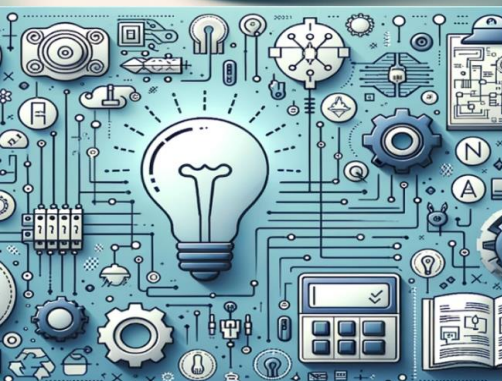# International Journal of Multidisciplinary

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A Perceptual Study on the Indian Tax Policy and its Implications

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ABSTRACT: This study examines India's taxation framework and its impact on economic inequality using a mixed-methods approach. Survey data from 80 respondents reveals that 69.6% believe tax policies disproportionately burden lower-income groups, while 65.8% perceive tax incentives as primarily benefiting the wealthy. Key concerns include tax complexity, inequitable burden distribution, and regressive impacts of indirect taxation. The research identifies critical areas for policy reform to create a more inclusive taxation framework that effectively addresses wealth redistribution challenges in India.

I. INTRODUCTION

Taxation serves as a primary instrument for wealth redistribution and economic development in modern economies, yet its effectiveness depends significantly on both structural design and public perception. In India, a country marked by stark economic disparities, the taxation system faces the dual challenge of generating sufficient revenue while promoting equitable distribution of resources. Despite progressive reforms in recent decades, questions persist about whether the current framework adequately addresses economic inequality or potentially reinforces existing disparities.

India's taxation landscape presents a complex interplay between direct taxes (income tax, corporate tax) designed with progressive elements and indirect taxes (particularly the Goods and Services Tax) that often impact consumption more broadly across economic segments. This dichotomy creates a tension between revenue generation objectives and wealth redistribution goals that merits detailed examination. While official policies may aim for economic equity, public perception and lived experiences often reveal implementation gaps that counteract these intentions.

The contemporary Indian taxation system operates within a rapidly evolving economic context characterized by significant informal sector activities, varying levels of tax compliance, and technological transitions in tax administration. These factors influence not only the practical implementation of tax policies but also shape public attitudes towards taxation more broadly. Understanding these perceptions provides crucial insights into behavioral responses to taxation and identifies potential areas for reform that might enhance both compliance and distributive justice.

This study addresses this knowledge gap by exploring how different demographic segments perceive and experience the Indian tax system's impact on economic inequality. By examining perceptions across income groups, occupational categories, and age brackets, this research offers a nuanced understanding of tax policy implications that moves beyond aggregate economic indicators. The findings contribute to both academic discourse on tax equity in developing economies and provide practical insights for policymakers seeking to design more inclusive taxation frameworks that effectively address wealth redistribution challenges.

II. LITERATURE REVIEW

1. Overview and Historical Background

Since independence, India's connection between taxes and economic disparity has changed dramatically. Numerous academics have followed this development across various economic eras. In their thorough historical analysis of India's tax system, Rao and Rao (2005) show how it evolved from a colonial revenue collection system to an instrument for redistribution and economic growth. Since the 1950s, income inequality in India has exhibited a U-shaped pattern, declining in the early decades following independence but significantly increasing since the 1990s economic liberalization, claim Piketty and Chancel (2017).

2. The Structure of Direct Taxation and the Distribution of Wealth Wealth Inequality and Progressive Income Taxation

Banerjee and Piketty (2005) used data from income tax returns to show that during the early 1990s, as the tax system's progressivity has decreased, the top 1% of Indian incomes have accumulated an ever-increasing portion of the country's revenue. Chakravarty et al. (2016) support this conclusion, arguing that a number of tax exemptions and deductions that disproportionately benefit higher-income groups have caused India's personal income tax to become less progressive over time.

3. Wealth Inequality and Wealth Taxes

The experience of wealth taxes in India is critically examined by Bagchi (2007), who contends that the removal of these taxes in 2016 has led to an increase in wealth concentration. Similarly, wealth taxes can be useful instruments for lowering wealth disparity when correctly implemented without materially impeding economic growth, according to empirical evidence presented by Kumar (2019).

4. Enforcement, Evasion, and Compliance with Taxes

In their international comparative analysis, which covers India, Saez and Zucman (2019) emphasize how inequality is made worse by affluent people's tax avoidance. According to their findings, when all types of taxes are taken into account, the super-rich frequently pay lower effective tax rates than middle-class groups.

In his analysis of the structural problems with India's tax administration that impede efficient enforcement, Das-Gupta (2006) points out that intricate tax laws and a lack of administrative resources provide chances for tax evasion. This is supported by Rao (2018), who calculates that tax evasion and avoidance tactics used primarily by high-net-worth individuals cost India between two and three percent of its GDP each year.

5. The Effect of Indirect Taxes and GST on Distribution

Indirect taxes, such as the Goods and Services Tax (GST), can have regressive consequences even when direct taxes are technically progressive. In comparison to wealthier consumers, lower-income households in

India spend a larger percentage of their income on GST, according to Subramanian's (2019) analysis of consumption trends and GST rates.

According to a critical analysis of the GST implementation by Mukhopadhyay (2018), the system's potential for revenue generation has been diminished by the numerous rate slabs and exemptions, which have created complexity that favors smart taxpayers. According to the author, efficiency and equity would both be enhanced by a more straightforward framework with fewer exemptions.

Objectives

1. To assess public perceptions regarding the fairness and effectiveness of India's taxation system across different demographic and socioeconomic groups, with particular focus on perceived distributional impacts on economic inequality.
2. To identify specific structural elements of the current tax framework (including direct and indirect taxation mechanisms) that contribute to perceived inequities or regressive outcomes, particularly for middle and lower-income segments.
3. To formulate evidence-based policy recommendations for enhancing the progressive nature of India's taxation system, improving compliance, and strengthening wealth redistribution mechanisms.

III. RESEARCH METHODOLOGY

In order to examine how tax laws affect wealth distribution and economic inequality in India, this study uses a mixed-methods research methodology that combines qualitative and quantitative techniques. Both primary and secondary data sources are used in the research to give a thorough grasp of the topic.

Research approach: An exploratory and descriptive research approach is used in this study. It describes trends in tax compliance, public opinion, and income distribution while examining the connection between taxation policies and economic inequality.

Techniques for Gathering Data: Primary Data: To find out how the public feels about taxes, justice, and economic inequality, a structured poll was carried out. A wide range of income brackets, professions, and age groups were represented in the survey's target sample.

Data Analysis Techniques: To find patterns, correlations, and discrepancies, statistical methods are used to examine quantitative data from surveys. In order to comprehend systemic issues and possible solutions, qualitative insights from open-ended questions and policy evaluations are evaluated.

Sample Methodology: To guarantee varied representation across socioeconomic classes, professions, and geographical areas, the survey uses a stratified random sample technique. Students, self-employed people, salaried workers, and people in various economic levels are among the respondents.

Limitations: The study recognizes the difficulty of obtaining contributions from the unorganized sector and possible biases in self-reported data. Additionally, when regulations change over time, policy impacts may also alter.
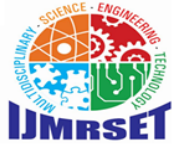
1. Research Methodology

This study employed a mixed-methods approach combining quantitative surveys and qualitative analysis to examine perceptions of India's tax policies across demographic segments. A structured survey was administered to 80 respondents representing diverse income brackets, occupations, and age groups. The research used stratified random sampling to ensure representation across socioeconomic classes. Data analysis included statistical methods for quantitative data and thematic analysis for qualitative insights.

2. Demographic Analysis

2.1 Age Distribution

Table 1: Age Distribution of Survey Respondents

Age Group	Percentage (%)	Respondents	Mean Age	Std. Dev.
Under 20	10.1	8		
20-30	17.7	14		
31-40	32.9	26	38.2	11.7
41-50	25.3	20		
51-60	11.4	9		
60+	2.6*	2*		

Key Insight: The largest segment (32.9%) falls within the 31-40 age bracket, representing economically active individuals with significant purchasing power. Together with the 41-50 age group (25.3%), these middle-aged respondents form the majority of participants, indicating representation from those most likely engaged with tax policies.

2.2 Occupational Profile

Table 2: Occupational Distribution of Respondents

Occupation	Percentage (%)	Respondents
Self-employed	43.6	35
Employed	42.3	34
Student	9.0	7
Retired	3.0*	2*
Unemployed	2.1*	2*

Key Insight: Self-employed individuals (43.6%) and salaried employees (42.3%) represent the vast majority of respondents, highlighting the importance of understanding tax impacts on these economically active groups who navigate different aspects of the tax system.

2.3 Income Distribution

Table 3: Income Distribution of Respondents

Income Group (₹) (in lakhs)	Percentage (%)	Respondents	Cumulative %
Below 2.5	10.0	8	10.0
2.5-5	12.5	10	22.5
5-10	20.0	16	42.5
10-20	27.5	22	70.0
Above 20	16.2	13	86.2
Prefer not to say	13.8	11	100.0

Key Insight: The data reveals a diverse income representation with the largest segment (27.5%) in the ₹10-20 lakh bracket. Higher-income groups (above ₹10 lakh) constitute 43.7% of respondents, offering perspectives on progressive taxation impacts.

III. PERCEPTION ANALYSIS

3.1 Tax System Fairness

Table 4: Perception of Tax System Fairness

Response	Percentage (%)	Respondents	Mean	Std. Dev.
Yes	56.3	45		
No	43.8	35	1.44	0.50

Key Insight: The perception of tax fairness shows a modest majority (56.3%) viewing the system as fair, while a substantial minority (43.8%) perceive it as unfair, indicating significant room for improvement in tax equity.

3.2 Tax Concerns

Table 5: Primary Tax Concerns (Multiple Selections Allowed)

| Concern	Responses	Percentage (%)	Mean	Std Dev
High Tax Rates	47	59.5		
Unequal Tax Burden	44	55.7	1.94	1.06
Complexity of Tax Laws	31	39.2		
Other Concerns	17	21.5		

Key Insight: High tax rates (59.5%) and unequal tax burden (55.7%) emerge as the primary concerns, reflecting widespread dissatisfaction with the perceived financial burden and distribution of taxation.

3.3 Wealthy Taxpayer Contributions

Table 6: Do Wealthy People Pay Their Fair Share of Taxes?

Response	Percentage (%)	Respondents	Mean	Std. Dev.
Yes	51.9	40		
No	33.8	26	1.63	0.73
Not Sure	14.3	11		

Key Insight: A slim majority (51.9%) believe wealthy individuals contribute fairly to the tax system, while a significant minority (33.8%) disagree, pointing to concerns about equitable contributions from the affluent.
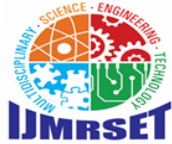
3.4 Tax Knowledge and Understanding

Table 7: Self-Reported Understanding of Tax System

Understanding Level	Percentage (%)	Respondents	Mean	Std. Dev.
Poor	11.3	9		
Fair	50.0	40	2.34	0.76
Good	32.5	26		
Excellent	6.3	5		

Key Insight: Half of all respondents (50%) report only a "Fair" understanding of the tax system. Combined with those reporting "Poor" understanding (11.3%), this indicates significant opportunity for educational interventions.

3.5 Tax Evasion Sentiment

Table 8: Have You Ever Felt the Need to Evade Taxes?

Response	Percentage (%)	Respondents	Mean	Std. Dev.
Yes	58.2	46		
No	41.8	33	1.42	0.50

Key Insight: A concerning majority (58.2%) admitted to feeling the need to evade taxes, highlighting significant issues with perceived tax burden and compliance motivation.

3.6 Impact on Middle and Lower-Income Groups

Table 9: Perception of Tax Policies' Impact on Middle and Lower-Income Groups

Response	Responses	Percentage (%)	Mean	Std. Dev.
They benefit them	17	21.5		
They have no impact	17	21.5	2.51	1.06

They burden them	55	69.6		
Not sure	12	15.2		

Key Insight: A substantial majority (69.6%) perceive that tax policies burden middle and lower-income groups, indicating a critical area for policy reform to address regressive impacts.

3.7 Tax Incentives Distribution

Table 10: Do Tax Incentives Favor the Wealthy?

Response	Responses	Percentage (%)	Mean	Std. Dev.
Yes	52	65.8		
No	12	15.2	1.53	0.80
Not Sure	15	19.0		

Key Insight: Nearly two-thirds of respondents (65.8%) believe tax incentives disproportionately favor the wealthy, suggesting a perception of systemic bias in the design of tax deductions and benefits.

3.8 Suggested Tax System Changes

Suggested Change	Responses	Percentage (%)
Provide More Deductions for Middle/Lower Income	51	63.7
Simplify Tax Laws	49	61.3
Increase Tax Rates for the Wealthy	24	30.0
Improve Tax Enforcement	24	30.0

Key Insight: The most popular suggestions were providing more deductions for middle and lower-income groups (63.7%) and simplifying tax laws (61.3%), indicating clear public priorities for tax reform.

FINDINGS

1. Income Inequality and Tax Burdens

Lower-income groups face significant strain due to the regressive impact of indirect taxes like GST, highlighting the need for reforms to reduce the financial burden on essentials. While higher-income groups contribute through progressive direct taxation, concerns about loopholes and evasion by affluent individuals reflect gaps in enforcement and compliance.

2. Complexity and Accessibility

The complexity of tax laws emerged as a major frustration for respondents, underscoring the need to simplify processes and improve transparency. A more user-friendly framework can enhance compliance and public trust.

3. Perceptions of Fairness

A divided response reflects mixed opinions about the fairness of the tax system. While some appreciate progressive measures, others cite inequities stemming from tax evasion, indirect taxation impacts, and perceived biases.

4. Tax Incentives and Deductions

Majority concerns indicate that tax incentives disproportionately favor the wealthy, calling for reforms to prioritize benefits for middle and lower-income groups. This would directly address wealth redistribution challenges.

5. Awareness and Engagement

Limited engagement with tax updates and educational resources highlights the need for better outreach, communication, and interactive tools to make tax policies accessible to all demographics.

6. Recommendations from Respondents

Simplifying tax laws and providing deductions for vulnerable groups were the most favoured changes. Public sentiment clearly supports reforms aimed at fairness and equity across all income levels. Strengthened enforcement mechanisms and higher taxation for wealthy individuals are key measures to address perceptions of inequity.

IV. CONCLUSION

India's taxation system plays a crucial role in addressing economic inequality and redistributing wealth, yet it faces persistent challenges. The survey highlights the regressive impact of indirect taxes, such as GST, on lower-income groups, while loopholes and tax evasion reduce the progressivity of direct taxes. Public perceptions reveal frustration with high tax rates, complex tax laws, and the inequitable distribution of tax burdens, which collectively hinder trust and compliance. Simplification of processes, enforcement of tax policies, and better utilization of incentives are vital to addressing these gaps. To foster equity and

inclusivity, actionable reforms must prioritize lowering GST rates on essentials, enhancing progressive taxation, and offering targeted benefits for economically vulnerable populations. Increasing public awareness through educational campaigns and improving transparency in the utilization of tax revenues will further strengthen trust and compliance. By addressing these key concerns, India can develop a more equitable and efficient taxation framework to promote sustainable economic growth and reduce disparities.

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