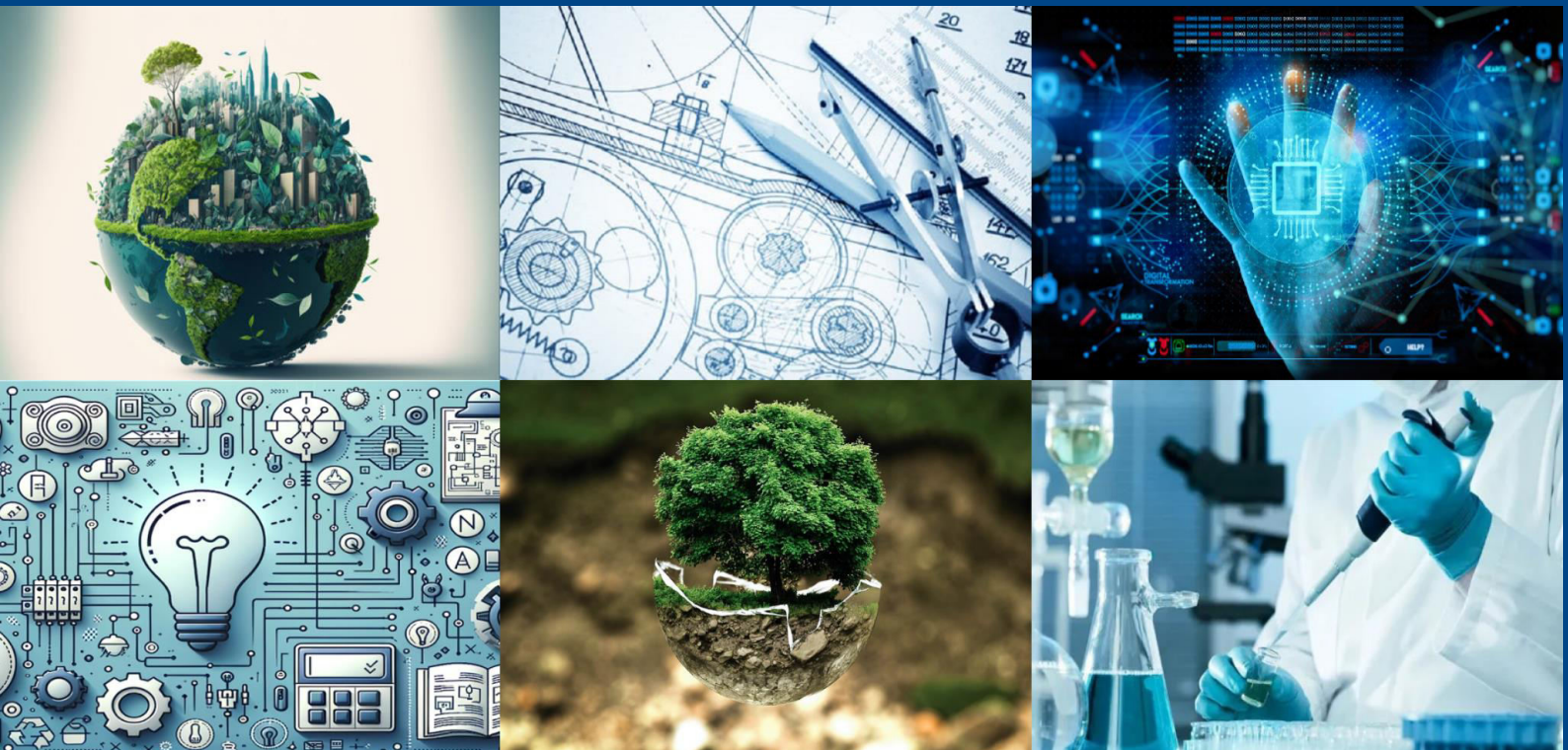




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Analysis of the Impact of Tax Slabs of the Indian Government on Individuals

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ABSTRACT: The focus of this research paper is to show how tax slabs in India leave an imprint on people's finances. The research investigates the evolution of income tax slabs and their impact on consumption, savings, and disposable income across the population. It looks at how administrative changes such as new tax structures, new taxes, rebates, or preemptions shift the taxpayers' behavior. The present research combines qualitative and quantitative approaches using the relevant contextual evidence from official documents, studies, and conversations, to demonstrate the Indian taxation system and its effects on individual taxpayers.

I. INTRODUCTION

Overview Since its foundation, India's income tax system has undergone multiple adjustments; the current framework is intended to encourage economic growth and promote justice. An essential component of this system is the income tax slabs, which establish the tax rates for individuals according to their income levels. To combat inflation, encourage spending, and meet taxpayers' demands at different income levels, the Indian government, acting through the Ministry of Finance, periodically modifies these slabs. This study examines how different tax slabs affect people, considering variables including disposable income, spending patterns, long-term financial stability, and savings. The impact of tax policy—specifically, the income tax slab system—on the economic choices made by individual taxpayers is examined in greater detail.

RESEARCH QUESTIONS

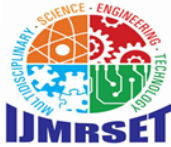
- In what ways do adjustments to income tax brackets impact people from different income levels?
- What are the financial implications of tax regulations on savings, spending, and investment behavior?
- How do tax brackets affect individuals' choices regarding income declaration or tax evasion?

II. LITERATURE REVIEW

1. Overview of Global Tax Systems and Slab Effects: A summary of tax brackets in various nations, including the U.S., U.K., and the European Union, alongside comparisons to India's taxation structure.
2. Influence on Wealth Distribution: An examination of research that investigates how progressive tax systems (tax slabs) can affect the distribution of wealth and levels of inequality.
3. Response to Tax Rate Changes: A review of literature discussing how variations in tax rates influence individual behaviors such as spending, saving, and income reporting.
4. Context of India: An investigation into current research on India's tax slabs, reflecting on the periods before and after the implementation of the 2017 GST regime, as well as adjustments made under different finance ministers.

III. METHODOLOGY

- Data Sources: This study utilizes government reports, personal income tax records, surveys conducted by tax authorities, and secondary data obtained from academic journals.
- Approach: The research employs a combination of qualitative and quantitative methodologies
- Quantitative: An examination of the effects of tax brackets on disposable income among various income groups, utilizing statistical techniques such as regression analysis.
- Qualitative: Conducting comprehensive interviews or surveys with individuals from diverse income levels to gain insights into the personal effects of tax brackets on their lifestyle and financial choices.



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INCOME TAX SLABS IN INDIA:

AN OVERVIEW

The income tax slabs in India are designed with a progressive structure. Established under the Income Tax Act of 1961, these provisions apply to individuals, Hindu Undivided Families (HUFs), and various other taxpayers, depending on their income levels. The tax rates are organized into different income categories, with higher rates imposed on those in the upper-income brackets. Over time, these slabs have been revised to account for inflation, and various measures such as deductions, exemptions, and rebates have been implemented to alleviate the tax burden on taxpayers.

▪ Current Tax Slabs (as of 2024)

1. For individuals under 60 years of age:

- Up to ₹2.5 lakh: No tax
- ₹2.5 lakh to ₹5 lakh: 5%
- ₹5 lakh to ₹10 lakh: 20%
- Above ₹10 lakh: 30%

2. For senior citizens (aged 60 to 80 years):

- Up to ₹3 lakh: No tax
- ₹3 lakh to ₹5 lakh: 5%
- ₹5 lakh to ₹10 lakh: 20%
- Above ₹10 lakh: 30%

3. For super senior citizens (aged above 80 years):

- Up to ₹5 lakh: No tax
- ₹5 lakh to ₹10 lakh: 20%
- Above ₹10 lakh: 30%

Furthermore, the government has introduced a new tax regime that features reduced tax rates while removing most exemptions and deductions, allowing taxpayers the choice between the traditional and new tax frameworks.

IV. ANALYSIS OF IMPACT

Low-Income Category (below ₹5 lakh): Groups with Low Incomes Because of the Section 87A rebate (up to ₹12,500), the tax burden is modest for those making less than ₹5 lakh. For these people, the effective tax rate is therefore zero. As a result, the tax system helps the most vulnerable, lowering economic disparity.

Middle-Income Category (₹5-₹10 lakh): Groups with Middle Incomes A 20% tax rate applies to anybody making between ₹5 lakh and ₹10 lakh. They do, however, enjoy several exclusions and deductions that might lower their taxable income. These people have a moderate tax burden; hence they frequently invest in tax-saving plans like PPF, NPS, and insurance to reduce their tax obligations.

High-Income Category (above ₹10 lakh): Groups with High-Income People who make more than ₹10 lakh are subject to the highest tax rate of 30%. Additionally, high-income groups are more inclined to use tax-saving tools and make investments that qualify for deductions to maximize their tax payments.

V. BEHAVIORAL AND ECONOMIC IMPLICATIONS OF TAX SLABS

The Economic and Behavioral Consequences of Tax Slabs Rewards for Savings Those with middle-class and upper-class incomes are more likely to invest in tax-benefitting savings products (such as PPF, NPS, and insurance). Long-term savings are encouraged by this, which may raise national savings rates overall. Avoidance and Evasion of Taxes Rich people frequently use tax evasion or avoidance tactics, such as concealing their money in foreign accounts, utilizing intricate legal Arrangements, and utilizing deductions to lower their taxable income. Effect on Consumption Reduced disposable income due to higher tax rates may result in less consumption. On the other hand, this might motivate people to increase their long-term savings, which would increase investments in real estate, infrastructure, and equities markets.



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- **Regional Disparities in Tax Burden**

Differences in Tax Burden by Region Although India's income tax system is the same throughout the country, there are regional discrepancies because of variations in economic activity, income levels, and tax compliance rates. Higher salaries are typical in major cities like Bengaluru, Mumbai, and Delhi, which increases tax revenue. A smaller segment of the population in rural areas bears a disproportionate amount of the tax burden due to lower income levels and lower tax compliance rates.

PROBLEMS WITH THE PRESENT TAX SYSTEM

- **Complexity and Lack of Transparency:** Taxpayers find it challenging to navigate the system because of its complexity, which includes several exclusions and rebates. Confusion, mistakes, and a greater need for tax experts may result from this.
- **Unequal profit from Deductions:** While low-income groups do not fully utilize these provisions, high-income individuals disproportionately profit from deductions since they have a greater capacity to engage in tax-saving mechanisms.
- **Tax Evasion:** Tax evasion is encouraged by a high tax burden on the wealthy, particularly when there are weak enforcement measures in place.

RECOMMENDATIONS FOR REFORM

1. **Smooth the Tax Code:** Minimizing the number of deductions and exemptions while implementing a clearer, more straightforward system could simplify compliance and decrease mistakes.
2. **Equitable and Progressive Taxation:** Re-evaluating the establishment of a more progressive approach for individuals with higher incomes might promote fairness while still fostering wealth generation.
3. **Promoting Investment in Rural Areas:** Offering targeted tax incentives for investments in rural and underdeveloped regions could help mitigate regional inequalities.
4. **Enhancing Enforcement:** Supporting the methods for tax collection and enforcement would reduce tax evasion and boost overall compliance.

VI. CONCLUSION

Higher-income people pay a larger proportion of their income in taxes under the Indian tax system's progressive income tax slabs, which aim to maintain tax equity. The system still has difficulties with complexity, geographical inequities, and tax evasion, even while it helps lower-income groups and promotes savings and investments. The tax system might become more egalitarian and efficient by addressing regional inequities, streamlining the law, and reforming the tax slabs. This would ultimately lead to more balanced economic growth.

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