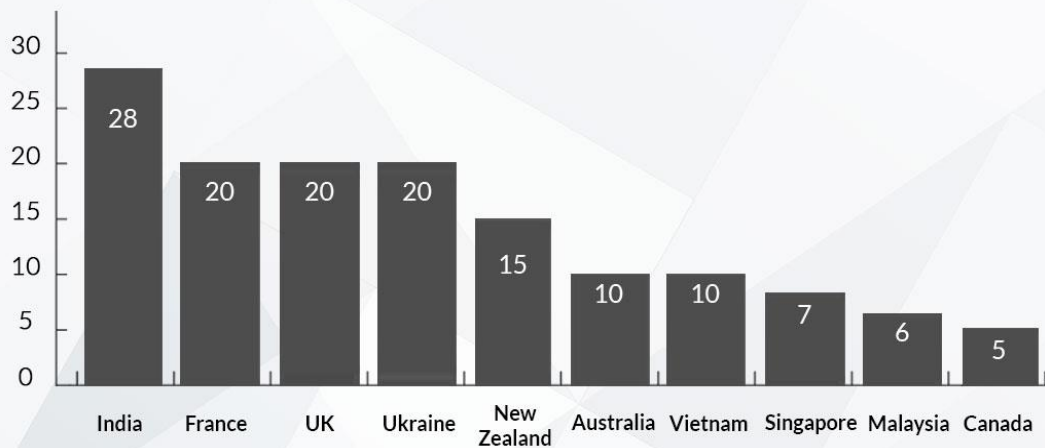
# TAX RATES ACROSS BRICS NATIONS

● MAX. INDIVIDUAL TAX RATE ● MAX. CORPORATE TAX RATE



## 2. Comparison of GST among various nation:

# GST AROUND THE WORLD



- **More than 160 countries** have introduced the **GST taxation scheme**.
- There are about **40 different models of GST running through different economies** and include various rules and regulations.

Countries	Analysis
<b>GST Singapore Vs. GST India</b>	<ul style="list-style-type: none"> <li>• <b>In 1994, the Singapore government</b> introduced GST in the country at the <b>rate of 3 percent</b>, the <b>lowest GST in the market</b>.</li> <li>• However, the <b>country increased the GST rate in 2007 to 7 percent</b>.</li> </ul>
<b>GST New Zealand Vs. GST India</b>	<ul style="list-style-type: none"> <li>• In <b>1986, the country first implemented GST</b>, and it <b>levied taxes on every single item at the rate of 10 percent</b>.</li> <li>• In <b>2010, the government increased the tax slab of GST to 15 percent</b> applicable to every purchase.</li> <li>• However, there is <b>no GST on financial services and residential rent</b>.</li> </ul>
<b>GST China Vs. GST India</b>	<ul style="list-style-type: none"> <li>• In <b>China, GST is charged on goods</b>, and the <b>conditioned provision of repairs and replacement assisted services</b>.</li> <li>• It means <b>GST in China is collected on manufacturing</b>.</li> <li>• Other <b>fixed asset goods and services are not considered under recoverable items</b>.</li> <li>• In <b>China, the three tax slabs are - 0%, 5% and 19%</b>.</li> </ul>

<p><b>GST Australia Vs. GST India</b></p>	<ul style="list-style-type: none"><li>• The <b>federal taxation system</b> is one where tax is collected by the <b>supreme authority and further divided between the states</b> systematically without conflict.</li><li>• The <b>first GST in Australia</b> was <b>introduced</b> in the year <b>2000</b> at a rate of <b>10 per cent</b>, and this rate is still applicable in the country.</li></ul>
<p><b>GST UK Vs. GST India</b></p>	<ul style="list-style-type: none"><li>• There are <b>three tax rate slabs in the UK</b> - <b>0%, 5%, and 20%</b>.</li><li>• Many <b>goods and services</b> come under the tax slab of <b>20%</b>.</li><li>• However, <b>property, postage stamps, food items, and children's clothing</b> are exempt from GST.</li></ul>

**16. Enlist measures to make the tax system efficient and effective?**



- To make the **tax system more efficient, equitable, and growth-oriented**, various reforms have been suggested.
- Some of them are listed below:

Reforms	Analysis
<p><b>Simplifying tax slabs and reducing rates</b></p>	<ul style="list-style-type: none"> <li>• A <b>key aspect of the income tax reform</b> is the <b>potential simplification</b> of tax brackets and <b>reduction of tax rates</b>.</li> <li>• India's <b>current income tax system</b>, with its numerous exemptions, <b>deductions and rebates</b>, can often be complex and <b>inefficient</b>.</li> <li>• To address this, the <b>government is exploring proposals to consolidate the number of income tax</b> brackets, making the system more straightforward.</li> </ul>
<p><b>Expanding the tax base</b></p>	<ul style="list-style-type: none"> <li>• <b>PM Modi has consistently urged more citizens</b> to come forward and pay taxes.</li> <li>• Over the past decade, the <b>government has introduced</b> various initiatives to <b>encourage tax compliance and broaden the tax net</b>.</li> <li>• <b>India has historically faced the challenge of a narrow tax base</b>, with a significant portion of the population remaining outside the formal tax system.</li> <li>• The government is also prioritising the <b>expansion of digital payments</b> and the <b>formalisation of the informal economy</b>.</li> </ul>
<p><b>Balancing revenue generation and taxpayer relief</b></p>	<ul style="list-style-type: none"> <li>• While these reforms are <b>anticipated to benefit taxpayers</b>, particularly those in the middle-income bracket, the <b>Finance Ministry should also ensure sustained tax revenue</b>.</li> </ul>

	<ul style="list-style-type: none"> <li>• <b>Striking a balance between taxpayer relief and adequate revenue generation</b> is essential to maintain government spending on vital sectors such as infrastructure, healthcare and social welfare programmes</li> </ul>
<b>Digital Transformation</b>	<ul style="list-style-type: none"> <li>• <b>Encouraging e-filing and digital payment options</b> simplifies the process for taxpayers and <b>reduces paperwork.</b></li> <li>• Implementing <b>real-time data</b> sharing across departments can help <b>detect tax frauds and improve compliance.</b></li> </ul>

## 17. What are the expectations from the Budget 2025?

- **Taxpayers and businesses** are eagerly waiting for **new reforms** in the **upcoming Union budget** that will **propel India’s economic trajectory.**
- Here are some of the suggestions:

<b>Suggestions</b>	<b>Analysis</b>
<b>Tax exemption limit</b>	<ul style="list-style-type: none"> <li>• Raising the basic exemption limit in the new tax regime, from <b>Rs 3 lakh to Rs 5 lakh while reducing tax rates</b> to provide relief to common taxpayers.</li> </ul>
<b>To restore the earlier tax rates on Capital Gains</b>	<ul style="list-style-type: none"> <li>• The <b>Association of Mutual Fund of India (AMFI)</b> requested that <b>Capital gains on redemption of Units of Debt</b> oriented mutual funds held for <b>more than 1 year should be taxed at the rate of 12.5%</b>, as applicable in respect of listed bonds.</li> </ul>

<p><b>Digital assets</b></p>	<ul style="list-style-type: none"> <li>• Providing <b>more specific guidelines</b> on the taxation of <b>digital assets</b> such as <b>cryptocurrency and non-fungible tokens (NFT)</b>.</li> <li>• It should also provide a provision for <b>treating losses in digital assets</b>.</li> </ul>
<p><b>All Mutual Funds should be allowed to launch pension-oriented MF schemes (MFLRS) with Uniform Tax Treatment as NPS</b></p>	<ul style="list-style-type: none"> <li>• <b>All SEBI registered Mutual Funds</b> should be allowed to <b>launch pension-oriented MF schemes</b>, namely, ‘<b>Mutual Fund Linked Retirement Scheme</b>’ (MFLRS), with similar tax benefits as applicable to NPS under <b>Sec. 80CCD (1) &amp; 80CCD (1B) of Income Tax Act, 1961</b>, with <b>Exempt-Exempt-Exempt (E-E-E) status</b> on the principle of similar tax treatment for similar products.</li> </ul>

## 18. What is the relevance of the topic for UPSC CSE?

- **For Prelims:** Income Tax, Direct Taxes, Indirect Taxes, GST.
- **For Mains:** Reforms, Issues and Challenges in the Taxation system in India, Budget 2024.

### Some previous years prelims questions.

- Q1. Which one of the following effects of creation of black money in India has been the main cause of worry to the Government of India? (2021)
- (a) Diversion of resources to the purchase of real estate and investment in luxury housing.
  - (b) Investment in unproductive activities and purchase of precious stones, jewellery, gold, etc.

- (c) Large donations to political parties and growth of regionalism.
- (d) Loss of revenue to the State Exchequer due to tax evasion.

**Ans: (d)**

### **Some previous years mains questions.**

- Distinguish between Capital Budget and Revenue Budget. Explain the components of both these Budgets.(2021)
- Explain the rationale behind the Goods and Services Tax (Compensation to States) Act of 2017. How has COVID-19 impacted the GST compensation fund and created new federal tensions?(2020)
- The public expenditure management is a challenge to the government of India in the context of budget-making during the post-liberalization period. Clarify it.(2019)
- What is the meaning of the term ‘tax expenditure’? Taking the housing sector as an example, discuss how it influences the budgetary policies of the government. (2013)

### **Some questions from this year and previous years interview transcripts.**

#### **Board Suman Sharma mam:**

- Why Temple Tax is an issue in Karnataka.
- Should we tax temples?

#### **Board Suman Sharma mam:**

- What is the difference between duty, cess, surcharge?
- Those who pay income tax, also pay GST on consumption of goods and services.
- So isn't it charging twice for their income?



## Board Dinesh Dasa sir:

- Should we reduce income tax and increase corporate tax?
- Impact of the same on the economy?
- Do we need to rationalise gst with fewer slots?

## Board Sanjay Verma sir:

- What is under filing?
- How would you calculate the tax base?
- How to increase the tax base?
- How would you know tax evasion is going on from a broader perspective?
- What is the difference between the resident and non resident assessee?
- Is there anything called non ordinarily resident in case of income tax?
- Tell me how tax evasion is going on especially in the case of the day diamond industry and how you would find out?

## Board Sanjay Verma sir:

- Which do you support more direct tax or indirect tax?
- So you oppose the corporate tax cut by the government?

## Some questions for QUIZ.

Q1. Consider the following taxes:

1. Income tax
2. Capital gains tax
3. Securities transaction tax
4. Stamp duty
5. Corporation tax

How many of the above comes under direct taxes?

- (a) Only two
- (b) Only three
- (c) Only four
- (d) All five

**Ans: (c)**

### **Some questions for POLL**

Q1. Do you think that the middle class in India is under the burden of tax?

- (a) YES
- (b) NO
- (c) Can't say.

Q2. Do you think that indirect taxes should be abolished?

- (a) YES
- (b) NO
- (c) Can't say.

