



Tax Policies and Social Justice

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Abstract : This dissertation delves into the intricate relationship between India's tax system and the principles of social justice, critically evaluating the system's efficacy in fostering equitable outcomes. It conducts a comprehensive analysis of both direct taxes, encompassing income and corporate tax, and indirect taxes, notably the Goods and Services Tax (GST), with a keen focus on their implications for distributive and procedural justice.

The study reveals that while the Indian tax framework incorporates progressive elements, its potential to advance social justice is significantly undermined by a complex web of exemptions, inherent complexities, and persistent challenges in implementation. These factors collectively contribute to a dilution of the system's fairness and exacerbate issues of regressivity, particularly in the context of indirect taxation.

Furthermore, the research probes the historical evolution of India's tax policies, tracing their trajectory in conjunction with the nation's socio-economic development. It examines landmark legislative reforms, judicial pronouncements, and policy shifts that have shaped the current tax landscape. In doing so, it draws upon a rich tapestry of economic theories, legal frameworks, and empirical evidence to provide a nuanced understanding of the challenges and opportunities that lie ahead.

The findings of this dissertation underscore the imperative for targeted reforms aimed at enhancing the system's fairness, mitigating regressivity, and fortifying tax administration. It argues that such reforms are indispensable for a more just and equitable tax framework in India, one that aligns with the nation's constitutional mandate of social justice and promotes inclusive growth. To this end, the dissertation

concludes by offering a series of concrete policy recommendations, advocating for measures that can streamline tax processes, broaden the tax base, and ensure that the tax burden is distributed in a manner that is commensurate with the ability to pay.

PART-1

INTRODUCTION AND CONCEPTUAL FRAMEWORK

CHAPTER 1: INTRODUCTION

Taxation is one of the most significant instruments at the disposal of governments to shape economic development, reduce inequalities, and ensure social welfare. In the context of a developing nation like India, the intricate relationship between tax policies and social justice takes on particular importance. Tax systems, when effectively designed and implemented, have the potential to redistribute wealth, finance public goods and services, and foster equity. However, the balance between revenue generation, fairness, and social welfare poses a persistent challenge. Social justice, rooted in the principles of equity, fairness, and the moral imperative to uplift marginalized sections of society, requires deliberate fiscal policies to address socio-economic disparities. Taxation plays a pivotal role in this context, serving as a tool to mobilize resources for the government while ensuring that the burden of taxation is distributed fairly across different sections of society. This dual function of taxation—raising revenue and promoting equity—calls for a nuanced understanding of policy design and its implications for various stakeholders.

In the Indian scenario, tax policies have evolved considerably over time, reflecting the dynamic socio-economic and political landscape. Post-independence, India's taxation framework was modelled to achieve economic growth and social equity. However, with globalization, liberalization, and technological advancements, the tax structure has undergone significant transformations. From direct taxes like income tax and corporate tax to indirect taxes like Goods and Services Tax (GST), each component of the tax system has implications for social justice.

This paper delves into the nexus between tax policies and social justice, emphasizing the Indian context. It examines how India's tax policies have influenced income distribution, access to basic services, and the overall socio-economic fabric of the nation. By critically analyzing the evolution of tax structures, the role of GST, and the challenges faced in achieving equitable taxation, this analysis aims to shed light on the strides made and the gaps that remain. The discussion begins with an overview of taxation and its theoretical underpinnings, followed by an exploration of India's tax framework and its historical evolution. Subsequently, the paper evaluates the impact of direct and indirect taxes on social equity and assesses the progressivity of the Indian tax system. Special attention is given to GST as a case study, analyzing its implications for consumers, businesses, and government revenues. Finally, the paper discusses key challenges and policy recommendations to align tax systems with the ideals of social justice in a diverse and populous nation like India.

The significance of this analysis lies in its ability to provide insights into policy reforms that can foster inclusive growth, reduce socio-economic disparities, and ensure that taxation serves as a means to achieve not just fiscal objectives but also broader societal goals. As India continues its journey towards becoming a global economic powerhouse, striking a balance between economic efficiency and social equity through its tax policies will remain a cornerstone of its developmental agenda.

1.1. Background: Significance of Taxation and Social Justice

Taxation stands as a cornerstone of the modern state, the essential mechanism through which governments finance public goods, provide essential services, and ultimately, shape the societies they govern. As Justice Oliver Wendell Holmes Jr. famously stated, "Taxes are what we pay for civilized society." This seemingly simple transaction, however, lies at the heart of the intricate relationship between the citizen and the state, forming a crucial element of the social contract. Citizens, in theory, consent to yield a portion of their private resources to the state in exchange for security, infrastructure, rule of law, and the provision of collective benefits that individuals alone cannot secure. From the principles of revenue collection discussed in Kautilya's ancient Arthashastra to the complex, multi-layered tax codes of the 21st century, the power to tax has always been intrinsically linked to the state's capacity to function and fulfil its obligations.

However, the role of taxation extends far beyond mere revenue generation.¹ It serves as a potent policy lever, capable of influencing economic behaviour, correcting market failures, managing macroeconomic stability, and, critically, pursuing broader socio-economic objectives. Among the most significant of these objectives, particularly within democratic polities committed to the welfare of their populace, is the pursuit of social justice. Social justice, broadly understood, concerns the fair and equitable distribution of resources, opportunities, rights, and responsibilities within a society.² It strives for a state of affairs where individuals are treated with dignity and fairness, where arbitrary inequalities are minimized, and where basic human capabilities can be realised by all members of the community.

In a nation like India – a vast, diverse, and vibrant democracy operating from its capital in Delhi – the imperative of social justice holds particular resonance. Enshrined in the Preamble of the Constitution is the solemn resolve to secure for all its citizens: "JUSTICE, social, economic and political." Further articulated through the Fundamental Rights and Directive Principles of State Policy (DPSPs), this constitutional mandate underscores the state's responsibility to actively mitigate historical and structural inequalities based on caste, class, gender, region, and religion. As India navigates the complexities of rapid economic change, globalisation, and persistent developmental challenges in April 2025, the question of how its public

¹ <https://pib.gov.in/PressReleaselframePage.aspx?PRID=2035918>

² <https://www.sdfoundation.org/news-events/sdf-news/what-is-social-justice/#:~:text=With%20these%20core%20values%20in,and%20equitable%20opportunities%20for%20all.>

finances, particularly its tax system, contribute to or detract from these foundational goals of social justice remains a subject of intense public discourse and scholarly debate.

1.2. The Interplay: Linking Tax Policy and Social Justice

The connection between tax policy and social justice is profound and multi-dimensional. It permeates the very design and application of the tax system – determining *who* bears the burden of financing the state, *what* economic activities or resources are targeted, and *how* the revenue collected is ultimately utilised. The most direct link lies in the realm of **distributive justice**. Tax policies can significantly alter the distribution of income and wealth within a society.³ Progressive tax systems, where the effective tax rate increases with the taxpayer's ability to pay (typically income or wealth), are widely regarded as a primary tool for reducing inequality and ensuring that the fiscal burden is distributed according to capacity.⁴ Conversely, regressive tax systems, where the tax burden falls disproportionately heavier on lower-income groups relative to their resources (as often argued for broad-based consumption taxes without adequate mitigation), can exacerbate existing disparities and undermine social equity.⁵ This involves considerations of both vertical equity (taxpayers with greater capacity should pay more) and horizontal equity (similarly situated taxpayers should face similar tax burdens).

Furthermore, taxation is inextricably linked to the **expenditure side of the public ledger**. Adequate, stable, and fairly raised tax revenues are the prerequisite for funding public services essential for social justice. Investments in universal healthcare, quality education, social security nets, poverty alleviation programs, and infrastructure development are fundamental for enhancing human capabilities (as conceptualised by Amartya Sen and Martha Nussbaum), promoting equality of opportunity, and providing a safety net for the vulnerable. A tax system perceived as unfair or inadequate in its revenue generation capacity directly compromises the state's ability to fulfil these vital social functions.

Beyond distributive concerns, **procedural justice** is equally critical. The fairness, transparency, and accessibility of the tax system's administration profoundly impact citizens' perceptions of legitimacy and their willingness to comply.⁶ Complex and opaque tax laws can impose disproportionate compliance costs on small taxpayers and less educated individuals.⁷ Arbitrary or discriminatory enforcement practices can undermine the rule of law and foster resentment.⁸ Ensuring taxpayer rights, providing clear information, simplifying procedures, and offering accessible and impartial dispute resolution mechanisms are essential components of a socially just tax system.

³ <https://www.sdfoundation.org/news-events/sdf-news/what-is-social-justice/#:~:text=With%20these%20core%20values%20in,and%20equitable%20opportunities%20for%20all.>

⁴ <https://www.pnbmetlife.com/articles/taxation/what-are-the-characteristics-of-a-tax-system.html>

⁵ <https://globaltaxjustice.org/news/why-is-tax-justice-an-integral-part-of-the-struggle-for-womens-rights/>

⁶ <https://www.mdpi.com/1911-8074/17/1/5>

⁷ https://www.researchgate.net/publication/343916348_Knowledge_requirements_tax_complexity_compliance_costs_and_tax_compliance_in_Uganda

⁸ <https://www.mdpi.com/2075-471X/9/4/30>

Acknowledging this interplay also requires recognising potential **conflicts and trade-offs**. The pursuit of economic efficiency, often prioritised in tax policy debates, may sometimes clash with equity objectives.⁹ For instance, arguments for lower corporate taxes to stimulate investment must be weighed against their potential impact on progressivity and public revenue available for social spending. Similarly, the simplicity of a flat consumption tax might be appealing from an administrative perspective but raises significant concerns about its regressive impact. Navigating these trade-offs effectively is a central challenge for policymakers aiming to build a tax system that is both economically sound and socially just.

1.3. Problem Statement

Despite the clear conceptual links and normative imperatives, designing and implementing a tax system that simultaneously achieves adequate revenue generation, promotes economic efficiency, and demonstrably advances social justice presents a formidable challenge for nations worldwide. This challenge is particularly acute in contemporary India. The core problem this dissertation investigates is the potential and often observed misalignment between India's current tax policy framework and the principles of social justice, amidst a backdrop of significant socio-economic disparities and ongoing policy reforms.

India's economic landscape in 2025 is marked by paradoxes. While the nation has achieved significant economic growth and possesses a dynamic corporate sector, it continues to grapple with high levels of income and wealth inequality.¹⁰ Recent reports, such as those periodically released by Oxfam India or findings from the World Inequality Database, consistently highlight the concentration of wealth among a small elite, while a substantial portion of the population faces precarious livelihoods and limited access to basic services. This stark reality raises fundamental questions about the distributive effects of the country's fiscal policies.

Specific concerns regarding the Indian tax system's alignment with social justice are frequently voiced in public and academic discourse. The introduction of the Goods and Services Tax (GST) in 2017, while aimed at unifying the indirect tax structure and enhancing efficiency, has faced persistent criticism regarding its potential regressivity, complex compliance requirements for small businesses, and its impact on the informal sector where a majority of India's vulnerable workforce is employed.¹¹ On the direct tax front, debates continue around the effective progressivity of the personal income tax structure, the adequacy of the corporate income tax contribution (especially in light of significant rate cuts in recent years), the narrowness of the tax base with a relatively small number of individuals paying income tax, and the controversial exemption of agricultural income, which potentially benefits wealthy landowners. The conspicuous absence of a broad-based wealth tax or inheritance tax, despite global discussions and significant wealth concentration within India, further fuels concerns about the system's commitment to

⁹<https://www.investopedia.com/terms/e/equityefficiencytradeoff.asp#:~:text=When%20and%20if%20such%20a,the%20sake%20of%20achieving%20a>

¹⁰ <https://www.worldbank.org/en/country/india/overview>

¹¹ <https://www.bajajfinserv.in/advantages-and-disadvantages-of-gst>

tackling inequality. Issues of tax evasion, aggressive tax avoidance, and the perceived fairness of tax administration add another layer of complexity, potentially undermining both revenue collection and public trust.¹²

Therefore, the central problem is to ascertain whether India's tax system, in its current architecture and operation, acts as a progressive force contributing to the constitutional mandate of socio-economic justice, or if structural features and policy choices inadvertently perpetuate or even exacerbate existing inequalities and procedural unfairness. There exists a critical need for a systematic and integrated analysis that evaluates the key components of the Indian tax regime explicitly through the multi-dimensional lens of social justice, moving beyond siloed discussions of revenue targets or administrative efficiency.

1.4. Research Questions

This dissertation seeks to address the aforementioned problem by investigating the following core research questions:

1. How can the normative principles of social justice, encompassing both distributive equity (vertical and horizontal) and procedural fairness, be effectively conceptualised and operationalised as criteria for evaluating national tax policies?
2. To what extent does India's contemporary tax regime, particularly focusing on the Personal Income Tax, Corporate Income Tax, and the Goods and Services Tax (GST) post-2017, align with or diverge from these established principles of social justice?
3. What are the primary discernible impacts of India's recent tax policy choices, including major reforms and annual budgetary adjustments, on different socio-economic strata, particularly vulnerable groups, and on the overall landscape of inequality in the country?
4. Based on a critical analysis of the Indian context, what specific, feasible, and evidence-informed tax policy and administrative reforms could be recommended to strengthen the social justice outcomes of the Indian tax system?

1.5. Aims and Objectives

The **overall aim** of this dissertation is to conduct a critical and comprehensive analysis of the relationship between tax policies and social justice, with a specific and detailed examination of the contemporary Indian scenario, culminating in the formulation of grounded policy recommendations.

To achieve this aim, the following **specific objectives** will be pursued:

- To define and elaborate upon key concepts of social justice relevant to taxation, drawing from political philosophy and legal principles.

¹² <https://www.irs.gov/businesses/small-businesses-self-employed/anti-tax-law-evasion-schemes-talking-points>

- To review the theoretical links between different tax policy instruments (direct taxes, indirect taxes, tax expenditures) and administration, and their potential social justice implications, incorporating international perspectives.
- To provide a contextualised overview of the evolution, constitutional framework, and current structure of the Indian tax system.
- To critically evaluate the design and potential impacts of India's major direct taxes (Personal Income Tax, Corporate Income Tax) against social justice benchmarks.
- To critically evaluate the design and potential impacts of India's Goods and Services Tax (GST) regime against social justice benchmarks.
- To assess key aspects of procedural justice within India's tax administration and enforcement framework.
- To synthesize the findings from the theoretical, international, and Indian analyses to present a holistic evaluation.
- To formulate specific, actionable, and contextually relevant policy recommendations for reforming the Indian tax system to better serve social justice goals.

1.6. Scope and Limitations

The scope of this research is necessarily defined to ensure a focused and manageable inquiry within the constraints of an LLM dissertation.

- **Scope:**
 - *Tax Coverage:* The primary focus is on major central government taxes in India: Personal Income Tax (PIT), Corporate Income Tax (CIT), and the Goods and Services Tax (GST). Other taxes like Customs Duty, Securities Transaction Tax (STT), and the ongoing debate surrounding wealth and inheritance taxes will be discussed where they significantly intersect with the core themes of social justice and the primary taxes under review. State-level taxes are generally excluded, except where essential for understanding the federal dimensions of GST.
 - *Social Justice Dimensions:* The analysis prioritises distributive justice (vertical equity, horizontal equity, progressivity/regressivity, impact on income/wealth distribution) and procedural justice (fairness in administration, transparency, complexity, access to dispute resolution). While acknowledging their importance, other dimensions like gender justice or environmental justice within taxation will receive less extensive treatment unless directly relevant to the core analysis.
 - *Timeframe:* The research concentrates on the contemporary Indian tax system, with a particular emphasis on developments since the implementation of GST in 2017 up to early 2025. Relevant historical context and preceding reforms will be incorporated to provide perspective.

- *Geographical Focus:* The analysis is centred on India. International theories, experiences, and comparative data will be used primarily to provide context, benchmarks, and potential lessons, rather than forming a detailed comparative study.
- **Limitations:**
 - *Data Availability:* The research acknowledges inherent limitations related to the availability of comprehensive, granular, and up-to-date data in the Indian context, particularly concerning household income distribution, wealth concentration, actual tax incidence across different groups, and the precise impact of specific tax expenditures.
 - *Attribution Complexity:* Isolating the specific impact of tax policies on social justice outcomes from the multitude of other interacting economic, social, and political factors presents a significant methodological challenge.
 - *Scope Constraints:* The breadth of the topic necessitates a selective focus. Consequently, the analysis of individual taxes may not achieve the same depth as studies dedicated solely to PIT, CIT, or GST. Certain niche taxes or highly specific administrative issues may not be covered in detail.
 - *Methodological Approach:* This dissertation relies primarily on qualitative analysis of legal and policy documents, theoretical frameworks, and secondary data sources. It does not involve primary empirical data collection (e.g., surveys) or sophisticated econometric modelling to establish causal impacts, which constitutes a limitation in terms of empirical validation.

1.7. Methodology

This dissertation adopts a primarily qualitative research methodology, integrating doctrinal, theoretical, and analytical approaches appropriate for legal and policy analysis within the field of taxation and social justice.

- **Doctrinal Analysis:** This involves the systematic examination, interpretation, and analysis of primary legal sources. Key sources include the Constitution of India (especially Articles related to fundamental rights, DPSPs, and taxation powers), the Income Tax Act, 1961, the Central GST Act, 2017, the Integrated GST Act, 2017, relevant State GST Acts (in principle), annual Finance Acts enacting budget proposals, and associated Rules and Notifications. Significant judicial precedents from the Supreme Court of India and relevant High Courts interpreting these laws will also be analysed.
- **Theoretical Analysis:** The research engages with established theories from political philosophy concerning social justice (e.g., the works of John Rawls, Amartya Sen) and relevant economic theories pertaining to public finance and taxation (e.g., principles of optimal taxation, theories of tax incidence, concepts of equity and efficiency). This theoretical grounding provides the normative and analytical framework for evaluating tax policies against social justice criteria.

- **Policy Analysis:** A critical review and analysis of government policy documents will be undertaken. This includes Union Budget speeches, Economic Surveys, reports of Tax Reforms Committees (past and present, if relevant), publications from the Ministry of Finance, NITI Aayog, Parliamentary Standing Committee reports, and analyses from international organisations like the IMF, World Bank, and OECD pertaining to Indian fiscal policy.
- **Literature Review:** The study synthesises existing academic scholarship from law, economics, public policy, and development studies journals, books, and working papers. This includes research on tax law and policy, social justice theory, inequality measurement, and empirical studies related to the Indian tax system and economy. Databases like JSTOR, SSRN, Google Scholar, and legal databases (SCC Online, Manupatra) will be utilized.
- **Data Sources:** Where relevant, the analysis will be supported by publicly available statistical data from official Indian sources (e.g., Ministry of Finance's Receipt Budget, CBDT and CBIC statistics, National Statistical Office (NSO) surveys like Consumption Expenditure Surveys) and reputable national and international research institutions (e.g., NIPFP, RBI, World Bank, IMF data portals), while carefully acknowledging the limitations of such data as noted previously.

1.8. Dissertation Structure/Chapter Outline

This dissertation is structured logically to guide the reader from foundational concepts to specific analysis and conclusions. Following this introductory chapter:

- **Chapter 2** delves into the theoretical underpinnings, exploring various conceptions of social justice and core principles of taxation (equity, incidence, progressivity), establishing the normative and analytical framework used throughout the study.
- **Chapters 3, 4, and 5** examine key tax instruments and administrative aspects from a global and conceptual perspective, analysing the inherent social justice implications of direct taxes (PIT, CIT, wealth taxes), indirect taxes (VAT/GST, excises), tax expenditures, and tax administration practices.
- **Chapter 6** shifts the focus specifically to India, providing essential context through a historical overview of its tax system, an examination of the constitutional framework governing taxation, and a description of the current tax structure and key institutions.
- **Chapters 7 and 8** form the core analytical part focused on India. Chapter 7 applies the social justice lens to evaluate India's direct tax regime (PIT and CIT, including debates on missing taxes). Chapter 8 undertakes a similar critical evaluation of India's Goods and Services Tax (GST).
- **Chapter 9** synthesizes the preceding analysis, offering an overall evaluation of the Indian tax system's performance against the social justice benchmarks established earlier, identifying key strengths, weaknesses, and areas of tension.
- **Chapter 10** concludes the dissertation by summarizing the key findings and arguments, highlighting the research's contribution, offering specific, actionable policy recommendations aimed at enhancing social justice through tax reform in India, acknowledging the study's limitations, and suggesting potential avenues for future research in this vital area.

CHAPTER 2: THEORETICAL UNDERPINNINGS: SOCIAL JUSTICE, EQUITY, AND TAXATION

This chapter establishes the crucial theoretical framework for analyzing the intricate relationship between tax policies and the multifaceted ideal of social justice, particularly as it pertains to the Indian context. We will delve into foundational philosophical perspectives on social justice, dissect the core principles that underpin taxation, explore the critical nexus between specific tax instruments and the dimensions of distributive and procedural justice, and finally, introduce key indicators used to quantify inequality and poverty, which serve as vital metrics for evaluating the social justice impact of tax systems.

2.1. Defining Social Justice: Key Philosophical Perspectives and their Relevance to Tax

Social justice, far from being a static concept, represents a dynamic and contested terrain within political philosophy.¹³ Diverse schools of thought offer distinct lenses through which to understand what constitutes a just societal arrangement and, consequently, the appropriate role and design of taxation in achieving it. This section will provide an expanded and nuanced exploration of pivotal philosophical perspectives – including John Rawls' Justice as Fairness, the consequentialist framework of Utilitarianism (with specific attention to the contributions of Bentham and Mill), Amartya Sen's transformative Capability Approach, and a critical examination of Robert Nozick's individualistic Libertarianism – rigorously analyzing their unique relevance and implications for the formulation and assessment of tax policies.

2.1.1. John Rawls: Justice as Fairness and the Architecture of Taxation

John Rawls' ground-breaking theory of Justice as Fairness, meticulously laid out in *A Theory of Justice* and subsequently refined, provides a compelling framework for conceptualizing the fundamental principles that should govern a well-ordered society. The ingenious thought experiment of the 'Original Position' behind a 'Veil of Ignorance' serves as a powerful mechanism to ensure impartiality in the selection of these principles.¹⁴ By hypothetically stripping away individuals' knowledge of their personal attributes and societal standing, Rawls aims to identify principles that would be chosen by rational agents solely motivated by securing their fundamental interests within a system of fair cooperation.

The two core principles of justice that Rawls posits would emerge from this deliberative process hold significant ramifications for the design of a just tax system.¹⁵

¹³<https://scholarship.law.tamu.edu/lawreview/vol3/iss3/5/#:~:text=My%20goal%20in%20this%20essay,is%20at%20stake%20when%20we>

¹⁴ <https://fs.blog/veil-ignorance/>

¹⁵ <https://plato.stanford.edu/entries/original-position/>

The first principle, guaranteeing an extensive scheme of equal basic liberties for all, indirectly influences taxation by establishing inviolable rights that tax policies cannot legitimately infringe upon. For instance, discriminatory tax laws targeting specific groups would be fundamentally incompatible with this principle.

The second principle, governing social and economic inequalities, is where Rawls' theory directly and profoundly intersects with the realm of taxation.¹⁶ The condition of Fair Equality of Opportunity necessitates that positions of advantage are genuinely accessible to all based on merit and relevant qualifications, irrespective of arbitrary factors such as birth or socio-economic background. Achieving this requires a robust societal infrastructure, heavily reliant on public funding derived from taxation, that actively mitigates the impact of initial disadvantages on individuals' life trajectories. High-quality, universally accessible public education, a comprehensive healthcare system independent of ability to pay, and proactive anti-discrimination measures are essential components of ensuring fair equality of opportunity, all requiring substantial and equitable tax revenue.

The Difference Principle, the latter part of the second principle, forms the egalitarian core of Rawls' theory and offers a powerful ethical justification for a significant redistributive role for taxation.¹⁷ It stipulates that social and economic inequalities are permissible only to the extent that they ultimately redound to the greatest benefit of the least advantaged members of society. This principle does not mandate strict equality but rather a dynamic equilibrium where inequalities act as incentives that ultimately improve the absolute and relative well-being of those at the bottom of the socio-economic ladder. Highly progressive tax systems, where the proportion of income or wealth paid in taxes increases with affluence, become a crucial mechanism for realizing the Difference Principle. The substantial revenue generated through such taxation can then be strategically deployed to fund targeted social programs, provide direct income support, and invest in public goods and services specifically designed to uplift the least advantaged. For example, progressive taxation could finance enhanced unemployment benefits, affordable housing initiatives coupled with job training programs, and specialized healthcare services for vulnerable populations.

Furthermore, Rawls' emphasis on the basic structure of society as the primary subject of justice underscores that the tax system must be conceived as an integral component of a broader institutional framework aimed at achieving a just distribution.¹⁸ Individual tax provisions cannot be evaluated in isolation; rather, the entire tax-and-transfer system must be coherently designed to uphold the two principles of justice. This necessitates a holistic assessment of the cumulative impact of various tax policies on different societal strata, with a particular focus on their effect on the least advantaged. The justification for significant inheritance and estate taxes within a Rawlsian framework arises from the concern to prevent the intergenerational transmission of vast inequalities that could undermine fair equality of opportunity and

¹⁶ <https://plato.stanford.edu/entries/rawls/>

¹⁷ <https://testbook.com/ias-preparation/john-rawls-theory-of-justice>

¹⁸ https://www.researchgate.net/publication/301092911_The_Basic_Structure_of_Society_as_the_Primary_Subject_of_Justice

create disparities that do not necessarily contribute to the betterment of the least advantaged. By taxing large inheritances, the state can redistribute wealth, finance public services that benefit all, and promote a more meritocratic society where opportunities are less determined by inherited privilege.¹⁹

2.1.2. Utilitarianism: Taxation for the Greater Good?

Utilitarianism, in its various iterations stemming from the foundational work of Jeremy Bentham and John Stuart Mill, remains a highly influential ethical framework that judges the morality of actions and policies based on their consequences, specifically their ability to maximize overall societal well-being or happiness.²⁰ While both thinkers adhered to the core principle of utility – the greatest happiness for the greatest number – their approaches exhibited important distinctions, particularly concerning the nature of happiness and the role of individual rights.

Bentham's utilitarianism adopted a more quantitative approach, seeking to maximize the sum total of pleasure and minimize pain across society.²¹ In the context of taxation, a strict Benthamite calculus would likely favor policies that demonstrably lead to the largest net increase in societal happiness. The principle of diminishing marginal utility of income plays a crucial role here, suggesting that the subjective gain in happiness from an additional unit of income is inversely related to one's existing level of wealth. Consequently, transferring a unit of income from a wealthy individual (experiencing a low marginal utility) to a poor individual (experiencing a high marginal utility) would theoretically result in a net increase in overall societal happiness, thus justifying progressive taxation and redistributive policies.

Mill, while building upon the foundation of utility, introduced a qualitative dimension to happiness, arguing that higher intellectual and moral pleasures are intrinsically more valuable than purely sensual ones.²² He also placed a greater emphasis on the protection of individual liberties and the importance of just institutions as crucial for long-term societal flourishing.²³ Mill recognized the potential for the 'tyranny of the majority' to suppress individual rights in the pursuit of aggregate utility and advocated for safeguards to prevent such outcomes. In the realm of taxation, Mill would likely support progressive taxation and social welfare provisions, not solely for their potential to increase overall happiness but also for their role in fostering a more just and equitable society that respects individual dignity and promotes the development of higher human capacities. However, his deep concern for individual liberty might lead to a more cautious approach

¹⁹ [https://visionias.in/current-affairs/monthly-magazine/2024-05-21/economics-\(indian-economy\)/inheritance-tax-as-a-tool-of-wealth-redistribution-1](https://visionias.in/current-affairs/monthly-magazine/2024-05-21/economics-(indian-economy)/inheritance-tax-as-a-tool-of-wealth-redistribution-1)

²⁰ <https://www.investopedia.com/terms/u/utilitarianism.asp>

²¹ <https://www.investopedia.com/terms/u/utilitarianism.asp>

²² https://www.qcc.cuny.edu/socialSciences/ppectorino/ETHICS_TEXT/Chapter_6_Teleological_Theories_Utilitarianism/J_S_MILL_TEXT.htm

²³ <https://plato.stanford.edu/entries/rawls/>

regarding the extent of state intervention through taxation compared to a purely Benthamite perspective, requiring a careful balancing of welfare maximization with the protection of individual autonomy.

Relevance to Taxation: Utilitarianism provides a consequentialist rationale for taxation aimed at maximizing aggregate societal well-being. Progressive tax systems can be justified on the grounds that they lead to a greater overall sum of happiness by transferring resources from those who derive less marginal utility from them to those who derive more.²⁴ Similarly, taxes funding public services like education and healthcare can be defended by their contribution to the overall health, productivity, and happiness of the population. However, the inherent difficulties in accurately measuring and comparing individual utility, as well as the ethical concerns surrounding the potential for utilitarian policies to infringe upon individual rights in the name of the greater good, pose significant challenges for its direct application in tax policy. A purely utilitarian approach might, for instance, theoretically justify regressive taxes if they were perceived to stimulate economic growth that ultimately led to a larger overall increase in happiness, even if it exacerbated existing inequalities. This underscores the necessity of considering deontological and rights-based ethical principles alongside consequentialist considerations when designing tax systems aimed at promoting social justice.

2.1.3. The Capability Approach: Taxation as an Enabler of Human Potential

The Capability Approach, jointly developed by Amartya Sen and Martha Nussbaum, offers a transformative ethical framework for evaluating social justice that shifts the focus from mere resource distribution or subjective well-being to individuals' real freedoms and opportunities – their capabilities – to achieve valuable states of being and doing, known as functionings.²⁵ Functionings encompass a wide range of human activities and states, such as being healthy, being educated, having meaningful work, participating in political life, and enjoying social inclusion. From this perspective, a just society is one that actively works to expand the set of capabilities available to all its members, enabling them to live lives they have reason to value.

Relevance to Taxation: Within the Capability Approach, taxation assumes a pivotal instrumental role as the primary mechanism through which the state can generate the public revenue necessary to create the enabling conditions for the expansion of citizens' capabilities. The revenue generated through a just and efficient tax system becomes the lifeblood for funding a comprehensive array of public goods and services that are fundamental to human flourishing. These include, but are not limited to:

²⁴<https://www.sciencedaily.com/releases/2011/09/110906152459.htm#:~:text=%22Certain%20policies%2C%20like%20tax%20progressivity,Relationships>

²⁵<https://iep.utm.edu/sencap/#:~:text=Therefore%2C%20Sen%20argues%2C%20a%20theory,freedom%20%E2%80%93%20of%20actual%20people>

Universal and high-quality education systems: Crucial for developing cognitive skills, fostering critical thinking, promoting social mobility, and expanding opportunities for meaningful participation in the economy and society.

Accessible and affordable healthcare systems: Essential for ensuring physical and mental well-being, reducing vulnerability to illness and premature death, and enabling individuals to lead healthy and productive lives.

Robust social safety nets: Providing a basic level of security and preventing individuals from falling below a threshold of basic capabilities due to unemployment, disability, old age, or other unforeseen circumstances.

Essential infrastructure (clean water, sanitation, reliable energy, transportation networks): Creating the fundamental conditions for healthy living, economic activity, social connectivity, and overall well-being.

Public spaces, cultural institutions, and opportunities for civic engagement: Fostering social interaction, promoting cultural development, and enabling individuals to participate actively in the political and social life of their communities.

From a capability perspective, the normative evaluation of a tax system should not be solely predicated on its impact on income or wealth distribution, but rather on its effectiveness in generating adequate and sustainable revenue to fund these capability-enhancing public services and transfers. A tax system that fails to adequately resource these crucial areas, even if it achieves a certain degree of income equality, would be deemed unjust if it severely constrains individuals' real opportunities to live lives they value. Furthermore, the Capability Approach underscores the critical importance of addressing systemic inequalities and discriminatory practices that can significantly impede individuals' ability to convert available resources into actual functionings. Tax policies can play a crucial role in this by funding anti-discrimination initiatives, targeted programs aimed at empowering marginalized groups, and policies that promote inclusive economic growth. The central focus shifts from merely distributing resources to ensuring that all individuals have the real and substantive opportunities to develop their inherent potential and lead flourishing lives.

2.1.4. Libertarianism: Taxation as Theft and the Primacy of Property Rights (Critical Examination)

Robert Nozick's libertarianism presents a radical departure from the egalitarian and welfarist perspectives discussed above, grounding its conception of social justice in the inviolability of individual rights, particularly the rights to self-ownership and private property. Nozick's entitlement theory posits that a distribution of holdings is just if and only if it has arisen through legitimate means: just initial acquisition of unowned resources, just voluntary transfer of legitimately held resources, or the rectification of past

injustices in acquisition or transfer.²⁶ If individuals' holdings have been acquired and transferred justly, then the resulting distribution, regardless of the level of inequality, is deemed morally legitimate, and the state possesses no inherent right to redistribute these holdings.

Relevance to Taxation: From this staunchly individualistic perspective, the vast majority of taxation, exceeding the minimal level required to fund the core functions of a "night-watchman" state (protection of individual rights, enforcement of contracts, and national defense), is considered an illegitimate violation of individual liberty and property rights. Nozick famously articulated the argument that redistributive taxation is morally indistinguishable from forced labor, as it compels individuals to surrender a portion of the fruits of their labor to the state for the benefit of others without their explicit and voluntary consent. This viewpoint fundamentally clashes with the justifications for progressive taxation and comprehensive social welfare programs offered by the other philosophical frameworks discussed.

Nozick's unwavering emphasis on historical entitlement implies that the justice of a tax system cannot be evaluated based on its outcomes, such as the reduction of inequality or the provision of social services, but solely on the legitimacy of the historical processes through which individuals accumulated their wealth. Consequently, even extreme disparities in wealth would be considered just if they arose from voluntary exchanges and legitimate initial acquisitions. The only morally justifiable role for taxation, within this framework, is to finance the minimal state apparatus necessary to protect these fundamental rights. Any attempt to utilize taxation as a tool for achieving broader social goals, such as reducing economic inequality or providing a social safety net, is viewed as a coercive infringement upon individuals' fundamental rights to their justly acquired property and their liberty to dispose of it as they see fit. This perspective serves as a critical counterpoint to more egalitarian theories, starkly highlighting the inherent tension between the maximization of individual liberty and the pursuit of distributive justice through the coercive power of the state's taxing authority.

2.2. Principles of Taxation

Beyond the overarching philosophical debates surrounding social justice, the practical design and evaluation of tax systems are guided by a set of fundamental principles that aim to ensure efficiency, fairness, and administrative feasibility. Understanding these principles is crucial for analyzing the potential of tax policies to either promote or hinder the realization of social justice.

²⁶ <http://fs2.american.edu/dfagel/www/nozickexcerpt.html>

2.2.1. Equity: Horizontal and Vertical Justice in Taxation

The principle of equity stands as a cornerstone of just taxation, fundamentally concerned with the fair distribution of the tax burden across individuals and entities within a society. This principle is typically disaggregated into two key dimensions:

Horizontal Equity: This principle mandates that individuals or entities in substantially similar economic circumstances should bear a comparable tax burden. For instance, two individuals with the same level of taxable income should, in principle, pay the same amount of tax. Departures from horizontal equity can arise due to various tax exemptions, deductions, credits, or loopholes that differentially benefit certain groups within the same economic stratum. Ensuring a high degree of horizontal equity is vital for the perceived fairness, legitimacy, and public acceptance of the tax system, as it prevents arbitrary or discriminatory treatment based on factors other than economic capacity.

Vertical Equity: This principle addresses the fair treatment of individuals or entities situated in different economic circumstances. It grapples with the fundamental question of how the tax burden should be appropriately distributed across various income or wealth levels. Different conceptions of vertical equity underpin the rationale for different types of tax systems. Progressive tax systems, where those with higher incomes or wealth contribute a larger proportion of their resources in taxes, are often justified on grounds of vertical equity, based on the notion that those with a greater ability to pay should contribute more towards public revenue and the provision of essential social services.²⁷ Conversely, regressive tax systems, where lower-income individuals end up paying a larger proportion of their income in taxes, are generally considered to violate principles of vertical equity. Proportional tax systems, where all taxpayers pay the same percentage of their income, represent an intermediate approach, although their impact on vertical equity remains a subject of debate, as the same percentage can represent a significantly larger absolute burden for those with lower incomes and less discretionary spending power.

2.2.2. Progressivity, Regressivity, Proportionality: Structuring the Tax Burden

These terms describe the fundamental relationship between the average tax rate faced by a taxpayer and their level of income or wealth, providing a crucial lens for analyzing the distributional impact of a tax system:

Progressive Tax: A tax system is characterized as progressive when the average tax rate (the total amount of tax paid as a percentage of the taxpayer's income or wealth) increases as the taxpayer's income or wealth increases.²⁸ Progressive taxation is often advocated as a key mechanism for reducing income and wealth inequality and promoting vertical equity, as it places a relatively larger fiscal burden on those with a greater

²⁷https://www.investopedia.com/terms/v/vertical_equity.asp#:~:text=What%20is%20Vertical%20Equity%20Based,ta,x%20rates%20or%20proportional%20taxation.

²⁸ <https://www.britannica.com/money/taxation/Proportional-progressive-and-regressive-taxes>

capacity to bear it, thereby freeing up a larger proportion of lower incomes for essential consumption and savings.²⁹

Regressive Tax: Conversely, a tax system is considered regressive when the average tax rate decreases as the taxpayer's income or wealth increases. Regressive taxes disproportionately burden lower-income individuals, who typically spend a larger fraction of their income on goods and services subject to such taxes.³⁰ Consumption taxes, such as general sales taxes or value-added taxes (VAT), can exhibit regressive tendencies if they apply uniformly to essential goods and services, as these constitute a larger share of the total expenditure for lower-income households.

Proportional Tax: A tax system is proportional when the average tax rate remains constant regardless of the taxpayer's income or wealth level. While seemingly neutral on the surface, proportional taxes can still have a differential impact on individuals with varying income levels.³¹ For lower-income individuals with a higher marginal propensity to consume and less discretionary income, the same percentage tax rate can represent a significantly larger absolute reduction in their available resources compared to higher-income individuals.

2.2.3. Tax Incidence: Unraveling the True Burden

Understanding tax incidence is paramount for accurately assessing the distributional effects of any tax policy and its ultimate implications for social justice. Tax incidence refers to the question of who ultimately bears the economic burden of a tax, which may not necessarily be the individual or entity legally obligated to remit the tax to the government (the statutory burden).³²

Statutory Burden: This refers to the individual or entity that is legally responsible for paying the tax to the relevant tax authority. For example, in the case of an excise tax on a manufactured good, the statutory burden typically falls on the producer.

Economic Burden: This refers to the individual or entity that ultimately experiences a reduction in their real income or purchasing power as a direct consequence of the tax. In the case of the excise tax, the economic burden might be passed on to consumers in the form of higher prices, absorbed by producers through reduced profits, or even fall on workers through lower wages, depending on the market dynamics and the elasticity of supply and demand.³³

²⁹https://www.investopedia.com/terms/v/vertical_equity.asp#:~:text=What%20is%20Vertical%20Equity%20Based,tax%20rates%20or%20proportional%20taxation.

³⁰ <https://taxfoundation.org/taxedu/glossary/regressive-tax/#:~:text=A%20regressive%20tax%20is%20one,%2D%20or%20higher%2Dincome%20taxpayers.>

³¹[https://socialsci.libretexts.org/Bookshelves/Economics/Economics_\(Boundless\)/16%3A_Taxes_and_Public_Finance/16.3%3A_Progressive_Proportional_and_Regressive_Taxes](https://socialsci.libretexts.org/Bookshelves/Economics/Economics_(Boundless)/16%3A_Taxes_and_Public_Finance/16.3%3A_Progressive_Proportional_and_Regressive_Taxes)

³² <https://taxfoundation.org/taxedu/glossary/tax-incidence/>

³³ <https://courses.lumenlearning.com/wm-microeconomics/chapter/tax-incidence/>

A thorough analysis of tax incidence is therefore indispensable for evaluating the true distributional consequences of a tax policy. For instance, while a corporate income tax has a statutory burden on corporations, its economic burden might be shifted to consumers through higher prices, to workers through lower wages or reduced employment, or to shareholders through lower returns on investment.³⁴ Similarly, the incidence of property taxes can be borne by landlords (statutory burden) but ultimately passed on to renters in the form of higher rental costs (economic burden).³⁵ Without a rigorous assessment of tax incidence, policymakers may inadvertently implement tax policies that have unintended and potentially regressive distributional effects, undermining the pursuit of social justice.

2.2.4. Efficiency vs. Equity Trade-offs: Navigating the Policy Dilemma

In the intricate process of designing and implementing tax systems, policymakers frequently encounter potential trade-offs between the objectives of efficiency and equity.

Efficiency in taxation generally pertains to the capacity of a tax system to generate the desired level of revenue with minimal distortion to economic behavior. An efficient tax system ideally minimizes deadweight loss (the reduction in total economic surplus resulting from the imposition of the tax, often represented by the Harberger triangle) and entails low administrative costs for the government and compliance costs for taxpayers.³⁶ Taxes that are broad-based and have uniform rates across similar goods or services tend to be more efficient as they minimize opportunities for tax avoidance and do not unduly influence consumption or production decisions. For instance, a broad-based consumption tax with few exemptions might be considered more efficient than a system with numerous specific excises and varying rates.

Equity, as elaborated earlier, concerns the fairness of the tax burden distribution across different segments of society.³⁷ Tax policies aimed at achieving greater equity, such as progressive income taxes or taxes on wealth, may be argued to potentially reduce economic efficiency. For example, high marginal tax rates on income could theoretically disincentivize work effort, investment, and entrepreneurship, leading to a smaller overall economic output.³⁸ Similarly, complex tax structures designed to achieve specific equity goals (e.g., numerous deductions and credits targeted at specific groups) can increase administrative and compliance costs, thereby reducing efficiency.³⁹

³⁴ <https://www.econlib.org/library/enc/corporateincometax.html>

³⁵ <https://www.cbre-ea.com/public-home/ea-insights/2018/11/02/can-landlords-really-pass-higher-property-taxes-on-to-tenants>

³⁶ <https://taxfoundation.org/blog/deadweight-loss-effects-high-tax-rates/>

³⁷ [https://www.pbo.gov.au/about-budgets/budget-insights/budget-explainers/tax-mix/characteristics-differenttaxes/equity#:~:text=The%20second%2C%20called%20horizontal%20equity,benefits\)%2C%20regardless%20of%20the%20source](https://www.pbo.gov.au/about-budgets/budget-insights/budget-explainers/tax-mix/characteristics-differenttaxes/equity#:~:text=The%20second%2C%20called%20horizontal%20equity,benefits)%2C%20regardless%20of%20the%20source)

³⁸ <https://www.economicsobservatory.com/which-taxes-are-best-and-worst-for-growth>

³⁹ Rajagopalan S. THE EQUITY-COMPLEXITY TRADE-OFF IN TAX POLICY: LESSONS FROM THE GOODS AND SERVICES TAX IN INDIA. *Social Philosophy and Policy*. 2022;39(1):139-187. doi:10.1017/S0265052523000122

However, the existence and magnitude of this efficiency-equity trade-off are subjects of ongoing debate among economists and policymakers. Some argue that well-designed progressive tax systems and social welfare programs, funded by tax revenue, can actually enhance long-term economic efficiency by investing in human capital (through education and healthcare), reducing social unrest, and fostering a more stable and inclusive economic environment. For example, public investment in education, funded by progressive taxes, can lead to a more skilled workforce and higher productivity in the long run, potentially offsetting any short-term disincentive effects.

Furthermore, the perception of fairness and equity within a tax system can significantly impact taxpayer morale and compliance. A tax system perceived as highly unfair or regressive may lead to greater tax evasion and avoidance, ultimately undermining both equity and efficiency. Therefore, achieving a reasonable balance between efficiency and equity is crucial for the long-term sustainability and legitimacy of any tax system. Policymakers must carefully consider the potential trade-offs and strive to design tax policies that are both economically sound and socially just. This often involves exploring innovative tax instruments and carefully calibrating tax rates and structures to minimize negative efficiency effects while maximizing the achievement of equity goals.⁴⁰

2.3. The Nexus: How Tax Policy Instruments Impact Distributive and Procedural Justice

The principles of taxation discussed above are intrinsically linked to the broader dimensions of social justice, particularly distributive justice and procedural justice. Tax policy instruments serve as key levers through which governments can influence both the allocation of resources and the fairness of the processes governing that allocation.

Distributive Justice, as previously established, concerns the equitable allocation of societal benefits and burdens. Tax policies are primary tools for shaping distributive outcomes by directly redistributing income and wealth, funding public services that aim to equalize opportunities, and providing safety nets for vulnerable populations. Various tax instruments have distinct implications for distributive justice:

- **Progressive Income Taxes:** These instruments directly aim to reduce income inequality by taxing higher earners at increasing rates, thereby transferring a larger share of resources to the public purse, which can then be used to fund programs benefiting lower-income groups.⁴¹
- **Wealth Taxes (e.g., on net worth or inheritance):** These target the distribution of accumulated wealth, aiming to reduce wealth concentration and potentially promote greater equality

⁴⁰ Mohammed, H.; Tangl, A. Taxation Perspectives: Analyzing the Factors behind Viewing Taxes as Punishment—A Comprehensive Study of Taxes as Service or Strain. *J. Risk Financial Manag.* **2024**, *17*, 5. <https://doi.org/10.3390/jrfm17010005>
⁴¹<https://www.bajajfinserv.in/investments/what-is-progressive-tax#:~:text=206%204%20min,as%20an%20individual's%20income%20rises.>

of opportunity across generations. The revenue generated can be used to fund public services or provide direct transfers, further influencing distributive outcomes.⁴²

- ***Regressive Consumption Taxes:*** Conversely, these instruments can exacerbate income inequality by placing a proportionally larger burden on lower-income households, who spend a greater share of their income on essential goods and services subject to such taxes. Exemptions for necessities or differential rates can mitigate this regressivity.
- ***Corporate Income Taxes:*** While their direct impact on individual income distribution is less immediate, corporate taxes can indirectly affect distributive justice through their influence on wages, employment levels, and the prices of goods and services. Tax incentives for job creation or investment in underserved areas can be designed to promote more equitable regional development.

The effectiveness of these instruments in achieving distributive justice depends not only on their design but also on the broader context of social and economic inequalities within a society. Tax policies must be carefully calibrated and integrated with other social welfare programs to achieve meaningful reductions in inequality and poverty.⁴³

Procedural Justice focuses on the fairness and transparency of the processes and institutions involved in the design, administration, and enforcement of tax laws.⁴⁴ A tax system that adheres to principles of procedural justice is characterized by:

- ***Clarity and Simplicity of Tax Laws:*** Complex and opaque tax regulations can disproportionately burden individuals and small businesses with limited resources for tax planning and compliance, potentially leading to unintentional errors or unfair penalties. Simpler and more transparent laws promote fairness and reduce opportunities for arbitrary application.
- ***Impartial and Efficient Tax Administration:*** A fair tax system requires an impartial and efficient tax administration that applies the law consistently and without bias. Corruption, inefficiency, and undue harassment by tax authorities can severely undermine procedural justice and public trust in the system.
- ***Accessibility of Information and Redress Mechanisms:*** Taxpayers should have easy access to clear information about their obligations and rights. Furthermore, effective and accessible mechanisms for appealing tax assessments and resolving disputes are crucial for ensuring procedural fairness.

⁴²<https://www.investopedia.com/terms/p/progressivetax.asp#:~:text=Those%20with%20greater%20resources%20fund,road%20maintenance%20and%20public%20safety.>

⁴³ <https://desapublications.un.org/policy-briefs/un-desa-policy-brief-no-168-net-wealth-taxes-how-they-can-help-fight-inequality-and>

⁴⁴https://www.researchgate.net/publication/237089426_Procedural_Justice_Principles_and_Tax_Compliance_in_Ireland_A_Preliminary_Exploration_in_the_Context_of_Reminder_Letters#:~:text=51,receive%20from%20decision%20making%20authorities.

- ***Fair Enforcement and Penalties:*** Tax laws should be enforced fairly and consistently, with penalties that are proportionate to the offense. Discriminatory enforcement or excessive penalties can undermine procedural justice and disproportionately impact vulnerable groups.

The design of tax instruments can indirectly impact procedural justice. For instance, overly complex tax incentives or exemptions can create loopholes that are primarily accessible to well-resourced individuals and corporations, leading to perceptions of unfairness and undermining the principle of equal application of the law. Simplifying tax structures and reducing discretionary powers within the tax administration can enhance procedural justice.

2.4. Measuring Impact: Indicators of Inequality (Gini Coefficient) and Poverty

To empirically evaluate the social justice impact of tax policies, it is essential to utilize robust and widely accepted indicators for measuring inequality and poverty. These metrics provide quantitative insights into the distributional outcomes of tax systems and allow for tracking changes over time and comparisons across different jurisdictions.

- ***Gini Coefficient:*** The Gini coefficient is a widely used statistical measure of income or wealth inequality within a population.⁴⁵ It ranges from 0 (perfect equality, where everyone has the same income⁴⁶ or wealth) to 1 (perfect inequality, where one person has all the income or wealth). The Gini coefficient is typically derived from the Lorenz curve, which plots the cumulative percentage of total income or wealth against the cumulative percentage of the population.⁴⁷ The Gini coefficient represents the ratio of the area between the Lorenz curve and the line of perfect equality to the total area under the line of perfect equality. A higher Gini coefficient indicates greater inequality. Tax policies, particularly progressive income taxes and wealth taxes, aim to reduce the Gini coefficient by redistributing income and wealth.⁴⁸ Conversely, regressive tax policies can potentially increase the Gini coefficient.⁴⁹ Analyzing the change in the Gini coefficient before and after the implementation of specific tax policies can provide valuable insights into their impact on income or wealth distribution.

Poverty Measures: Poverty is a multidimensional concept, but income-based measures remain crucial for assessing the economic well-being of a population. Several indicators are used to quantify poverty:

- ***Poverty Rate:*** This is the percentage of the population living below a defined poverty line, which represents a minimum level of income deemed necessary to meet basic needs. Tax policies

⁴⁵ <https://blogs.worldbank.org/en/developmenttalk/defense-gini-coefficient>

⁴⁶ <https://www.examples.com/ap-microeconomics/income-and-wealth-inequality>

⁴⁷ <https://ourworldindata.org/what-is-the-gini-coefficient>

⁴⁸ <https://blogs.worldbank.org/en/governance/why-does-progressivity-taxes-matter>

⁴⁹ <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/theeffectsoftaxesandbenefitsonincomeinequality/1977tofinancialyearending2015>

can influence the poverty rate through direct income support programs (funded by tax revenue) and by affecting the overall distribution of income. Progressive tax systems that fund robust social safety nets can help to lift individuals and families out of poverty.

- **Poverty Gap:** This measure indicates the average shortfall of the income of the poor from the poverty line, expressed as a percentage of the poverty line.⁵⁰ It provides insights into the depth of poverty. Tax-funded transfer programs targeted at the poor can help to reduce the poverty gap, not just the poverty rate.
- **Squared Poverty Gap (or Severity of Poverty Index):** This index gives greater weight to the income deficits of the poorest individuals, providing a measure of the severity of poverty.⁵¹ Tax and transfer policies aimed at the very poorest will have a greater impact on this measure.

Analyzing these poverty indicators in conjunction with the Gini coefficient provides a more comprehensive picture of the social justice impact of tax policies. While a reduction in the Gini coefficient indicates a more equal distribution of income, it does not necessarily imply a reduction in poverty. Similarly, a decrease in the poverty rate might not reflect changes in the depth or severity of poverty. Therefore, a holistic evaluation of tax policies for social justice requires considering their impact on both inequality and various dimensions of poverty. Furthermore, it is important to analyze these indicators not just at a national level but also across different demographic groups and regions to identify potential disparities and ensure that tax policies are contributing to a more just and equitable society for all.



⁵⁰ <https://www.oecd.org/en/data/indicators/poverty-gap.html>

⁵¹ <https://archive.unescwa.org/squared-poverty-gap-index>

PART 2**TAX INSTRUMENTS, ADMINISTRATION, AND SOCIAL JUSTICE - GLOBAL/CONCEPTUAL VIEW****CHAPTER 3: DIRECT TAXATION AND SOCIAL JUSTICE (APPROX. 3,500 WORDS)**

This chapter delves into the critical role of direct taxation in shaping social justice outcomes, with a particular focus on the Indian scenario. Direct taxes, levied directly on the income or wealth of individuals and corporations, possess significant potential for promoting equity and funding public services that underpin a just society. This chapter will analyze the design, impact, and challenges associated with personal income tax, corporate income tax, and wealth and inheritance taxes, exploring their specific relevance to distributive and procedural justice.

3.1. Personal Income Tax: Design, Progressivity, Exemptions/Deductions, Impact on Inequality

Personal income tax (PIT) stands as a cornerstone of modern tax systems, directly taxing the earnings of individuals from various sources, including wages, salaries, profits, and investments.⁵² Its design features, particularly its progressivity, the array of exemptions and deductions it offers, and its overall structure, have profound implications for income inequality and the achievement of social justice.

3.1.1. Design and Progressivity:

The design of a PIT system typically involves defining the tax base (what income is taxable), establishing tax brackets (income ranges subject to different tax rates), and setting the corresponding tax rates for each bracket. A progressive PIT system, characterized by increasing marginal tax rates as income rises, is a key instrument for promoting vertical equity. Higher earners contribute a larger proportion of their income in taxes, which can then be utilized to fund public services and social welfare programs that disproportionately benefit lower-income groups.⁵³

The degree of progressivity in a PIT system is determined by the number of tax brackets and the steepness of the rate increases between them. A highly progressive system aims to significantly reduce income disparities, while a less progressive system has a more limited impact on redistribution. The choice of

⁵² <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=2035918>

⁵³ <https://www.investopedia.com/terms/p/progressivetax.asp#:~:text=The%20top%20earners%20are%20taxed,of%20tax%20revenue%20coming%20in.>

progressivity levels involves balancing equity considerations with potential impacts on work incentives and capital flight, although empirical evidence on the latter is often debated (Piketty & Saez, 2013).

3.1.2. Exemptions and Deductions:

PIT systems often include various exemptions and deductions, which reduce an individual's taxable income.⁵⁴ **Exemptions** typically exclude certain types of income from taxation altogether (e.g., certain allowances or benefits), while **deductions** allow taxpayers to subtract specific expenses or investments from their gross income before tax liability is calculated (e.g., contributions to retirement accounts, certain medical expenses, or interest on home loans).⁵⁵

While some exemptions and deductions are designed to incentivize socially desirable behavior (e.g., investments in education or charitable donations) or to account for genuine hardship (e.g., disability benefits), their impact on social justice can be complex. Higher-income earners often have greater access to and capacity to utilize these provisions, potentially reducing the overall progressivity of the PIT system and creating horizontal inequities (where individuals with similar incomes pay different amounts of tax). The proliferation of complex exemptions and deductions can also increase compliance costs and create opportunities for tax avoidance, further undermining equity (Slemrod & Yitzhaki, 2002).

Table 3.1: Illustrative Impact of Deductions on Tax Liability Across Income Levels

Income Level (₹)	Gross Tax Liability (at a progressive rate)	Deduction Claimed (₹)	Taxable Income (₹)	Net Tax Liability (₹)	Tax Saving (₹)
5,00,000	50,000	50,000	4,50,000	45,000	5,000
20,00,000	4,00,000	50,000	19,50,000	3,90,000	10,000

Note: This is a simplified illustration assuming a constant marginal tax rate for the sake of demonstrating the absolute tax saving from a fixed deduction increases with income.

As evident from the illustrative table, a fixed deduction provides a larger absolute tax saving for individuals in higher tax brackets, effectively making the deduction regressive in its impact on tax liability.⁵⁶ This necessitates careful consideration of the design and rationale behind exemptions and deductions to ensure they align with social justice objectives.

3.1.3. Impact on Inequality:

⁵⁴ <https://taxsummaries.pwc.com/india/individual/taxes-on-personal-income>

⁵⁵ <https://cleartax.in/s/income-tax-allowances-and-deductions>

⁵⁶ <https://taxfoundation.org/blog/regressivity-of-deductions/>

The primary mechanism through which PIT affects income inequality is its progressivity.⁵⁷ A well-designed progressive PIT system can significantly reduce post-tax income disparities by taking a larger share of income from higher earners and leaving a larger proportion with lower earners. The effectiveness of PIT in reducing inequality is often measured by comparing Gini coefficients before and after the application of income tax and any associated transfer payments.

However, the actual impact of PIT on inequality can be diluted by factors such as tax evasion, aggressive tax avoidance strategies employed by high-income individuals and corporations (often exploiting loopholes in complex tax laws), and the regressivity embedded within certain exemptions and deductions. Strengthening tax enforcement, simplifying tax laws, and carefully reviewing the rationale and distributional effects of exemptions and deductions are crucial for maximizing the potential of PIT to promote income equality and social justice (Atkinson, 2015).

3.2. Corporate Income Tax: Incidence Debates, Role in Funding Public Goods, Tax Havens, Avoidance/Evasion, Global Minimum Tax Implications

Corporate income tax (CIT) is levied on the profits of companies.⁵⁸ While seemingly a tax on businesses, its ultimate economic incidence (who ultimately bears the burden) is a subject of ongoing debate with significant implications for social justice. Furthermore, CIT plays a vital role in funding public goods and services, and issues such as tax havens, avoidance, and evasion erode the tax base, impacting the state's ability to finance social programs.⁵⁹ The recent global minimum tax initiative also has important implications for CIT and social justice.

3.2.1. Incidence Debates:

The economic burden of CIT is not always borne solely by shareholders. It can be shifted to consumers through higher prices, to workers through lower wages or reduced employment, or to a combination of these stakeholders. The actual incidence depends on various factors, including the market structure, the elasticity of supply and demand, and the degree of competition (Clausing, 2013).

- **Traditional View (Capital Bears the Burden):** The traditional view in economics suggests that in the long run, the burden of CIT primarily falls on the owners of capital (shareholders) in the form of lower returns on investment.
- **Labor Bears the Burden:** Some argue that in an increasingly globalized and competitive environment, corporations may pass on the burden of CIT to labor through lower wages or reduced hiring to maintain profitability.

⁵⁷ <https://www.socialprotectionfloorscoalition.org/2019/07/social-protection-an-essential-building-block-to-reduce-inequality/>

⁵⁸ <https://taxsummaries.pwc.com/quick-charts/corporate-income-tax-cit-rates>

⁵⁹ <https://cleartax.in/s/beps-oecd>

- **Consumers Bear the Burden:** In less competitive markets with inelastic demand, corporations may be able to pass on a portion of the CIT burden to consumers through higher prices.

Understanding the true incidence of CIT is crucial for assessing its impact on social justice. If the burden falls primarily on shareholders (who tend to be higher-income individuals), CIT can be progressive. However, if a significant portion is shifted to workers or consumers, it can have regressive effects. Empirical evidence on CIT incidence is mixed and context-dependent, highlighting the complexity of the issue.

3.2.2. Role in Funding Public Goods:

CIT is a significant source of revenue for governments worldwide, including India.⁶⁰ These revenues are essential for financing public goods and services that underpin social justice, such as education, healthcare, infrastructure, and social welfare programs. A robust and effectively collected CIT contributes directly to the state's capacity to invest in these areas, promoting equality of opportunity and providing a safety net for vulnerable populations. Erosion of the CIT base through avoidance and evasion directly diminishes the resources available for these crucial social investments.

3.2.3. Tax Havens, Avoidance/Evasion:

Tax havens, jurisdictions with low or no corporate tax rates and strict secrecy laws, facilitate aggressive tax avoidance and evasion by multinational corporations.⁶¹ By shifting profits to these jurisdictions through complex accounting practices (e.g., transfer pricing), corporations can significantly reduce their tax liabilities in the countries where they generate actual economic activity.⁶² This practice erodes the tax base of higher-tax jurisdictions, reducing the revenue available for public services and shifting a greater tax burden onto individuals and smaller, less mobile businesses (Zucman, 2015).

Addressing corporate tax avoidance and evasion through international cooperation, stricter national regulations, and enhanced transparency is crucial for ensuring that corporations pay their fair share of taxes and contribute to the funding of public goods that benefit society as a whole.

3.2.4. Global Minimum Tax Implications

The recent agreement on a global minimum corporate tax rate (under the OECD/G20 Inclusive Framework) aims to address the issue of tax havens and profit shifting by ensuring that large multinational enterprises

⁶⁰ <https://www.oecd.org/en/data/datasets/corporate-income-tax-rates-database.html>

⁶¹ <https://cthi.taxjustice.net/>

⁶² <https://www.emerald.com/insight/content/doi/10.1108/itpd-04-2023-0011/full/html#:~:text=Because%20multinational%20corporations%20frequently%20use,high%2Dtax%20to%20low%2Dtax>

pay a minimum tax rate of 15% on their profits, regardless of where they are headquartered.⁶³ This initiative has significant implications for social justice:

- **Increased Revenue for Public Services:** By reducing the incentive for profit shifting to low-tax jurisdictions, the global minimum tax is expected to increase tax revenues for participating countries, including India.⁶⁴ These additional revenues can be used to fund essential public services and social programs, contributing to greater social equity.
- **Leveling the Playing Field:** The global minimum tax aims to create a more level playing field for businesses by reducing the tax advantage enjoyed by multinational corporations that can easily shift profits to tax havens. This can benefit domestic businesses and promote fairer competition.
- **Reduced Pressure on Other Taxpayers:** By ensuring that large corporations pay a minimum level of tax, the global minimum tax can reduce the pressure on individual taxpayers and smaller businesses to shoulder a disproportionate share of the tax burden.

However, the actual impact of the global minimum tax on social justice will depend on its effective implementation and the extent to which countries utilize the additional revenue generated for socially progressive purposes.

3.3. Wealth and Inheritance Taxes: Rationale (Intergenerational Equity), Design Challenges, Political Economy

Wealth taxes, levied on the total net worth of individuals (including assets like property, financial holdings, and other valuables), and inheritance taxes (levied on the transfer of wealth upon death) are powerful, albeit often politically contentious, instruments for addressing wealth inequality and promoting intergenerational equity.

3.3.1. Rationale (Intergenerational Equity)

The primary rationale for wealth and inheritance taxes lies in addressing the significant and often growing concentration of wealth in many societies and promoting greater equality of opportunity across generations.

Reducing Wealth Inequality: Wealth taxes directly target the stock of accumulated wealth, which is often far more unequally distributed than income. By periodically taxing wealth, governments can generate revenue for public services and potentially reduce the concentration of economic power in the hands of a few.

⁶³ <https://www.oecd.org/en/topics/sub-issues/global-minimum-tax.html>

⁶⁴ https://www.taxmanagementindia.com/visitor/detail_article.asp?ArticleID=14068

Promoting Intergenerational Equity: Inheritance taxes aim to mitigate the transmission of large fortunes across generations, which can create significant disparities in opportunities from birth. By taxing inheritances, governments can reduce the extent to which life chances are determined by inherited wealth rather than individual effort and talent, fostering a more level playing field for all (Piketty, 2014). This aligns with Rawls' concept of maintaining fair background conditions for equality of opportunity.

3.3.2. Design Challenges

Despite their strong theoretical rationale for promoting social justice, the design and implementation of wealth and inheritance taxes pose several practical challenges:

- **Valuation Difficulties:** Accurately valuing a wide range of assets, particularly illiquid assets like real estate, art, and private businesses, can be complex and costly. This can lead to disputes and opportunities for tax avoidance.
- **Liquidity Issues:** Some taxpayers may hold a significant portion of their wealth in illiquid assets and may face difficulties in paying the tax liability without selling these assets, potentially leading to economic disruption.
- **Capital Flight:** Concerns exist that high wealth taxes could incentivize wealthy individuals to move their assets to jurisdictions without such taxes.
- **Administrative Costs:** Implementing and administering wealth and inheritance taxes can be relatively complex and resource-intensive.
- **Defining the Tax Base:** Determining which assets should be included in the tax base and at what thresholds the tax should apply are crucial design decisions with significant distributional consequences.

Table 3.2: Potential Design Features of Wealth and Inheritance Taxes

Feature	Wealth Tax	Inheritance Tax
Tax Base	Net worth (total assets minus liabilities)	Value of inherited assets above a threshold
Tax Rate Structure	Progressive rates based on net worth	Progressive rates based on the size of the inheritance and potentially the relationship to the deceased
Exemptions/Thresholds	Exemption levels to protect modest wealth	Exemption levels for surviving spouses and close relatives, potentially with higher thresholds
Valuation Methods	Rules for valuing different asset types (e.g., market value, professional appraisal)	Valuation at the time of death

Payment Mechanisms	Annual payment based on wealth held	Payment upon transfer of inheritance
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Addressing these design challenges through careful consideration of international best practices, robust valuation mechanisms, and appropriate exemptions and thresholds is crucial for the successful implementation of wealth and inheritance taxes.

3.3.3. Political Economy

Wealth and inheritance taxes often face significant political opposition, despite their potential for reducing inequality and promoting intergenerational equity. Arguments against these taxes often include concerns about their impact on savings and investment, the potential for capital flight, and the perceived unfairness of taxing wealth that has already been subject to income tax.

Powerful lobbying efforts by wealthy individuals and interest groups can also create significant political hurdles to the implementation or effective enforcement of these taxes. Overcoming this political resistance requires strong public support, clear communication of the rationale and benefits of these taxes for broader social justice, and a commitment from policymakers to prioritize equity over the interests of a small, affluent minority (Scheve & Stasavage, 2016).



CHAPTER 4: INDIRECT TAXATION AND SOCIAL JUSTICE (APPROX. 3,000 WORDS)

This chapter shifts focus to the realm of indirect taxation and its complex interplay with social justice, particularly within the Indian context. Indirect taxes, levied on transactions rather than directly on income or wealth, encompass consumption taxes like Value Added Tax (VAT) or Goods and Services Tax

(GST), as well as excise duties and environmental levies. This chapter will analyze the efficiency arguments often advanced in favor of consumption taxes, juxtaposed with their potential for regressive impacts. It will then explore various mechanisms aimed at mitigating this regressivity, such as multiple tax rates, exemptions, and targeted transfers. Finally, it will examine the rationale behind excise duties on goods with negative externalities ('sin taxes') and environmental levies, considering their corrective justice objectives alongside their potential distributive effects.

4.1. Consumption Taxes (VAT/GST): Efficiency Arguments vs. Regressive Impacts

Consumption taxes, primarily in the form of Value Added Tax (VAT) or Goods and Services Tax (GST), have become a dominant feature of tax systems globally, including India. Proponents often highlight their efficiency advantages, but their potential for regressive impacts on lower-income households raises significant social justice concerns.

4.1.1. Efficiency Arguments

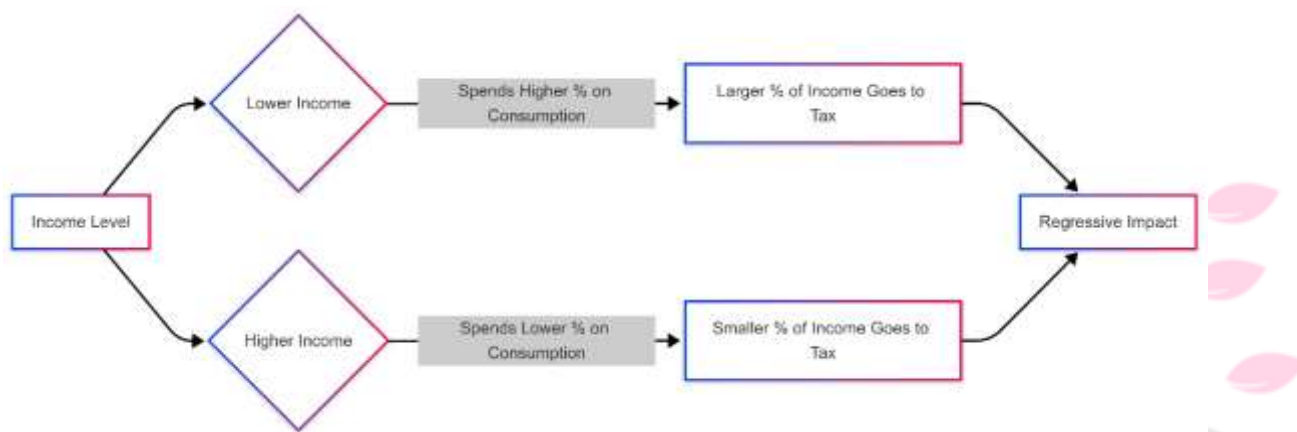
The efficiency arguments in favor of VAT/GST typically center around the following:

- **Broad Tax Base:** Consumption taxes have a broad base, encompassing a wide range of goods and services. This can lead to lower tax rates compared to taxes levied on a narrower base (like income), while still generating substantial revenue. A broader base can also reduce economic distortions by minimizing the incentive for taxpayers to alter their behavior to avoid specific taxes (e.g., shifting consumption patterns).
- **Reduced Tax Cascading:** VAT, in particular, is designed to avoid the cascading effect of multi-stage sales taxes, where taxes are levied at each stage of production and distribution. VAT operates on the value added at each stage, with businesses receiving credits for taxes paid on their inputs, leading to a more neutral tax on production decisions and potentially lower final prices for consumers.
- **Encouraging Savings and Investment:** By taxing consumption rather than income, VAT/GST is argued to be more neutral towards savings and investment. Income tax can be seen as taxing both the act of earning and the returns from savings and investment, potentially discouraging future economic activity. A consumption tax, in theory, only taxes spending, making saving and investment relatively more attractive.
- **Ease of Administration and Compliance (in some aspects):** Compared to complex income tax systems with numerous deductions and exemptions, a broad-based VAT/GST with a uniform or limited number of rates can be relatively simpler to administer and comply with, at least for businesses.

4.1.2. Regressive Impacts

Despite these potential efficiency advantages, the primary social justice concern associated with consumption taxes is their inherent tendency to be regressive. This regressivity arises from the fact that lower-income households typically spend a larger proportion of their income on essential goods and services compared to higher-income households, who save and invest a greater share of their earnings. When a uniform tax rate is applied to these essential items, it constitutes a larger percentage of the disposable income of the poor than of the rich.

Figure 4.1: Illustrative Regressive Impact of a Uniform Consumption Tax



Note: This illustrates the disproportionate burden of a uniform consumption tax on lower-income households due to their higher propensity to consume.

Empirical studies across various countries, including analyses of GST in India, often confirm this regressive effect, particularly when essential goods and services consumed disproportionately by the poor are subject to the standard tax rate (Rao & Rao, 2018). This can exacerbate existing income inequalities and disproportionately impact the living standards of the most vulnerable segments of society.

Table 4.1: Illustrative Regressive Impact of a 10% Uniform Consumption Tax

Income Level (₹ per month)	Total Consumption (₹)	Tax Paid (10% of Consumption) (₹)	Tax as % of Income
10,000	9,000	900	9.0%
50,000	35,000	3,500	7.0%
2,00,000	1,00,000	10,000	5.0%

Note: This is a simplified illustration assuming different propensities to consume across income levels.

As the table illustrates, even with the same tax rate, the proportion of income spent on the tax decreases as income levels rise, demonstrating the regressive nature of a uniform consumption tax.

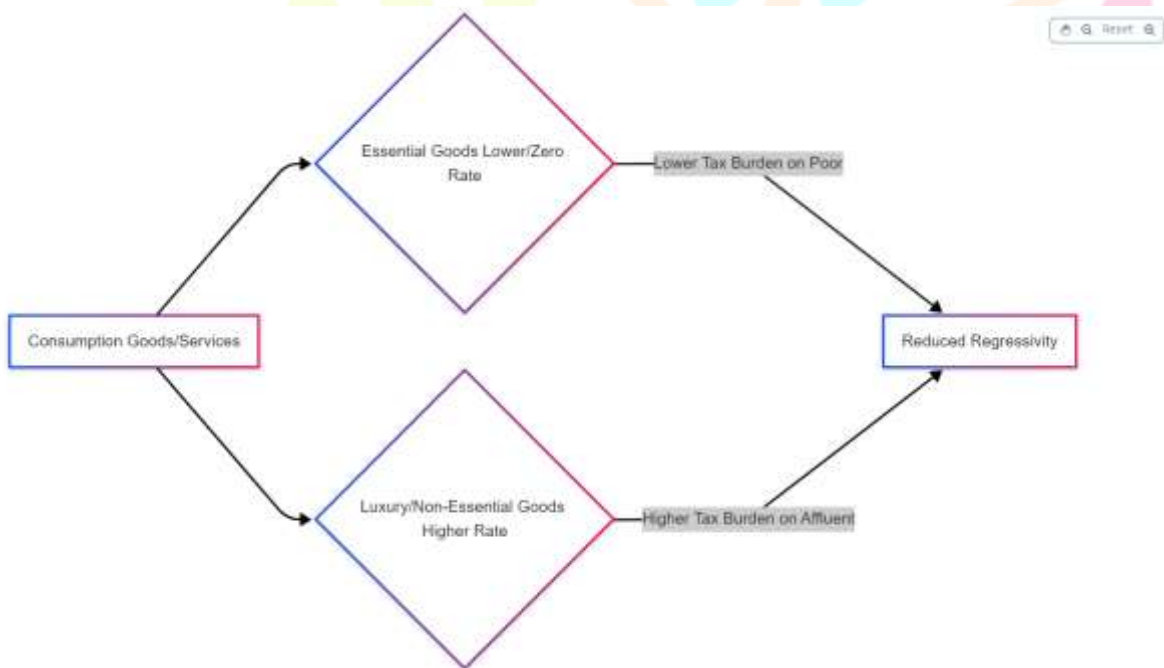
4.2. Mitigating Regressivity: Multiple Rates, Exemptions, Targeted Transfers

Recognizing the potential for regressive impacts, policymakers often employ several mechanisms to mitigate the burden of consumption taxes on lower-income households and enhance their social justice implications:

4.2.1. Multiple Rates

Implementing a system of multiple tax rates, where essential goods and services (e.g., basic food items, healthcare, education) are taxed at lower rates or are exempt altogether, while luxury goods and non-essential services are taxed at higher rates, is a common strategy to reduce regressivity. This differential rate structure aims to ensure that the poor spend a smaller proportion of their income on consumption taxes.

Figure 4.2: *Mitigating Regressivity with Multiple Consumption Tax Rates*



Note: This illustrates how differential tax rates can reduce the regressive impact of consumption taxes.

However, designing an effective multiple-rate system involves careful consideration of the classification of goods and services and the potential for lobbying and distortions. Complex rate structures can also increase administrative and compliance costs.

4.2.2. Exemptions:

Exempting certain essential goods and services entirely from VAT/GST is another direct way to reduce the tax burden on low-income households who spend a significant portion of their income on these necessities. Common exemptions often include basic food items, certain healthcare services, and primary education.

Table 4.2: *Illustrative Impact of Exempting Essential Goods from a 10% Consumption Tax (Lower Income Household)*

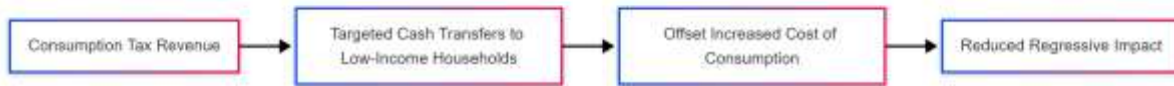
Expenditure Category	Amount Spent (₹)	Subject to 10% Tax (₹)	Tax Paid (₹)
Essential Food	4,000	0	0
Other Consumption	5,000	5,000	500
Total Consumption	9,000		500
Tax as % of Income (₹10,000)			5.0% (Reduced from 9.0% in Table 4.1)

Note: This illustrates how exempting essential goods can reduce the tax burden on lower-income households.

While exemptions can be effective in targeting relief, they can also narrow the tax base, requiring higher rates on other goods and services to maintain revenue neutrality. Defining the scope of exemptions can also be politically challenging.

4.2.3. Targeted Transfers:

Direct cash transfers or subsidies targeted at low-income households can be an effective way to compensate for the regressive impact of consumption taxes. These transfers can be designed to offset the increased cost of goods and services due to VAT/GST, ensuring that the real income of the poor is not negatively affected.

Figure 4.3: Mitigating Regressivity with Targeted Transfers

Note: This illustrates how targeted transfers can compensate lower-income households for the burden of consumption taxes.

The effectiveness of targeted transfers depends on accurate identification of eligible households, efficient delivery mechanisms, and adequate funding. While potentially more administratively complex than broad exemptions, targeted transfers can be more precisely focused on those most affected by the regressivity of consumption taxes.

4.3. Excise Duties ('Sin Taxes') and Environmental Levies: Corrective Justice vs. Distributive Effects

Excise duties, levied on the production or sale of specific goods, and environmental levies, imposed on activities that generate negative environmental externalities, serve objectives beyond mere revenue generation. They often aim to promote **corrective justice** by internalizing external costs associated with certain behaviors. However, their distributive effects can be complex and sometimes regressive.

4.3.1. Excise Duties ('Sin Taxes'): Corrective Justice:

Excise duties are commonly levied on goods such as tobacco, alcohol, and sugary drinks, often referred to as 'sin taxes'. The rationale behind these taxes extends beyond revenue generation to include:

- **Internalizing Externalities:** Consumption of these goods can impose negative externalities on society, such as increased healthcare costs, reduced productivity, and social problems. Excise duties aim to internalize these external costs by increasing the price of these goods, thereby discouraging consumption and reducing the associated societal harms.
- **Public Health Objectives:** By making unhealthy products more expensive, 'sin taxes' can act as a deterrent, encouraging individuals to reduce their consumption and leading to improved public health outcomes.

- **Revenue Generation for Health and Welfare Programs:** The revenue generated from 'sin taxes' can be earmarked for funding healthcare programs, addiction treatment services, and other social welfare initiatives, further aligning the tax with corrective justice objectives.

4.3.2. Distributive Effects of 'Sin Taxes':

While the corrective justice rationale for 'sin taxes' is strong, their distributive effects can be regressive, as lower-income individuals often constitute a larger proportion of consumers of these goods. This means that a higher percentage of their income may be spent on these taxed items compared to wealthier individuals.

Table 4.3: *Illustrative Regressive Impact of an Excise Duty on Tobacco*

Income Level (₹ per month)	Monthly Tobacco Expenditure (₹)	Excise Duty Paid (Assuming 50% of Expenditure) (₹)	Excise Duty as % of Income
15,000	1,500	750	5.0%
60,000	3,000	1,500	2.5%
2,50,000	5,000	2,500	1.0%

Note: This is a simplified illustration assuming different levels of tobacco consumption across income groups.

As the table shows, the excise duty on tobacco represents a larger proportion of income for the lower-income household compared to the higher-income households, indicating a regressive impact. Policymakers need to be aware of these distributive implications and consider measures such as targeted transfers or lower tax rates on essential goods to offset any disproportionate burden on the poor.

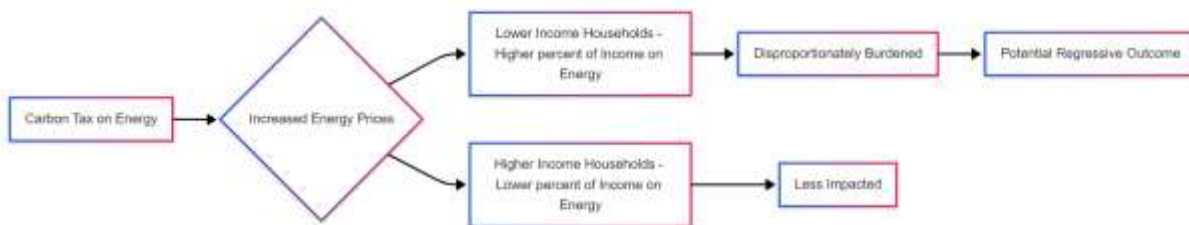
4.3.3. Environmental Levies: Correcting Environmental Externalities

Environmental levies, such as carbon taxes, taxes on polluting emissions, and taxes on single-use plastics, aim to address negative environmental externalities by making polluting activities more expensive. The rationale is to incentivize businesses and individuals to adopt more environmentally sustainable practices.

4.3.4. Distributive Effects of Environmental Levies

The distributive effects of environmental levies can be complex and sometimes regressive. For example, a carbon tax, if passed on to consumers through higher energy prices, can disproportionately affect low-income households who spend a larger share of their income on energy for heating, lighting, and transportation.

Figure 4.4: *Potential Regressive Impact of a Carbon Tax*



Note: This illustrates the potential for a carbon tax to disproportionately affect lower-income households.

To mitigate these regressive effects, policymakers can consider measures such as:

- **Revenue Recycling:** Using the revenue generated from environmental levies to fund targeted transfers or reduce other regressive taxes.
- **Phased Implementation:** Gradually introducing environmental levies to allow households and businesses time to adjust.
- **Exemptions or Lower Rates for Essential Energy Use:** Providing relief for essential energy consumption by low-income households.

Balancing the corrective justice objectives of 'sin taxes' and environmental levies with their potential distributive consequences requires careful policy design and the implementation of mitigating measures to protect vulnerable populations.



CHAPTER 5: TAX EXPENDITURES, ADMINISTRATION, AND PROCEDURAL JUSTICE

This chapter examines crucial aspects of the tax system beyond the direct levy of taxes, focusing on tax expenditures, tax administration, enforcement, and access to justice for taxpayers. These elements significantly impact the fairness, efficiency, and social justice implications of the overall tax framework, often in less visible ways than direct tax rates and bases. We will analyze how tax expenditures act as 'hidden' subsidies with potentially uneven equity implications, explore the challenges of tax administration regarding fairness, complexity, and compliance costs, particularly for vulnerable groups, and discuss the impact of enforcement and evasion on revenue and the perceived fairness of the system. Finally, the chapter will address the critical dimension of access to justice for taxpayers, including their rights and the effectiveness of dispute resolution mechanisms.

5.1. Tax Expenditures: 'Hidden' Subsidies, Transparency, Equity Implications

Tax expenditures refer to provisions in the tax code that reduce tax liabilities for specific activities, taxpayers, or sectors.⁶⁵ These can take various forms, including exemptions, deductions, credits,

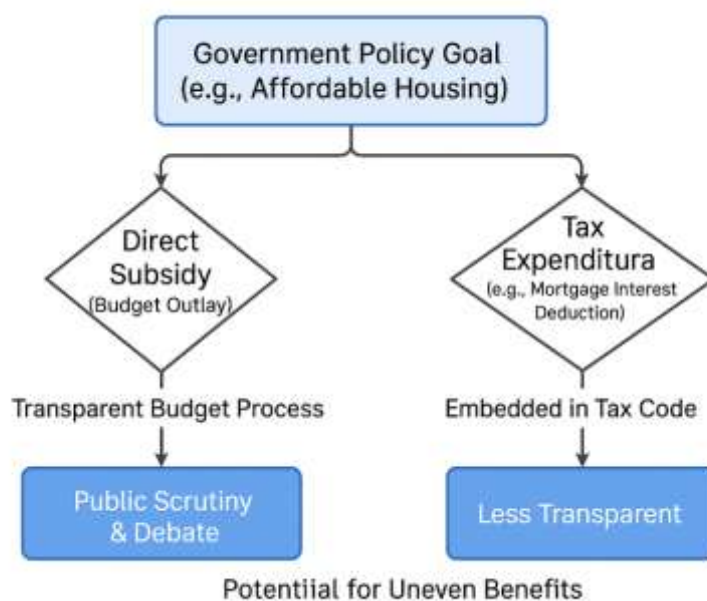
⁶⁵ <https://home.treasury.gov/policy-issues/tax-policy/tax-expenditures#:~:text=Tax%20expenditures%20are%20defined%20by,a%20special%20exclusion%2C%20exemption%2C%20or>

preferential tax rates, and deferrals. While often intended to incentivize certain behaviors or provide relief, they function as 'hidden' subsidies, channeling public resources in ways that are less transparent than direct government spending.⁶⁶

5.1.1. 'Hidden' Subsidies and Transparency:

Unlike direct budgetary outlays, tax expenditures are not subject to the same level of scrutiny during the budget allocation process. They are embedded within the tax code and their costs are often less visible. This lack of transparency can hinder informed public debate about their effectiveness, efficiency, and distributional consequences. The revenue foregone due to tax expenditures represents a real cost to the government, potentially reducing the funds available for direct social programs or requiring higher tax rates elsewhere.

Figure 5.1: Tax Expenditures as 'Hidden' Subsidies



Note: This illustrates the comparative lack of transparency associated with tax expenditures compared to direct subsidies.

The absence of regular and comprehensive evaluation of tax expenditures can lead to their persistence even if they are inefficient, outdated, or disproportionately benefit certain groups. Enhancing the transparency of tax expenditures through regular reporting of their costs and beneficiaries is crucial for informed policymaking and public accountability (OECD, 2010).

⁶⁶ <https://www.epi.org/explorer/spending/tax-expenditures>

5.1.2. Equity Implications:

The equity implications of tax expenditures are often uneven and can exacerbate existing inequalities. Several factors contribute to this:

- **Differential Access:** Higher-income earners are often better positioned to take advantage of many tax expenditures. For example, deductions for mortgage interest primarily benefit homeowners, a higher proportion of whom are in higher income brackets. Similarly, deductions for certain types of investments require having surplus income to invest.
- **Marginal Tax Rate Effect:** The value of a tax deduction or credit is often linked to the taxpayer's marginal tax rate.⁶⁷ A deduction of ₹100 provides a tax saving of ₹30 for someone in a 30% tax bracket but only ₹10 for someone in a 10% bracket, making the benefit proportionally larger for the wealthy.
- **Complexity:** The complexity of claiming certain tax expenditures can create a barrier for lower-income individuals or those with less financial literacy, further skewing the benefits towards those with the resources to navigate the tax code.

Table 5.1: Illustrative Uneven Benefit of a Deduction Across Income Levels

Income Level (₹)	Marginal Tax Rate	Deduction Claimed (₹)	Tax Saving (₹)
3,00,000	10%	20,000	2,000
10,00,000	20%	20,000	4,000
30,00,000	30%	20,000	6,000

Note: This illustrates how the same deduction provides a larger absolute tax saving for those in higher tax brackets.

A critical review of existing tax expenditures is necessary to assess their effectiveness in achieving their stated goals and their distributional consequences. Eliminating or reforming tax expenditures that are inefficient, regressive, or no longer serve their intended purpose can broaden the tax base, simplify the tax system, and free up resources for more equitable and transparent government spending (Haskins & Steuerle, 2007).⁶⁸

⁶⁷ <https://taxpolicycenter.org/briefing-book/what-are-tax-credits-and-how-do-they-differ-tax-deductions#:~:text=Deductions%20reduce%20taxable%20income%3B%20their,rate%2C%20which%20rises%20with%20income.>

⁶⁸ <https://www.cato.org/policy-analysis/tax-expenditures-tax-reform>

5.2. Tax Administration: Fairness, Complexity, Compliance Costs (especially for vulnerable groups)

The way a tax system is administered has a profound impact on its perceived fairness and the actual burden it imposes on taxpayers, particularly vulnerable groups.⁶⁹ Efficient and equitable tax administration is crucial for upholding procedural justice.

5.2.1. Fairness and Complexity:

A fair tax administration applies the law consistently and impartially to all taxpayers.⁷⁰ However, excessive complexity in tax laws and procedures can undermine this fairness. Complex tax codes with numerous rules, regulations, and interpretations can create ambiguity, leading to inconsistent application by tax authorities and increased opportunities for tax avoidance by those with the resources to navigate the system.⁷¹ This complexity can breed distrust and perceptions of unfairness among ordinary taxpayers who may struggle to understand their obligations and rights.

5.2.2. Compliance Costs (especially for vulnerable groups):

Complying with tax obligations involves costs for taxpayers, including the time spent understanding and adhering to the rules, the expenses of record-keeping, and the fees paid for professional tax advice or software. These **compliance costs** can be particularly burdensome for vulnerable groups, such as low-income individuals, small businesses, the elderly, and those with limited literacy or access to technology.

- **Time Burden:** Navigating complex tax forms and procedures can be time-consuming, especially for those with limited education or financial literacy. This time burden can be particularly onerous for individuals with precarious employment or multiple jobs.
- **Financial Costs:** Hiring tax professionals or purchasing tax software can be expensive, representing a significant portion of income for low-income households and small businesses operating on tight margins.
- **Access to Information and Assistance:** Vulnerable groups may have limited access to reliable information about their tax obligations and the assistance available to them. Language barriers, lack of internet access, and limited awareness of free tax preparation services can further exacerbate these challenges.

⁶⁹ <https://www.oecd.org/en/topics/policy-issues/tax-administration.html>

⁷⁰ <https://www.ifac.org/knowledge-gateway/discussion/fairness-taxation>

⁷¹ <https://www.mdpi.com/2227-7099/12/5/97>

Table 5.2: Differential Impact of Compliance Costs

Group	Challenges Faced	Potential Impact
Low-Income Individuals	Limited financial resources, potential lack of financial literacy, time constraints	Compliance costs represent a larger proportion of income, potential for errors and penalties
Small Businesses	Limited administrative capacity, fluctuating income, complex regulations	High per-unit compliance costs, potential for non-compliance due to lack of expertise
Elderly	Potential cognitive decline, reliance on fixed income, unfamiliarity with digital processes	Difficulty understanding complex rules, reliance on potentially costly assistance
Individuals with Disabilities	Potential physical or cognitive limitations, reliance on support networks	Increased difficulty in gathering information and completing forms

Simplifying tax laws, providing free and accessible tax assistance services (including in multiple languages and formats), and leveraging technology to streamline filing processes are crucial steps towards reducing compliance costs and promoting procedural justice for all taxpayers, especially vulnerable groups (Internal Revenue Service, 2023).

5.3. Enforcement and Evasion: Impact on Fairness and Revenue

Effective enforcement of tax laws is essential for maintaining the integrity of the tax system, ensuring fairness among taxpayers, and maximizing revenue collection. Tax evasion, the illegal failure to pay taxes, undermines these goals.⁷²

5.3.1. Impact on Fairness

Tax evasion creates a significant fairness problem. When some individuals or entities illegally avoid their tax obligations, the burden of funding public services shifts disproportionately to those who comply with the law.⁷³ This can lead to resentment and a decline in overall tax morale, potentially encouraging further

⁷² <https://financialtransparency.org/how-tax-evasion-and-avoidance-undermine-a-good-tax-system/#:~:text=Both%20tax%20evasion%20and%20tax,its%20three%20most%20important%20goals.>

⁷³ <https://risevest.com/blog/differences-between-tax-avoidance-and-tax-evasion>

non-compliance. The perception that the wealthy and powerful can evade taxes with impunity erodes public trust in the fairness of the entire system.

5.3.2. Impact on Revenue

Tax evasion results in substantial revenue losses for governments, reducing the funds available for public spending on social programs, infrastructure, and other essential services.⁷⁴ The scale of tax evasion globally and within individual countries can be significant, hindering the state's ability to address social inequalities and achieve its developmental goals (Tax Justice Network, 2020).⁷⁵

5.3.3. Enforcement Challenges

Effective tax enforcement requires adequate resources, skilled personnel, robust data analysis capabilities, and strong legal frameworks. Challenges in enforcing tax laws include:

- **Detection of Evasion:** Identifying sophisticated methods of tax evasion, particularly by large corporations and high-net-worth individuals using complex financial instruments and offshore accounts, can be difficult.
- **International Cooperation:** Cross-border tax evasion requires effective international cooperation and information sharing between tax authorities.⁷⁶
- **Political Influence:** Powerful individuals and corporations may exert political influence to weaken tax enforcement or create loopholes in the law.⁷⁷
- **Resource Constraints:** Tax authorities may lack the necessary resources to conduct thorough audits and pursue tax evaders effectively.⁷⁸

Strengthening tax enforcement through increased funding, enhanced technology, improved international cooperation, and measures to reduce political influence is crucial for ensuring fairness and maximizing revenue collection.

5.4. Access to Justice: Taxpayer Rights, Dispute Resolution Mechanisms

Ensuring access to justice for taxpayers is a fundamental aspect of procedural fairness. Taxpayers should have clear rights and effective mechanisms for resolving disputes with tax authorities.

⁷⁴ <https://www.kotaklife.com/insurance-guide/savingstax/what-is-tax-evasion-methods-and-penalties#:~:text=Tax%20evasion%20leads%20to%20significant,public%20services%20and%20infrastructure%20development>.

⁷⁵ <https://taxjustice.net/press/world-losing-half-a-trillion-to-tax-abuse-largely-due-to-8-countries-blocking-un-tax-reform-annual-report-finds/>

⁷⁶ <https://www.oecd.org/en/topics/policy-issues/cross-border-and-international-tax.html>

⁷⁷ <https://erb.umich.edu/2023/06/21/how-can-companies-use-their-political-influence-responsibly/>

⁷⁸ <https://home.treasury.gov/news/featured-stories/the-case-for-a-robust-attack-on-the-tax-gap>

5.4.1. Taxpayer Rights:

Taxpayer rights typically include:

- **The Right to Information:** Taxpayers have the right to clear and understandable information about their tax obligations and procedures.⁷⁹
- **The Right to Representation:** Taxpayers should have the right to be represented by a qualified professional when dealing with tax authorities.
- **The Right to Privacy and Confidentiality:** Taxpayers' financial information should be kept private and confidential.
- **The Right to a Fair Hearing:** Taxpayers have the right to present their case and receive a fair hearing in any tax dispute.
- **The Right to Appeal:** Taxpayers should have the right to appeal adverse decisions by tax authorities to an independent body.⁸⁰
- **The Right to Timely Resolution:** Tax disputes should be resolved in a timely and efficient manner.

Formalizing and effectively implementing these taxpayer rights is essential for building trust and ensuring accountability within the tax system (National Taxpayer Advocate, 2022).

5.4.2. Dispute Resolution Mechanisms:

Effective and accessible dispute resolution mechanisms are crucial for taxpayers who believe they have been unfairly assessed or treated by tax authorities. These mechanisms can include:

- **Administrative Appeals:** Internal review processes within the tax authority itself. These should be independent of the initial assessment or decision.
- **Mediation and Conciliation:** Facilitated negotiation processes to help taxpayers and tax authorities reach a mutually agreeable resolution.⁸¹
- **Tax Tribunals or Courts:** Independent judicial bodies specializing in tax law to hear and decide tax disputes. These should be accessible and affordable for all taxpayers.⁸²
- **Small Claims Procedures:** Simplified and less costly procedures for resolving smaller tax disputes.

⁷⁹ <https://www.taxpayeradvocate.irs.gov/get-help/taxpayer-rights/#:~:text=They%20have%20the%20right%20to,clear%20explanations%20of%20the%20outcomes.>

⁸⁰ <https://www.irs.gov/taxpayer-bill-of-rights/#:~:text=Taxpayers%20generally%20have%20the%20right,decision%20in%20an%20independent%20forum.>

⁸¹ <https://pkfbofidi.com/en/tax-mediation-a-second-chance-for-taxpayers-and-the-tax-authorities/#:~:text=On%20the%20other%20hand%2C%20tax,after%20the%20tax%20assessment%20and>

⁸² <https://legalaffairs.gov.in/itat>

The accessibility, affordability, and impartiality of these dispute resolution mechanisms are critical for ensuring that all taxpayers, regardless of their income or status, have a fair opportunity to seek justice in tax matters. Barriers such as high legal fees, complex procedures, and lengthy delays can disproportionately disadvantage vulnerable taxpayers and undermine procedural justice.

PART 3

THE INDIAN SCENARIO: TAX POLICY AND SOCIAL JUSTICE IN PRACTICE

CHAPTER 6: THE INDIAN TAX SYSTEM: CONTEXT AND FRAMEWORK

This chapter provides essential context for understanding the Indian tax system, setting the stage for subsequent analysis of its social justice implications. It offers a historical overview of major tax reforms and their underlying objectives, examines the constitutional basis that defines taxing powers and relevant fundamental rights and directive principles, outlines the structure of the current tax system, and describes the key institutions and administrative landscape responsible for its operation.

6.1. Historical Overview: Major Tax Reforms and their Objectives

The evolution of the Indian tax system reflects the country's economic development, social priorities, and political landscape.⁸³ Since independence, India has witnessed several significant tax reforms aimed at improving efficiency, broadening the tax base, simplifying the structure, and addressing equity concerns.⁸⁴

6.1.1. Early Post-Independence Era (1947-1970s):

The initial focus was on establishing a tax system aligned with a socialist-leaning developmental state. Key features included relatively high marginal income tax rates, a focus on import substitution leading to high customs duties, and the introduction of various central and state-level indirect taxes. The objectives included revenue mobilization for planned economic development and a degree of income redistribution.

⁸³ https://www.taxmanagementindia.com/visitor/detail_article.asp?ArticleID=13986

⁸⁴ <https://www.bajajfinserv.in/investments/who-introduced-income-tax-in-india>

However, the system was often criticized for its complexity, high rates leading to evasion, and limited reach.

6.1.2. Liberalization and Reform (1990s - Early 2000s):

The economic liberalization of the 1990s ushered in a new era of tax reforms aimed at promoting economic growth and global competitiveness.⁸⁵ Key reforms included:

- **Lowering of Income and Corporate Tax Rates:** To incentivize investment and improve compliance.
- **Simplification of Tax Laws:** Efforts were made to reduce complexity and improve clarity.
- **Expansion of the Tax Base:** Attempts to bring more individuals and businesses into the tax net.
- **Introduction of Value Added Tax (VAT) at the State Level:** To replace cascading sales taxes and improve efficiency in indirect taxation.⁸⁶

The objectives during this period were primarily focused on making the tax system more efficient, growth-oriented, and easier to comply with. While equity remained a consideration, the emphasis shifted towards supply-side economics.

6.1.3. The Era of Goods and Services Tax (GST) (Mid-2010s onwards):

The most significant indirect tax reform in India's history was the introduction of the Goods and Services Tax (GST) in 2017. GST subsumed numerous central and state indirect taxes, aiming to create a unified common market, reduce tax cascading, and improve ease of doing business.⁸⁷ The objectives included:

- **Economic Integration:** Creating a seamless flow of goods and services across states.⁸⁸
- **Improved Efficiency:** Reducing the distortions caused by the previous complex indirect tax structure.
- **Enhanced Revenue Collection:** Broadening the tax base and improving compliance.

While GST aimed for efficiency gains, its impact on equity, particularly its potential regressivity, has been a subject of ongoing debate and policy adjustments (Rao & Rao, 2018).

Table 6.1: Major Tax Reforms in India and their Objectives

⁸⁵ <https://testbook.com/ias-preparation/nep-1991>

⁸⁶ <https://dor.gov.in/introduction-value-added-tax>

⁸⁷ <https://www.bajajfinserv.in/gst>

⁸⁸ <https://www.efiletax.in/blog/goods-and-services-tax-gst-in-india-streamlining-taxation-for-a-progressive-economy/>

Period	Key Reforms	Primary Objectives
1947-1970s	High income tax rates, import-focused customs duties, multiple indirect taxes	Revenue mobilization for planned development, income redistribution
1990s - Early 2000s	Lower income and corporate tax rates, tax law simplification, state-level VAT	Economic growth, global competitiveness, improved compliance
Mid-2010s onwards	Introduction of Goods and Services Tax (GST)	Economic integration, improved efficiency, enhanced revenue collection

Understanding this historical trajectory is crucial for appreciating the current structure of the Indian tax system and the policy debates surrounding its social justice implications.

6.2. Constitutional Basis: Taxing Powers, Fundamental Rights (Art. 14), Directive Principles

The Indian Constitution lays down the fundamental framework for the country's tax system, defining the taxing powers of the Union and State governments, and enshrining fundamental rights and directive principles that have significant implications for tax policy.

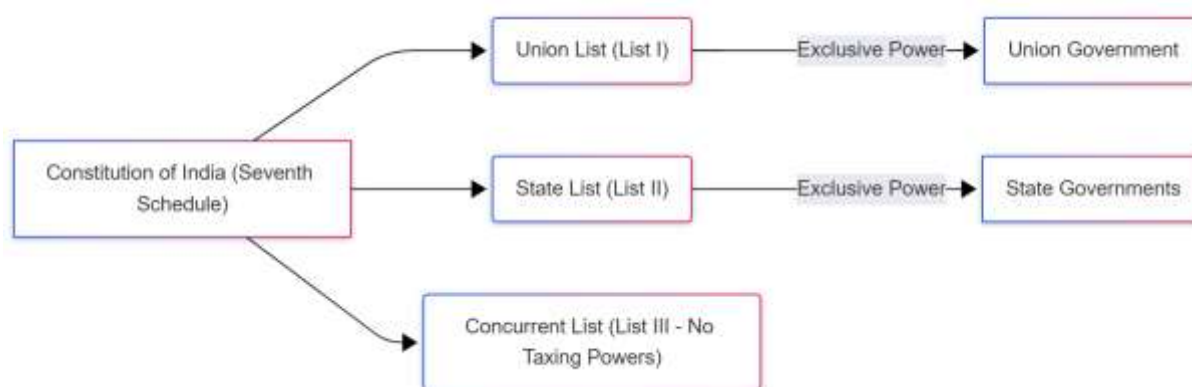
6.2.1. Taxing Powers

The Constitution demarcates the power to levy different taxes between the Union (Central) government and the State governments through the **Seventh Schedule**, which contains three lists:

- **Union List (List I):** Specifies the taxes that the Union government has the exclusive power to levy, such as income tax (excluding agricultural income), corporation tax^[1], customs duties, central excise duties (excluding those on alcoholic liquors, opium, etc., which fall under the State List), and service tax (now subsumed under GST, with powers shared).
- **State List (List II):** Specifies the taxes that the State governments have the exclusive power to levy, such as land revenue, taxes on agricultural income, taxes on the sale and purchase of goods (now largely replaced by State GST), state excise duties (on alcoholic liquors, opium, etc.), and taxes on professions, trades, callings, and employments (subject to a maximum limit).
- **Concurrent List (List III):** Does not contain any specific taxing powers.

This division of taxing powers is intended to ensure fiscal federalism, allowing both levels of government to raise revenues for their respective responsibilities. Disputes regarding the interpretation of these lists are adjudicated by the judiciary.⁸⁹

⁸⁹ <https://www.nextias.com/ca/editorial-analysis/08-06-2024/fiscal-federalism-in-india-bridging-north-south-gaps#:~:text=The%20founding%20fathers%20of%20the,provide%20grants%20from%20the%20Consolidated>

Figure 6.1: Constitutional Division of Taxing Powers

Note: This illustrates the division of taxing powers between the Union and State governments as defined by the Constitution.⁹⁰

6.2.2. Fundamental Rights (Article 14):

Article 14 of the Constitution guarantees equality before the law and equal protection of the laws.⁹¹ This fundamental right has significant implications for tax policy, prohibiting arbitrary or discriminatory tax laws. Tax legislation must have a reasonable classification based on intelligible differentia and a rational nexus to the object sought to be achieved.⁹² Tax laws that unfairly discriminate between similarly situated taxpayers can be challenged as violating Article 14.⁹³ This principle underpins the concept of horizontal equity in taxation.

6.2.3. Directive Principles of State Policy:

While not legally enforceable in the same way as fundamental rights, the Directive Principles of State Policy (Part IV of the Constitution) provide guidelines for the state in formulating its policies, including taxation. Several Directive Principles have relevance for social justice in taxation:⁹⁴

- **Article 38 (Promotion of Welfare State):** Directs the state to strive to promote the welfare of the people by securing and protecting a social order in which justice, social, economic, and political, shall inform all⁹⁵ the institutions of the national life.⁹⁶ This principle provides a broad mandate for using fiscal policy, including taxation, to reduce inequalities and promote social well-being.
- **Article 39 (Certain Principles of Policy to be Followed by the State):** Specifically directs the state to ensure that the ownership and control of the material resources of the community are so

⁹⁰ <https://karnavatiuniversity.edu.in/allocation-of-taxing-powers-under-the-constitution-of-india/>

⁹¹ <https://indiankanoon.org/doc/367586/#:~:text=%5BCites%20%2C%20Cited%20by%20122106,article%2016>

⁹² <https://blog.ipleaders.in/doctrine-of-reasonable-classification/>

⁹³ [https://indiankanoon.org/doc/1259966/#:~:text=section%2010%20\(10aa\),discrimination](https://indiankanoon.org/doc/1259966/#:~:text=section%2010%20(10aa),discrimination)

⁹⁴ <https://knowindia.india.gov.in/profile/directive-principles-of-state-policy.php>

⁹⁵ <https://indiankanoon.org/doc/682692/>

⁹⁶ <https://cgslsa.gov.in/Background.htm>

distributed as best to subserve the common good⁹⁷, and that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment.⁹⁸ These principles support the use of progressive taxation and measures to address wealth inequality.

- **Article 41 (Right to Work, to Education and to Public Assistance in Certain Cases):** While not directly related to taxation, this principle implies the need for public resources to fund social security and assistance programs, which are often financed through tax revenue.

These constitutional provisions provide the overarching legal and philosophical framework within which the Indian tax system operates and must be evaluated from a social justice perspective.

6.3. Structure of the Current System: Income Tax, Corporate Tax, GST, Customs, etc.

The current Indian tax system comprises a mix of direct and indirect taxes levied by both the Union and State governments, broadly structured as follows:

6.3.1. Direct Taxes (Administered Primarily by the Union Government):

- **Income Tax:** Levied on the income of individuals, Hindu Undivided Families (HUFs), firms, and other associations of persons, with a progressive rate structure.⁹⁹
- **Corporate Tax:** Levied on the profits of companies. The rate structure has been subject to changes in recent years, with different rates for domestic and foreign companies.¹⁰⁰
- **Securities Transaction Tax (STT):** A small tax levied on transactions in securities listed on stock exchanges.

6.3.2. Indirect Taxes (Administered by Both Union and State Governments):

- **Goods and Services Tax (GST):** A comprehensive, multi-stage, destination-based tax levied on the supply of goods and services.¹⁰¹ It includes Central GST (CGST) levied by the Union, State GST (SGST) levied by the States, Integrated GST (IGST) on inter-state supply, and Union Territory GST (UTGST). GST operates with a multi-tiered rate structure and exemptions for certain goods and services.
- **Customs Duties:** Levied on goods imported into India, including basic customs duty, integrated goods and services tax (IGST) on imports, and other levies.¹⁰²

⁹⁷ Investment in India: Conditions and Outlook for United States Investors. (1953). United States: U.S. Government Printing Office.

⁹⁸ One Year of Independence: India, 15 August 1947-15 August 1948. (1948). United States: Embassy.

⁹⁹ <https://cleartax.in/s/income-tax>

¹⁰⁰ <https://cleartax.in/s/corporate-tax>

¹⁰¹ <https://cleartax.in/s/gst-law-goods-and-services-tax>

¹⁰² <https://www.dhl.com/discover/en-in/e-commerce-advice/shipping-guides-by-country/customs-taxes-and-duties-on-personal-imports-in-india>

- **Excise Duties (Limited):** While many goods are now under GST, the Union government still levies excise duties on specific items like petroleum products and tobacco.¹⁰³ State governments levy excise duties primarily on alcoholic liquors.
- **Stamp Duty:** Levied by State governments on various transactions, particularly the transfer of immovable property.
- **Taxes on Professions, Trades, Callings, and Employments:** Levied by State governments, subject to a constitutional limit.¹⁰⁴

Table 6.2: Structure of the Current Indian Tax System

Tax Type	Administering Authority	Key Features	Relevance to Social Justice
Income Tax	Union Government	Progressive rates, exemptions, deductions	Potential for reducing income inequality
Corporate Tax	Union Government	Levied on company profits	Funds public goods, incidence debated
GST	Union & State Governments	Multi-stage consumption tax, multiple rates, exemptions	Potential regressivity, key revenue source
Customs Duties	Union Government	Levied on imports	Affects prices and domestic industry
Excise Duties	Union & State Governments	Levied on specific goods (e.g., petroleum, alcohol)	Revenue, corrective justice (sin taxes)
Stamp Duty	State Governments	Levied on transactions (e.g., property transfer)	Revenue for states
Professions Tax	State Governments	Levied on income from professions	Limited revenue, modest impact

This multi-layered structure necessitates a comprehensive understanding to analyze the overall impact of the Indian tax system on social justice.

6.4. Key Institutions and Administrative Landscape

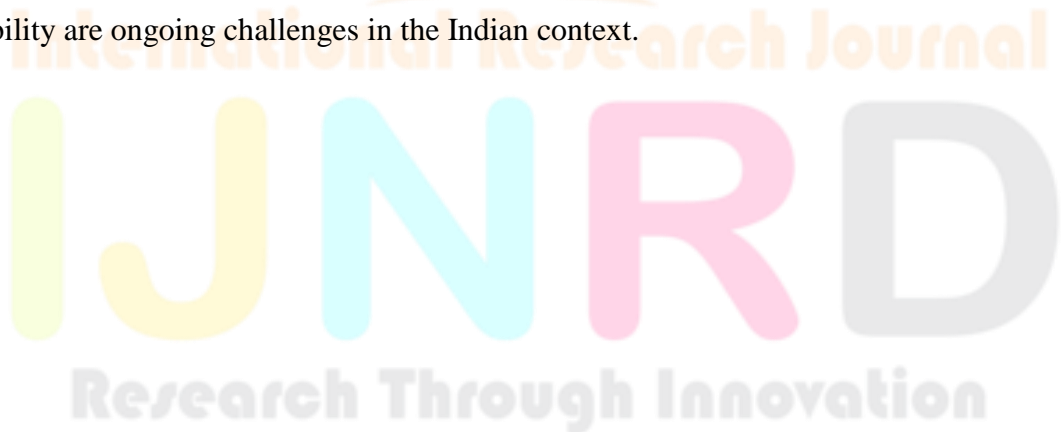
The administration of the Indian tax system is primarily carried out by the following key institutions:

¹⁰³ <https://www.bankbazaar.com/tax/excise-duty.html>

¹⁰⁴ <https://indiankanoon.org/doc/1402929/>

- **Central Board of Direct Taxes (CBDT):** Part of the Department of Revenue under the Ministry of Finance, the CBDT is responsible for the administration and policy formulation of direct taxes, including income tax and corporate tax.¹⁰⁵
- **Central Board of Indirect Taxes and Customs (CBIC):** Also part of the Department of Revenue, the CBIC administers indirect taxes, including GST, customs duties, and central excise duties.¹⁰⁶
- **Goods and Services Tax Council:** A constitutional body comprising the Union Finance Minister and the Finance Ministers of all States. It is the apex decision-making body for GST policy, including tax rates, exemptions, and administrative procedures.
- **State Tax Departments:** State governments have their own tax departments responsible for administering State GST, state excise duties, stamp duty, and other state-level taxes.¹⁰⁷
- **Tax Tribunals and Courts:** Various quasi-judicial and judicial bodies exist at different levels to adjudicate tax disputes, providing avenues for taxpayer redress. These include Income Tax Appellate Tribunals (ITAT), Goods and Services Tax Appellate Tribunals (GSTAT - being established), High Courts, and the Supreme Court.¹⁰⁸

The administrative landscape is characterized by a complex interplay between the Union and State governments, particularly in the realm of GST. Coordination and harmonization between these entities are crucial for the efficient and fair functioning of the tax system. The capacity and effectiveness of these institutions in ensuring compliance, preventing evasion, and providing taxpayer services directly impact the perceived fairness and social justice outcomes of the tax system. Strengthening tax administration and ensuring its accountability are ongoing challenges in the Indian context.



CHAPTER 7: ANALYSING DIRECT TAXES IN INDIA THROUGH A SOCIAL JUSTICE LENS

This chapter undertakes a critical analysis of the key direct taxes in India – income tax and corporate tax – through the lens of social justice. It examines the design features, effectiveness, and limitations of these

¹⁰⁵ <https://dit-live.taxmann.com/Pages/about-us/central-board-of-direct-taxation.aspx>

¹⁰⁶ <https://www.cbic.gov.in/entities/who-we-are#:~:text=CENTRAL%20BOARD%20OF%20EXCISE%20AND,and%20collection%20of%20indirect%20taxes.>

¹⁰⁷ <https://cbic-gst.gov.in/about-gst.html#:~:text=Which%20authority%20will%20levy%20and,will%20levy%20and%20administer%20SGST.>

¹⁰⁸ <https://itat.gov.in/>

taxes in promoting equity and raising revenue for public services. The chapter also delves into the ongoing debate surrounding the absence of wealth and inheritance taxes in India and explores the significant issue of tax disputes and the burden of litigation.

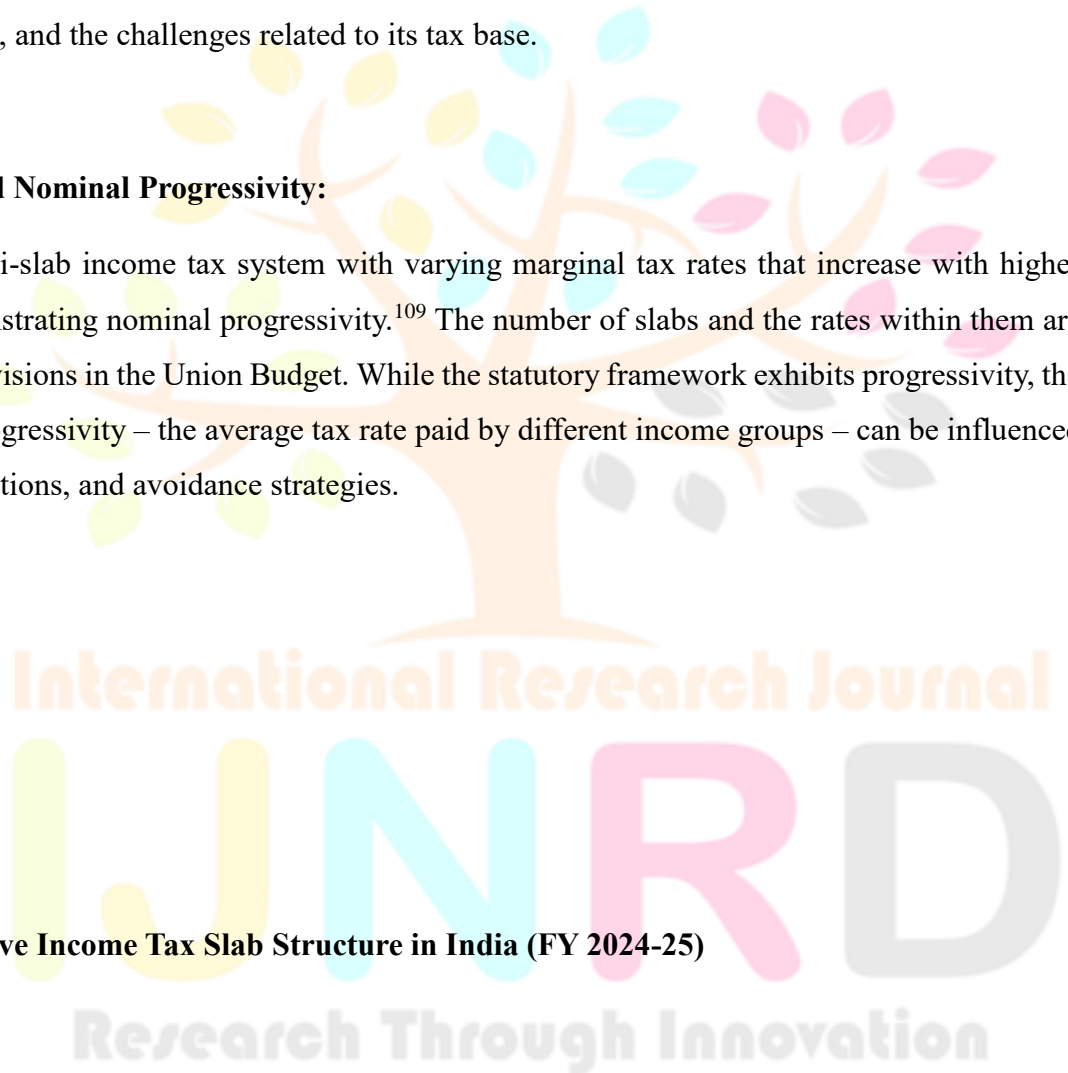
7.1. Income Tax: Slab Rates, Effective Progressivity, Impact of Major Exemptions (e.g., Agriculture), Surcharges/Cess, Tax Base Issues

The personal income tax (PIT) in India is a primary tool for achieving vertical equity. This section analyzes its current structure, the degree of effective progressivity, the impact of significant exemptions, the role of surcharges and cesses, and the challenges related to its tax base.

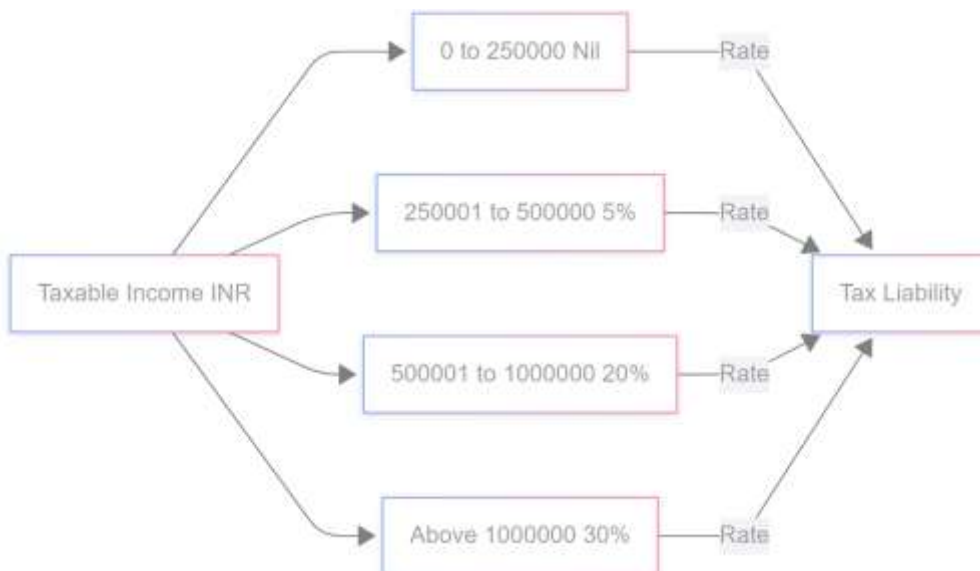
7.1.1. Slab Rates and Nominal Progressivity:

India employs a multi-slab income tax system with varying marginal tax rates that increase with higher income levels, demonstrating nominal progressivity.¹⁰⁹ The number of slabs and the rates within them are subject to periodic revisions in the Union Budget. While the statutory framework exhibits progressivity, the actual or effective progressivity – the average tax rate paid by different income groups – can be influenced by exemptions, deductions, and avoidance strategies.

Figure 7.1: Illustrative Income Tax Slab Structure in India (FY 2024-25)



¹⁰⁹ <https://cleartax.in/s/marginal-relief-surcharge>



Note: This is a simplified, illustrative structure and actual rates and slabs may vary and are subject to change.

The nominal progressivity suggests a commitment to taxing higher earners at a greater proportion of their income. However, the effectiveness of this progressivity in reducing income inequality needs to be examined in conjunction with other factors.

7.1.2. Effective Progressivity and Impact of Exemptions:

The existence of numerous exemptions and deductions under the Income Tax Act can significantly reduce the effective progressivity of the PIT system. While some exemptions aim to promote savings or address specific social needs, their uptake often skews towards higher-income groups who have greater capacity to make eligible investments or incur qualifying expenses (as illustrated in Chapter 5).

A particularly significant exemption in the Indian context is **agricultural income**^[2], which is generally exempt from income tax under Article 246 read with Entry 82 of List I of the Seventh Schedule, although the power to tax agricultural income lies with the states under Entry 46 of List II.¹¹⁰ Given the often-uneven distribution of agricultural land and income, particularly the prevalence of large landholdings with substantial income, this exemption can lead to significant amounts of untaxed income, potentially benefiting wealthier agriculturalists and eroding the tax base. It also creates opportunities for tax avoidance by classifying non-agricultural income as agricultural income (Gulati & Narayanan, 2003).

Table 7.1: Potential Impact of Agricultural Income Exemption on Effective Progressivity (Illustrative)

Income Source	Lower Income Farmer	Higher Income Agriculturist/Landowner	Salaried Professional
---------------	---------------------	---------------------------------------	-----------------------

¹¹⁰http://constitutionofindia.etal.in/schedule_7_2/#:~:text=46.,of%20succession%20to%20agricultural%20land.

Agricultural Income (₹)	50,000 (Exempt)	50,00,000 (Exempt)	0
Non-Agricultural Income (₹)	1,50,000	20,00,000	20,50,000
Gross Total Income (₹)	2,00,000	70,00,000	20,50,000
Tax Liability (Approx.)	0	Significantly Lower than on ₹70 Lakh non-agricultural income	Taxable on ₹20,50,000
Effective Tax Rate	0%	Lower than similarly placed non-agricultural income earners	Higher than higher income agriculturist

Note: This is a highly simplified illustration for demonstrative purposes only.

This example highlights how the agricultural income exemption can create horizontal inequities and potentially reduce the overall progressivity of the income tax system.

7.1.3. Surcharges and Cess

The Union government often levies surcharges (an additional tax on the tax liability of higher-income earners) and cesses (taxes earmarked for specific purposes like education or health) on income tax.¹¹¹ Surcharges contribute to enhanced progressivity at the top end of the income spectrum, as they apply to individuals and corporations with higher incomes.¹¹² Cesses, while increasing the overall tax burden, are intended to fund specific social sector initiatives, aligning with distributive justice goals. However, the proliferation of cesses can sometimes lack transparency regarding their utilization and effectiveness.

7.1.4. Tax Base Issues

¹¹¹ <https://www.piramalfinance.com/vidya/education-cess>

¹¹² <https://cleartax.in/glossary/surcharge>

The tax base of the Indian PIT system, the total amount of income subject to taxation, is relatively narrow compared to the size of the economy and the population.¹¹³ A significant portion of the workforce is in the informal sector and may fall outside the tax net. Expanding the tax base to include more individuals and formalizing the economy are crucial for increasing revenue and ensuring a more equitable distribution of the tax burden.¹¹⁴ Improving tax administration, simplifying compliance procedures, and increasing awareness about tax obligations are key to broadening the tax base (Chelliah, 1996).

7.2. Corporate Tax: Rate Reductions, Incentives, MAT, Impact on Inequality and Public Revenue

Corporate income tax (CIT) in India has undergone significant changes in recent years, including substantial rate reductions and the introduction of various incentives. This section analyzes these developments, the role of the Minimum Alternate Tax (MAT), and their impact on income inequality and public revenue.

7.2.1. Rate Reductions and Incentives:

In a bid to boost economic growth and attract investment, the Indian government has significantly reduced the headline corporate tax rates in recent years, making them more competitive internationally.¹¹⁵ Alongside rate reductions, various tax incentives are offered to specific sectors or for undertaking particular activities (e.g., investments in infrastructure, manufacturing).¹¹⁶ While these incentives aim to stimulate economic activity and job creation, their effectiveness and distributional impact need careful scrutiny. Some incentives can disproportionately benefit large corporations and may not always translate into significant benefits for the broader economy or lower-income segments of the population.

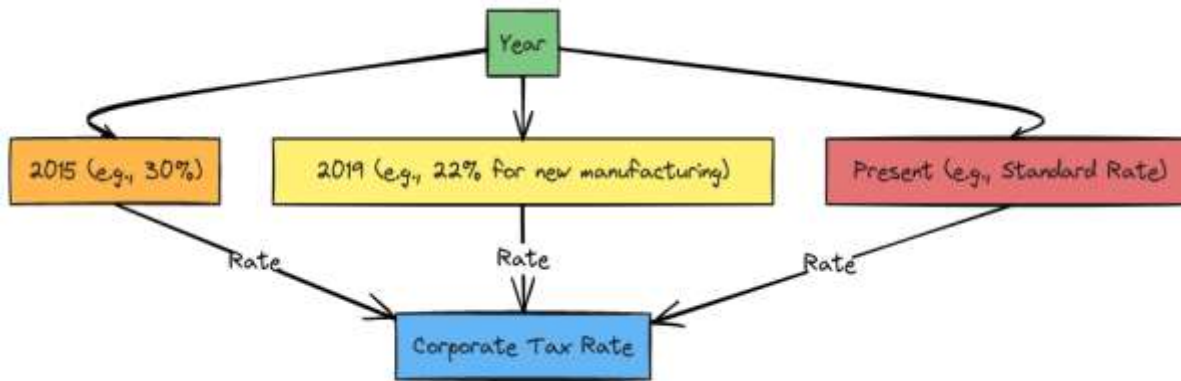
Figure 7.2: *Trend of Corporate Income Tax Rates in India (Illustrative)*

¹¹³ <https://www.elibrary.imf.org/display/book/9781589065680/ch09.xml>

¹¹⁴ <https://www.pmfias.com/indias-taxation-system/>

¹¹⁵ <https://timesofindia.indiatimes.com/business/india-business/corporate-tax-cut-makes-india-an-investment-destination-to-attract-foreign-firms-to-set-up-units-finance-minister/articleshow/71246730.cms#:~:text=India%20Business%20News,Finance%20minister%20%2D%20Times%20of%20India>

¹¹⁶ <https://taxsummaries.pwc.com/india/individual/other-tax-credits-and-incentives#:~:text=Some%20of%20them%20are%20detailed,development%20or%20development%20of%20SEZ.>



Note: This

is a simplified, illustrative trend and actual rates and conditions may vary.

7.2.2. Minimum Alternate Tax (MAT):

The Minimum Alternate Tax (MAT) is a provision in the Income Tax Act designed to ensure that even companies that have significantly reduced their tax liability through various exemptions and deductions pay a minimum amount of tax. MAT is calculated as a certain percentage of a company's book profits.¹¹⁷ It acts as a safeguard against excessive tax avoidance by profitable companies and contributes to revenue stability and fairness by ensuring a minimum tax contribution from all profitable entities.¹¹⁸ The MAT rate is also subject to periodic revisions.¹¹⁹

7.2.3. Impact on Inequality and Public Revenue:

The impact of corporate tax rate reductions and incentives on income inequality is complex and indirect. Lower corporate taxes could theoretically lead to higher profits, potentially benefiting shareholders (who tend to be higher-income individuals). The extent to which these benefits trickle down to workers through higher wages or consumers through lower prices is debatable and depends on various market factors and corporate behavior.

The primary direct impact of corporate tax rate reductions is on public revenue. Lower rates, even if intended to stimulate economic activity and eventually lead to higher overall tax collection, can result in a short-to-medium term decrease in government revenue. This can have implications for the government's ability to fund social programs and address income inequality through public spending. The effectiveness of corporate tax policy in balancing growth objectives with revenue generation and equity concerns is a critical area of analysis (Avi-Yonah, 2007).

7.3. The Missing Taxes: Debate on Inheritance/Wealth Tax in the Indian Context

¹¹⁷ <https://cleartax.in/s/tax-planning-under-mat>

¹¹⁸ <https://www.indiafirstlife.com/knowledge-center/tax-savings/minimum-alternate-tax>

¹¹⁹ <https://sinewave.co.in/what-is-maximum-marginal-rate-in-income-tax/>

India currently does not have a comprehensive inheritance tax or a recurring wealth tax, although these taxes have been debated and were present in different forms in the past.¹²⁰ This section examines the rationale for their reintroduction from a social justice perspective.

7.3.1. Rationale for Inheritance Tax:

An inheritance tax, levied on the value of assets transferred upon death, is argued to promote intergenerational equity and reduce the concentration of inherited wealth.¹²¹ In a society with significant wealth inequality, large inheritances can perpetuate disparities in opportunities and outcomes. An inheritance tax can help to redistribute some of this wealth, providing resources for public services and leveling the playing field for those who do not inherit substantial assets. It aligns with the principle of ensuring that life chances are determined more by individual effort and less by inherited privilege (Piketty, 2014).

7.3.2. Rationale for Wealth Tax:

A recurring wealth tax, levied annually on the net worth of individuals above a certain threshold, is proposed as a direct mechanism to address wealth inequality. Wealth is often far more concentrated than income, and a wealth tax can provide a means for the state to tap into this concentration, generating revenue that can be used for social programs and reducing overall wealth disparities.¹²² Proponents argue that it can also incentivize the productive use of wealth rather than hoarding (Atkinson, 2015).

7.3.3. Challenges and Political Economy:

The reintroduction of inheritance or wealth taxes in India faces significant challenges and political resistance.¹²³ Concerns often raised include:

- **Valuation Difficulties:** As discussed in Chapter 3, accurately valuing diverse assets can be complex.
- **Capital Flight:** Fears that wealthy individuals might move their assets abroad to avoid such taxes.
- **Administrative Burden:** Implementing and administering these taxes can be resource-intensive.¹²⁴

¹²⁰ [https://visionias.in/current-affairs/monthly-magazine/2024-05-21/economics-\(indian-economy\)/inheritance-tax-as-a-tool-of-wealth-redistribution-1](https://visionias.in/current-affairs/monthly-magazine/2024-05-21/economics-(indian-economy)/inheritance-tax-as-a-tool-of-wealth-redistribution-1)

¹²¹ [https://visionias.in/current-affairs/monthly-magazine/2024-05-21/economics-\(indian-economy\)/inheritance-tax-as-a-tool-of-wealth-redistribution-1#:~:text=Intergenerational%20Equity%3A%20Inheritance%20tax%20can,generations%2C%20rather%20than%20perpetuating%20dynastic](https://visionias.in/current-affairs/monthly-magazine/2024-05-21/economics-(indian-economy)/inheritance-tax-as-a-tool-of-wealth-redistribution-1#:~:text=Intergenerational%20Equity%3A%20Inheritance%20tax%20can,generations%2C%20rather%20than%20perpetuating%20dynastic)

¹²² <https://www.nextias.com/ca/current-affairs/23-12-2024/wealth-tax-debate>

¹²³ <https://www.drishtias.com/daily-updates/daily-news-analysis/inheritance-tax-1>

¹²⁴ <https://www.bajajfinserv.in/advantages-and-disadvantages-of-direct-tax>

- **Political Opposition:** Strong opposition from affluent individuals and interest groups who view these taxes as confiscatory or detrimental to economic growth.

Overcoming these challenges requires careful design, robust administrative mechanisms, and a strong political will underpinned by public support for greater wealth redistribution and intergenerational equity.

7.4. Tax Disputes and Litigation Burden

A significant challenge in the Indian tax system is the high volume of tax disputes and the consequent burden of litigation.¹²⁵ This issue has implications for both revenue collection efficiency and procedural justice.

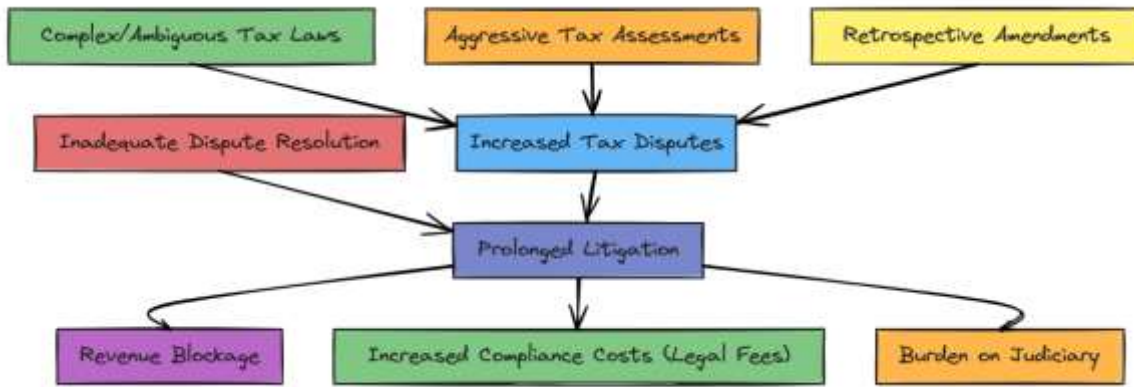
7.4.1. Causes of Tax Disputes:

Several factors contribute to the high number of tax disputes in India, including:

- **Complex and Ambiguous Tax Laws:** Vague or poorly drafted legislation leads to differing interpretations by taxpayers and tax authorities.
- **Aggressive Tax Assessments:** Tax authorities sometimes make aggressive assessments, leading to disputes.
- **Retrospective Amendments:** Changes to tax laws with retrospective effect can create uncertainty and trigger litigation.
- **Inadequate Dispute Resolution Mechanisms:** Inefficient or inaccessible dispute resolution processes can prolong litigation.
- **Lack of Clarity on Taxpayer Rights:** Insufficient awareness or enforcement of taxpayer rights can lead to disputes.

Figure 7.3: The Burden of Tax Litigation

¹²⁵ <https://chambers.com/legal-trends/indias-tax-dispute-resolution>



Note: This

illustrates the various factors contributing to and the consequences of high tax litigation.

7.4.2. Impact on Fairness and Revenue:

A high volume of tax disputes creates uncertainty for businesses and individuals, potentially deterring investment and economic activity.¹²⁶ It also ties up significant amounts of potential tax revenue in litigation, hindering the government's ability to fund public services. Furthermore, lengthy and costly litigation can disproportionately burden small taxpayers who may lack the resources to effectively contest tax assessments, raising concerns about procedural justice.

7.4.3. Addressing the Issue:

Addressing the burden of tax litigation requires a multi-pronged approach, including:

- **Simplifying and Clarifying Tax Laws:** Reducing ambiguity and potential for differing interpretations.
- **Strengthening Dispute Resolution Mechanisms:** Making them more efficient, accessible, and independent.¹²⁷ This includes promoting alternative dispute resolution (ADR) mechanisms like mediation and conciliation.¹²⁸
- **Improving Tax Administration:** Ensuring fair and consistent application of tax laws.
- **Enhancing Taxpayer Education and Awareness:** Empowering taxpayers to understand their rights and obligations.

Reducing tax disputes and the burden of litigation is crucial for creating a more fair, efficient, and just tax system that fosters compliance and revenue certainty.

¹²⁶ <https://database.dakshindia.org/classifying-tax-cases/>

¹²⁷ <https://pib.gov.in/PressReleaseFramePage.aspx?PRID=2113223>

¹²⁸ <https://pib.gov.in/PressReleasePage.aspx?PRID=2040661>

CHAPTER 8: ANALYSING INDIRECT TAXES (GST) IN INDIA THROUGH A SOCIAL JUSTICE LENS

This chapter critically examines India's Goods and Services Tax (GST) framework through the prism of social justice. It dissects the structure, rate slabs, exemptions, and the compensation mechanism. The analysis then evaluates GST's impact on inflation, its potential for regressivity and differential effects on household budgets across income strata, the compliance burden it imposes, particularly on Small and Medium Enterprises (SMEs) and the informal sector, and finally, its implications for fiscal federalism and fairness between the central and state governments.

8.1. The GST Framework: Structure, Rates, Exemptions, Compensation Mechanism

The Goods and Services Tax (GST), implemented in India in 2017, represents a paradigm shift in the country's indirect tax landscape.¹²⁹ It is a comprehensive, multi-stage, destination-based tax levied on every value addition.¹³⁰ Understanding its structure, rate framework, exemptions, and the unique compensation mechanism is crucial for evaluating its social justice implications.

8.1.1. Structure

India adopted a dual GST structure, comprising:

- **Central Goods and Services Tax (CGST):** Levied by the Union Government on intra-state supplies of goods and services.
- **State Goods and Services Tax (SGST):** Levied by the respective State Governments on intra-state supplies of goods and services.
- **Integrated Goods and Services Tax (IGST):** Levied by the Union Government on inter-state supplies of goods and services (including imports), with subsequent sharing of revenue with the destination state.

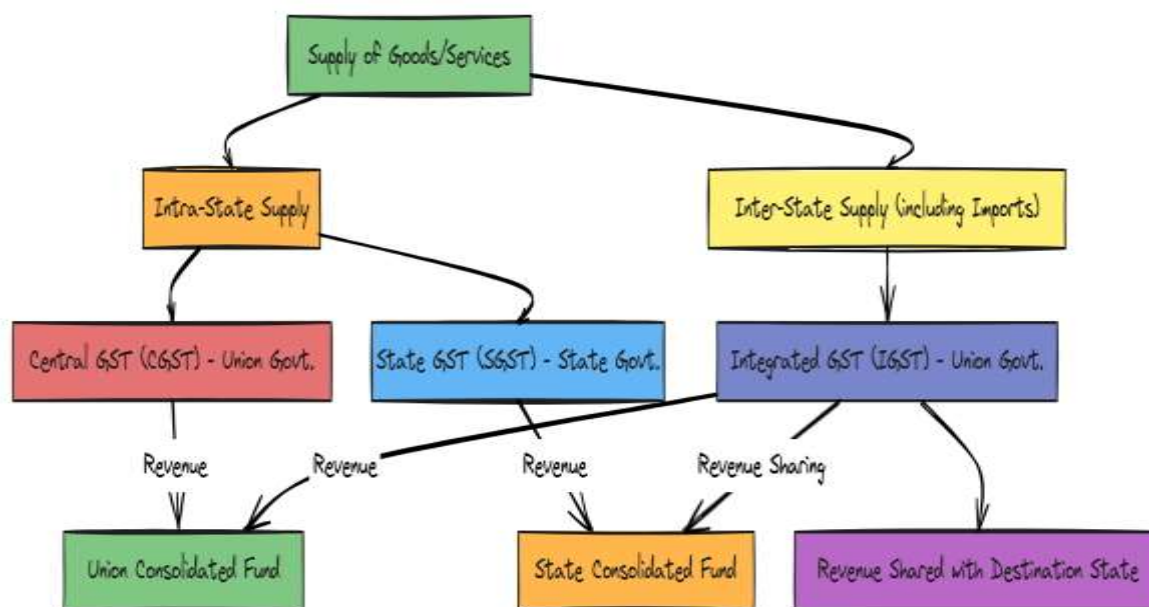
¹²⁹ <https://www.india-briefing.com/news/gst-indian-taxation-paradigm-shift-12602.html/>

¹³⁰ <https://cleartax.in/s/gst-law-goods-and-services-tax>

- **Union Territory Goods and Services Tax (UTGST):** Applicable in Union Territories without legislatures, levied by the Union Government.¹³¹

This dual structure necessitates coordination and agreement between the Centre and States on various aspects of GST policy through the GST Council, a constitutional body.¹³²

Figure 8.1: *The Dual GST Structure in India*



Note: This illustrates the flow of GST revenue under the dual structure.

8.1.2. Rates

GST in India operates with a multi-tiered rate structure, with different tax rates applicable to various categories of goods and services. The initial rate structure comprised 5%, 12%, 18%, and 28%, with subsequent revisions leading to additional rates and changes in the classification of goods and services across these slabs.¹³³ Essential goods and services are often exempt or taxed at the lowest rate, while luxury goods and demerit goods attract the highest rates.¹³⁴ The rationale behind this multi-tiered structure is partly to mitigate the regressive impact of a uniform consumption tax by taxing necessities at lower or zero rates. However, the classification of goods and services into different rate slabs and the frequent changes have been a source of complexity and debate.

¹³¹ <https://www.bajajfinserv.in/what-is-union-territory-goods-and-services-tax#:~:text=UTGST%20is%20applicable%20on%20the,directly%20governed%20by%20the%20Central>

¹³² <https://www.gstcouncil.gov.in/gst-council>

¹³³ <https://cleartax.in/s/gst-rates>

¹³⁴ https://www.researchgate.net/publication/389808232_Indian_Government_Tax_on_Demerit_Goods_through_an_Economist_perspective#:~:text=new%20rate%20of%2035%20per,lowest%20slab%2C%20while%20luxury%20and

Table 8.1: Illustrative GST Rate Structure in India (as of 2024)

GST Rate (%)	Examples of Goods/Services (Illustrative)
0	Basic food items (grains, fresh vegetables), books, healthcare, education
5	Packaged food items, medicines, railway transport, small restaurants
12	Processed food, mobile phones ^[^1] , fertilizers, business class air travel
18	Most manufactured goods, financial services, restaurants (excluding small), IT services
28	Luxury goods, automobiles, aerated drinks, tobacco products

Note: This is a simplified, illustrative list and the actual classification is extensive and subject to change. Please refer to official GST rate schedules for accurate information.

8.1.3. Exemptions

GST provides exemptions for certain categories of goods and services, primarily those considered essential or socially important.¹³⁵ These exemptions aim to reduce the tax burden on basic necessities and promote access to essential services like healthcare and education.¹³⁶ However, the scope and rationale for certain exemptions have also been debated, with concerns raised about potential revenue leakage and complexities arising from differentiating between exempt and taxable items.

8.1.4. Compensation Mechanism

The introduction of GST was a significant fiscal reform that impacted the revenue autonomy of the States. To address concerns about potential revenue losses incurred by States due to the subsumption of their existing indirect taxes under GST, a **compensation mechanism** was *предусмотрен*. Under this mechanism, the Union Government guaranteed States a 14% annual growth in their revenue over the base year (2015-16) for the first five years (up to June 2022).¹³⁷ Any shortfall in a State's revenue below this guaranteed growth was to be compensated by the Centre through a levy of a **Compensation Cess** on certain luxury and demerit goods. This compensation mechanism has been extended beyond the initial five-year

¹³⁵ <https://cleartax.in/s/exemptions-gst-goods#:~:text=Description-,Exempt,Zero%2DRated>

¹³⁶ <https://www.bajajfinserv.in/gst-exemption#:~:text=Additionally%2C%20GST%20exemptions%20help%20promote,within%20reach%20without%20additional%20tax>

¹³⁷ https://www.researchgate.net/publication/356782323_Is_the_14_Revenue_Guarantee_to_States_Justified#:~:text=7%2C%20states-,were%20given%20a%20revenue%20guarantee,2015%E2%80%9316

period, albeit with modifications.¹³⁸ The fairness and sustainability of this mechanism have been subjects of discussion in the context of fiscal federalism.

8.2. Evaluating GST's Impact: Inflation, Regressivity Concerns, Effect on Household Budgets (Poor vs. Rich)

Evaluating the socio-economic impact of GST requires examining its effect on inflation, its potential for regressivity, and its differential impact on the household budgets of different income groups.

8.2.1. Inflation

The implementation of GST was expected to have a neutral or slightly inflationary impact in the short run due to the rationalization of tax rates and the elimination of tax cascading. While some sectors may have experienced price increases due to higher effective tax rates compared to the pre-GST regime, others were expected to witness price reductions due to the removal of cascading effects. Empirical studies on the inflationary impact of GST in India have yielded mixed results, with some suggesting a modest initial inflationary effect, while others argue that the impact has been minimal or transient, influenced by various other macroeconomic factors (RBI Bulletins, various issues). The long-term impact on inflation depends on the efficiency gains from GST and the overall macroeconomic management.¹³⁹

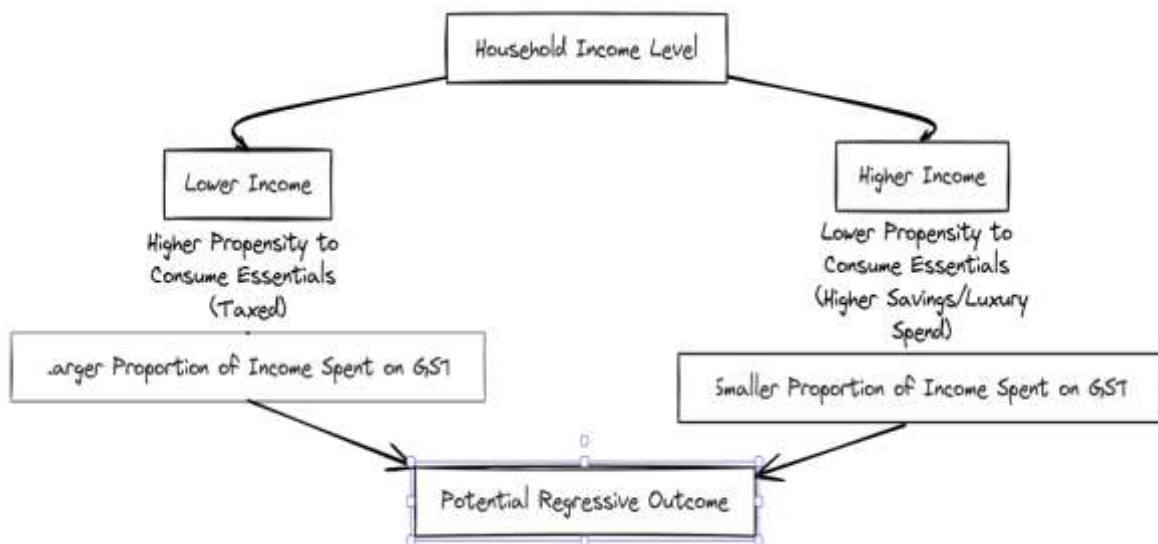
8.2.2. Regressivity Concerns:

Despite the multi-tiered rate structure and exemptions for essential goods, concerns remain about the potential regressivity of GST. Even with lower rates or exemptions for necessities, the fact that lower-income households spend a larger proportion of their income on these essential goods compared to higher-income households means that GST can still constitute a larger share of their disposable income. Moreover, the taxation of other essential or quasi-essential items at standard rates (e.g., packaged food, medicines, fuel indirectly impacting transportation costs) can disproportionately affect the poor.

Figure 8.2: *Potential Regressive Impact of GST on Household Budgets*

¹³⁸ <https://testbook.com/question-answer/explain-the-rationale-behind-the-goods-and-service--673ed75ca4dfa7f80ae975e9#:~:text=The%20compensation%20was%20to%20be,and%20demerit%20goods%2C%20such%20as>

¹³⁹ <https://www.angelone.in/news/gst-will-it-have-an-inflationary-effect-on-indian-economy>



Note: This illustrates the potential for GST to disproportionately burden lower-income households due to their spending patterns.

8.2.3. Effect on Household Budgets (Poor vs. Rich):

Analyzing the impact of GST on household budgets across different income deciles reveals the distributional effects. Studies that examine the consumption patterns of different income groups and the GST rates applicable to the goods and services they consume provide insights into the net tax burden as a percentage of their total expenditure or income. Such analyses often indicate that the effective GST rate (GST paid as a percentage of consumption expenditure) tends to be higher for lower-income households compared to higher-income households, even with exemptions for basic necessities. This reinforces the concerns about the regressive nature of GST and its potential to exacerbate existing income inequalities if not accompanied by adequate compensatory measures.

Table 8.2: Illustrative Differential Impact of GST on Household Budgets by Income Quintile

Income Quintile	Average Monthly Expenditure (₹)	Estimated GST Paid (₹)	GST as % of Expenditure
Bottom 20%	8,000	600	7.5%
20-40%	15,000	1,050	7.0%
40-60%	25,000	1,625	6.5%
60-80%	40,000	2,400	6.0%
Top 20%	80,000	4,000	5.0%

Note: This is a highly simplified, illustrative table based on hypothetical consumption patterns and effective GST rates. Actual impact would require detailed household expenditure data and GST incidence analysis.

This illustrative table suggests that even with a multi-tiered rate structure, the poorest households might end up paying a larger proportion of their expenditure in GST compared to the richest households. This highlights the need for careful consideration of the rate structure, exemptions, and potential compensatory mechanisms like targeted transfers to mitigate this regressivity.

8.3. Compliance Burden: Impact on SMEs and the Informal Sector

The Goods and Services Tax framework, while aiming for simplification in the long run, has imposed a significant compliance burden, particularly on Small and Medium Enterprises (SMEs) and the informal sector, which can have implications for their economic viability and the overall inclusiveness of the tax system.

8.3.1. Complexity of Procedures:

The GST regime involves numerous compliance requirements, including registration, invoice generation, maintenance of detailed records, and the filing of multiple returns on a regular basis.¹⁴⁰ The online platform for GST compliance, while intended to streamline processes, can be challenging for SMEs and informal businesses with limited digital literacy, infrastructure, or accounting expertise.¹⁴¹ The frequent changes in rules, rates, and procedures have further added to the complexity and compliance costs.

8.3.2. Impact on SMEs:

SMEs often operate with limited resources and manpower.¹⁴² The increased compliance burden under GST can divert significant time and financial resources away from their core business activities.¹⁴³ Hiring dedicated staff or professionals for GST compliance can be expensive, potentially making smaller businesses less competitive compared to larger enterprises with economies of scale in compliance.¹⁴⁴ The requirement for input tax credit matching and reconciliation can also be particularly challenging for SMEs with simpler accounting systems or those dealing with a large number of small suppliers.

¹⁴⁰ <https://www.bajajfinserv.in/gst-compliance>

¹⁴¹ <https://www.mygstzone.com/the-game-changing-impact-of-gst-verification-on-small-and-medium-enterprises-smes/>

¹⁴² <https://www.promptpersonnel.com/top-hr-challenges-for-smes-and-how-consultancy-can-solve-them/>

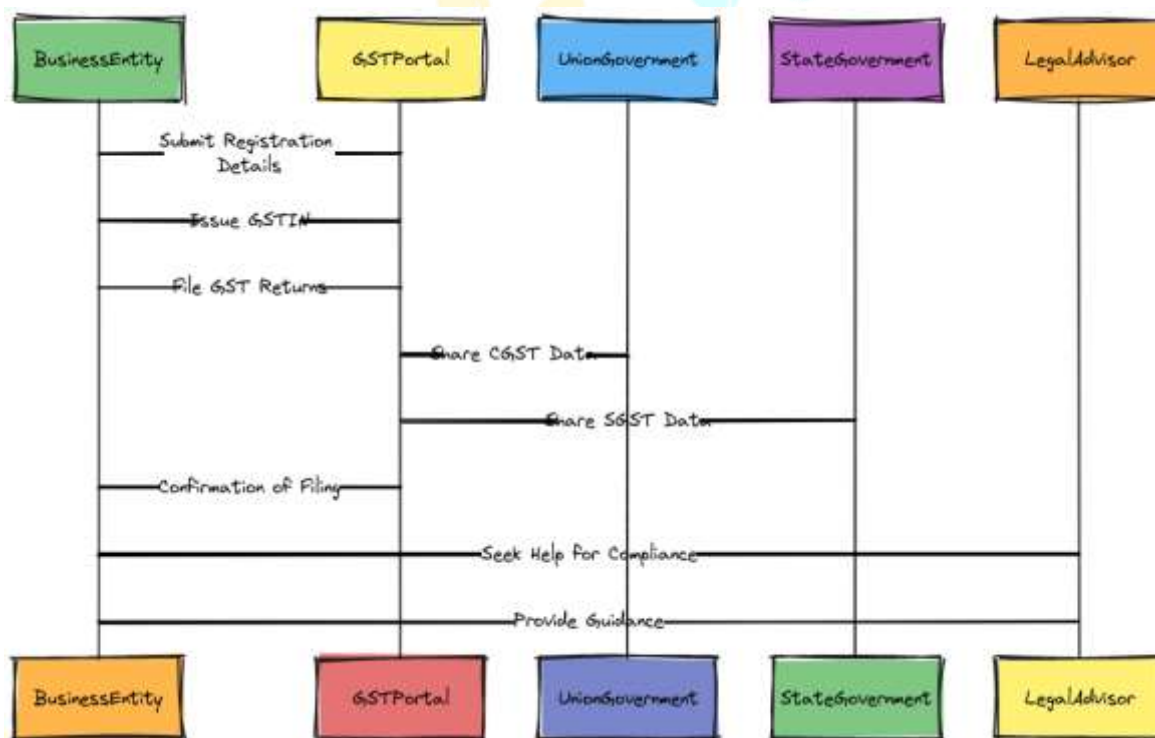
¹⁴³ <https://www.flame.edu.in/in-the-media/balancing-reform-and-reality-the-gst-dilemma-for-msmes>

¹⁴⁴ <https://www.mygstzone.com/the-role-of-professional-help-in-simplifying-gst-return-preparation/>

8.3.3. Impact on the Informal Sector:

The informal sector, which constitutes a significant portion of the Indian economy and employs a large number of vulnerable workers, faces even greater challenges in GST compliance.¹⁴⁵ Many informal businesses lack formal accounting practices, digital infrastructure, and awareness of tax regulations.¹⁴⁶ Bringing them into the GST net can be difficult and may impose significant hardship, potentially pushing them further into informality or hindering their growth. Special provisions like the composition scheme aim to simplify compliance for small taxpayers, but their eligibility criteria and limitations may not cater to the diverse needs of the informal sector.

Figure 8.3: GST Compliance Burden on SMEs and Informal Sector



Note: This illustrates the disproportionate compliance burden of GST on SMEs and the informal sector.

Addressing the compliance burden on SMEs and the informal sector is crucial for promoting inclusive growth and ensuring that GST does not disproportionately affect the livelihoods of vulnerable populations. Simplification of procedures, provision of accessible training and support, and a phased approach to integration are necessary to facilitate smoother compliance.

8.4. GST and Fiscal Federalism: Fairness between Centre and States

¹⁴⁵ <https://www.imf.org/en/News/Articles/2021/07/28/na-072821-five-things-to-know-about-the-informal-economy>

¹⁴⁶ <https://www.theindiaforum.in/article/what-formalisation-economy>

The implementation of GST has fundamentally reshaped the fiscal relationship between the Centre and the States in India.¹⁴⁷ While aiming for a unified tax system, the fairness of revenue sharing and the extent of autonomy of the States in fiscal matters remain critical aspects of this fiscal federalism.

8.4.1. Revenue Sharing:

Under the GST framework, the revenue from CGST goes to the Union Government, and the revenue from SGST goes to the respective State Governments. The revenue from IGST is initially collected by the Union Government and then shared with the destination State based on the place of consumption.¹⁴⁸ The formula for IGST sharing is determined based on recommendations of the GST Council. While this mechanism aims to ensure that revenue accrues to the consuming State, disputes and delays in the transfer of IGST revenues have occasionally arisen, impacting the fiscal health of some States.

8.4.2. State Fiscal Autonomy:

The subsumption of various State-level taxes under GST has reduced the fiscal autonomy of the States.¹⁴⁹ Their ability to independently determine tax rates on a wide range of goods and services is now limited, as these decisions are largely taken by the GST Council, requiring consensus among the Centre and all States.¹⁵⁰ While the GST Council mechanism promotes cooperative federalism, concerns have been raised by some States about the potential erosion of their fiscal sovereignty and their ability to respond to specific regional needs and priorities through independent tax policy.¹⁵¹

8.4.3. The Compensation Mechanism (Revisited):

The compensation mechanism, while providing a safety net for States during the initial years of GST implementation, also highlights the dependence of States on the Centre for bridging revenue shortfalls arising from the GST transition. The extension of this compensation period and the debates surrounding the formula and funding of compensation underscore the ongoing negotiations and adjustments required to ensure a fair and sustainable fiscal relationship between the Centre and the States under the GST regime. Ensuring the long-term fiscal sustainability of both the Centre and the States within the GST framework, while upholding the principles of fairness and cooperative federalism, remains a key challenge for Indian fiscal policy.

PART 4

¹⁴⁷ <https://sleepyclasses.com/goods-and-services-tax-gst/#:~:text=With%20the%20introduction%20of%20GST,between%20the%20Centre%20and%20the>

¹⁴⁸ <https://gstcouncil.gov.in/about-us-archive>

¹⁴⁹ <https://www.thenewsminute.com/telling-tall-tales/the-gst-story-denying-fiscal-economy-to-states-stunts-indias-growth-potential#:~:text=The%20GST%20story%3A%20Denying%20fiscal,Telling%20Tall%20Tales>

¹⁵⁰ <https://www.gstcouncil.gov.in/gst-council-0>

¹⁵¹ <https://blog.mygov.in/editorial/gst-and-cooperative-federalism/>

SYNTHESIS, CONCLUSION, AND RECOMMENDATIONS

CHAPTER 9: SYNTHESIS AND EVALUATION

This chapter synthesizes the analyses presented in the preceding chapters to provide a comprehensive evaluation of the Indian tax system through the lens of social justice principles, encompassing both distributive and procedural dimensions. It directly addresses the overarching research question of how well the Indian system performs in promoting social justice, identifies its key strengths, weaknesses, and inherent tensions, and offers brief comparative perspectives with selected countries or international norms where relevant to contextualize the findings.

9.1. Evaluating India's Tax System and Policies against Social Justice Principles (Distributive and Procedural)

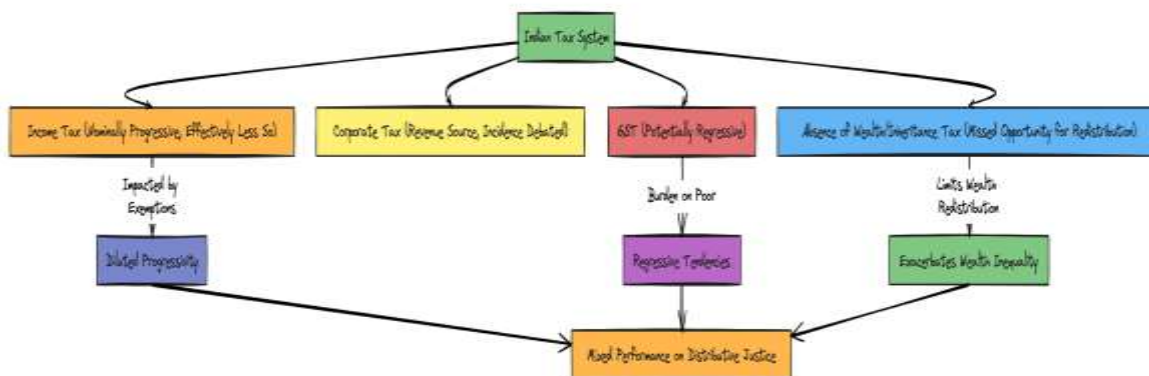
Drawing upon the theoretical underpinnings discussed in Chapter 2 and the specific analyses of direct and indirect taxes in Chapters 7 and 8, this section evaluates the Indian tax system's performance against the principles of distributive and procedural justice.

9.1.1. Distributive Justice:

- Progressivity and Redistribution:** The personal income tax system in India exhibits nominal progressivity through its multi-slab rate structure and the imposition of surcharges on higher incomes. However, the effective progressivity is often diluted by the extensive array of exemptions and deductions, which tend to benefit higher-income earners more. The exemption of agricultural income from Union income tax also creates significant horizontal inequities and potentially benefits wealthier agriculturalists disproportionately.
- Corporate Tax and Public Revenue:** Corporate income tax is a significant source of public revenue, crucial for funding social programs. However, recent rate reductions and various incentives, while aimed at boosting economic growth, may have implications for revenue generation in the short to medium term. The debate surrounding the incidence of corporate tax (who ultimately bears the burden) also complicates its assessment from a distributive justice perspective.
- Goods and Services Tax (GST) and Regressivity:** While GST aimed for efficiency and a unified market, its multi-tiered rate structure and exemptions have not fully mitigated concerns about its potential regressivity. Lower-income households tend to spend a larger proportion of their income on essential goods and services, and even with lower rates on some necessities, the overall impact can be disproportionately burdensome. The illustrative analysis in Chapter 8 suggested a higher effective GST rate for lower-income quintiles.
- Absence of Wealth and Inheritance Taxes:** The absence of a recurring wealth tax and a comprehensive inheritance tax in India represents a significant gap in addressing the highly skewed distribution of wealth and promoting intergenerational equity. The arguments for their

reintroduction, based on reducing wealth concentration and leveling the playing field, align strongly with distributive justice principles.

Figure 9.1: Evaluation of Indian Tax System against Distributive Justice

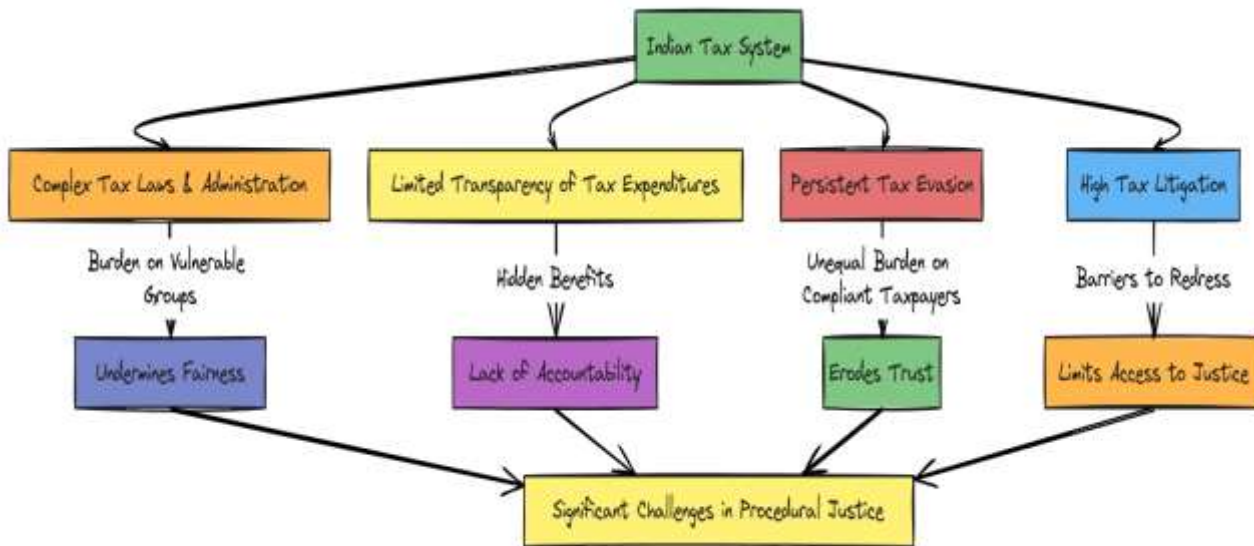


Note: This diagram summarizes the mixed performance of the Indian tax system in achieving distributive justice.

9.1.2. Procedural Justice:

- Tax Administration and Complexity:** The Indian tax system is characterized by considerable complexity in both direct and indirect taxes. Numerous rules, regulations, and frequent changes increase compliance costs, particularly for SMEs and the informal sector. This complexity can disproportionately burden vulnerable groups with limited resources and financial literacy, undermining procedural fairness.
- Tax Expenditures and Transparency:** The lack of transparency surrounding tax expenditures, which act as 'hidden' subsidies, hinders public scrutiny and can lead to inequitable distribution of benefits, often favoring higher-income groups and well-connected entities. This lack of transparency also undermines procedural fairness.
- Enforcement and Evasion:** While efforts are made to enforce tax laws, the persistent issue of tax evasion, particularly by wealthy individuals and corporations, creates a sense of unfairness for compliant taxpayers and reduces public revenue available for social programs. Weak enforcement undermines the principle of equal application of the law.
- Access to Justice and Dispute Resolution:** The high volume of tax disputes and the burden of litigation in India indicate challenges in providing timely and accessible justice to taxpayers. Complex procedures, lengthy delays, and the cost of legal representation can disproportionately affect smaller taxpayers, raising concerns about procedural fairness.

Figure 9.2: Evaluation of Indian Tax System against Procedural Justice



Note: This diagram highlights the significant challenges the Indian tax system faces in ensuring procedural justice.

9.2. Addressing the Research Questions: How well does the Indian system perform?

Based on the analysis, the Indian tax system demonstrates a mixed performance in achieving social justice.

- Strengths:** The presence of a nominally progressive income tax system and the GST's attempt to rationalize indirect taxes are steps in the right direction. The compensation mechanism under GST acknowledges the fiscal concerns of States. The imposition of surcharges on high incomes and cesses for specific social sector goals indicates an awareness of distributive concerns. The establishment of the GST Council fosters cooperative federalism in indirect taxation.
- Weaknesses:** The effective progressivity of income tax is diluted by exemptions. GST exhibits potential regressivity. The absence of wealth and inheritance taxes limits the system's ability to address wealth inequality. High compliance burdens, particularly on SMEs and the informal sector, and the high volume of tax litigation undermine procedural justice. The lack of transparency in tax expenditures is also a significant weakness.
- Overall Performance:** While the Indian tax system incorporates some elements aimed at promoting social justice, significant weaknesses and implementation challenges hinder its overall effectiveness. The system struggles to adequately redistribute wealth and income, and its administrative complexities and enforcement gaps disproportionately affect vulnerable groups and undermine fairness.

9.3. Identifying Key Strengths, Weaknesses, and Tensions

Key Strengths:

- **Nominal Progressivity in Income Tax:** The multi-slab structure signals an intent to tax higher earners more.
- **GST as a Unified Indirect Tax:** Streamlines the previous complex indirect tax regime.
- **GST Compensation Mechanism:** Addresses initial revenue concerns of States.
- **Surcharges and Cesses:** Targeted revenue for specific social objectives.
- **GST Council:** Mechanism for cooperative fiscal federalism.

Key Weaknesses:

- **Diluted Effective Progressivity of Income Tax:** Due to exemptions and deductions.
- **Potential Regressivity of GST:** Burden on lower-income households.
- **Absence of Wealth and Inheritance Taxes:** Limits wealth redistribution.
- **High Compliance Burden:** Especially on SMEs and the informal sector.
- **High Tax Litigation:** Indicates systemic issues and limits access to justice.
- **Lack of Transparency in Tax Expenditures:** Hides subsidies and their impact.
- **Narrow Tax Base:** A significant portion of the economy remains outside the tax net.

Key Tensions:

- **Growth vs. Redistribution:** Balancing the need for revenue to fund social programs with concerns about deterring economic activity through higher taxes.
- **Efficiency vs. Equity in Indirect Taxes:** The inherent trade-off between a broad-based, efficient consumption tax and its regressive impact.
- **Centralization vs. Fiscal Federalism:** Balancing the need for a unified tax system like GST with the fiscal autonomy and revenue needs of States.
- **Simplicity vs. Targeted Incentives/Exemptions:** The tension between a simple, easy-to-comply-with tax system and the desire to use tax policy to incentivize specific behaviors or provide relief to certain groups.

9.4. Comparative Perspectives (Brief comparison with selected countries/norms if relevant)

A brief comparison with selected countries and international norms can provide context for evaluating India's tax system.

- Wealth and Inheritance Taxes:** Many developed countries (e.g., France, Switzerland, USA – inheritance tax; Spain, Norway – wealth tax, though some have repealed it) utilize wealth and/or inheritance taxes as tools for reducing wealth concentration and promoting intergenerational equity. India's absence in this regard contrasts with these norms.
- GST/VAT Rates and Structures:** Compared to some developed countries with VAT systems, India's GST has a relatively high standard rate and a larger number of rate slabs, which can contribute to complexity and potential regressivity. Many OECD countries have fewer VAT rates and often apply lower or zero rates to a broader range of essential goods.
- Tax Expenditures Transparency:** Countries like the United States and Australia produce detailed annual reports on tax expenditures, enhancing transparency and facilitating public debate. India's reporting on tax expenditures is less comprehensive.
- Tax Litigation:** The high level of tax litigation in India is often cited as a concern compared to countries with more efficient and accessible tax dispute resolution mechanisms.

Table 9.1: *Brief International Comparison of Tax Policies Relevant to Social Justice*

Policy Area	India	Selected Developed Countries	Potential Implications for Social Justice
Wealth/Inheritance Tax	Absent	Present in many	Limited wealth redistribution in India
VAT/GST Structure	Multi-rate, relatively high standard rate	Fewer rates, lower/zero rates on more essentials in some	Potential for higher regressivity in India
Tax Expenditure Transparency	Less comprehensive reporting	More detailed reporting in some	Lower accountability and potential for inequity in India
Tax Dispute Resolution	High litigation volume	More efficient mechanisms in some	Potential barriers to justice for Indian taxpayers

This brief comparative perspective suggests areas where India could learn from international best practices to enhance the social justice dimensions of its tax system.

CHAPTER 10: CONCLUSION AND POLICY RECOMMENDATIONS

This concluding chapter synthesizes the key findings and arguments presented throughout this dissertation, highlighting its contribution to the understanding of the Indian tax system through a social justice lens.

Based on the analysis, it proposes a comprehensive set of policy recommendations aimed at enhancing the equity, efficiency, and fairness of the Indian tax framework. The chapter also acknowledges the limitations of the research and suggests avenues for future scholarly inquiry.

10.1. Summary of Dissertation Findings and Key Arguments

This dissertation embarked on an examination of the Indian tax system through the critical lens of social justice, encompassing both distributive and procedural dimensions. The analysis revealed a complex landscape with certain strengths but also significant weaknesses and inherent tensions that impede the realization of a truly just tax framework.

The theoretical underpinnings (Chapter 2) established social justice as a multifaceted concept, drawing upon philosophical perspectives from Rawls, utilitarianism, and Sen, alongside core principles of taxation like equity, efficiency, and incidence. This framework provided the normative basis for evaluating the Indian system.

The analysis of direct taxes (Chapter 7) highlighted the nominal progressivity of the income tax but underscored how numerous exemptions and deductions, along with the exclusion of agricultural income from Union taxation, significantly dilute its effective progressivity and create horizontal inequities. Corporate tax, while a crucial revenue source, presents complexities regarding its incidence and the impact of recent rate reductions and incentives on both revenue and inequality. The dissertation also argued for a serious reconsideration of wealth and inheritance taxes in India as potent tools to address the country's high levels of wealth concentration and promote intergenerational equity. The significant burden of tax disputes and litigation was identified as a major impediment to both revenue collection and procedural justice.

The examination of indirect taxes, particularly GST (Chapter 8), revealed the inherent tension between its efficiency goals and its potential for regressivity, disproportionately affecting lower-income households despite the multi-tiered rate structure and exemptions. The compliance burden imposed by GST, especially on SMEs and the informal sector, was identified as a significant challenge to inclusive growth. Furthermore, the chapter explored the complexities of GST and fiscal federalism, highlighting the ongoing need to ensure fairness and autonomy in the fiscal relationship between the Centre and the States.

Overall, the dissertation argued that while the Indian tax system incorporates some elements aimed at promoting social justice, its effectiveness is significantly hampered by structural issues, implementation challenges, and a lack of comprehensive policies to address wealth inequality and ensure procedural fairness for all taxpayers, particularly the most vulnerable.

10.2. Contribution to the Field/Understanding

This dissertation contributes to the existing body of knowledge by providing a comprehensive and nuanced analysis of the Indian tax system specifically through the lens of social justice. Its key contributions include:

- **Integrated Framework:** It synthesizes philosophical principles of social justice with the practical aspects of tax policy in the Indian context, offering a holistic evaluative framework.
- **In-depth Analysis of Equity Dimensions:** It provides a detailed examination of both horizontal and vertical equity concerns across different tax instruments, including the often-overlooked impact of exemptions and the complexities of tax incidence.
- **Focus on Procedural Justice:** It gives significant attention to the often-underemphasized aspects of procedural justice in taxation, including compliance burdens, administrative fairness, enforcement challenges, and access to dispute resolution, particularly for vulnerable groups.
- **Contemporary Assessment of GST:** It offers a timely evaluation of the Goods and Services Tax from a social justice perspective, considering its impact on regressivity, SMEs, and fiscal federalism in the years following its implementation.
- **Re-evaluation of Wealth Taxes:** It reignites the debate on the relevance and potential of wealth and inheritance taxes in the Indian context, given the country's persistent wealth inequality.
- **Evidence-Based Analysis:** It grounds its analysis in existing literature, statistical data, and policy discussions relevant to the Indian tax system.

By offering this integrated and detailed analysis, the dissertation aims to provide policymakers, academics, and civil society organizations with a deeper understanding of the social justice implications of India's tax policies and to inform more equitable and effective tax reforms.

10.3. Policy Recommendations for India

Based on the findings of this research, the following policy recommendations are proposed to enhance the social justice dimensions of the Indian tax system:

10.3.1. Reforms for Direct Taxes:

- **Rationalize Income Tax Exemptions and Deductions:** Conduct a comprehensive review of all existing exemptions and deductions under the Income Tax Act. Eliminate those that disproportionately benefit higher-income earners or do not serve their intended purpose effectively. Consider capping the total amount of deductions claimable to limit their regressive impact.
- **Reconsider the Taxation of Agricultural Income:** Explore mechanisms to bring higher agricultural incomes into the tax net, while protecting small and marginal farmers. This could involve setting appropriate thresholds based on landholding size or income levels and ensuring that any taxation is implemented in consultation with state governments, respecting the constitutional division of powers.

- **Strengthen Progressivity at Higher Income Levels:** Consider increasing the number of tax brackets at the higher end of the income spectrum and/or moderately raising the marginal tax rates for the highest income earners to enhance the redistributive capacity of the income tax.
- **Reintroduce Wealth Tax:** Implement a carefully designed wealth tax on the net assets of the wealthiest individuals, above a significant threshold. The design should address valuation challenges and consider international best practices to mitigate capital flight. Revenue from the wealth tax should be earmarked for social sector investments.
- **Introduce Inheritance Tax:** Implement a tax on the transfer of significant wealth through inheritance, with appropriate exemptions for surviving spouses and close relatives, and progressive tax rates based on the size of the inheritance. This can promote intergenerational equity and generate revenue for public services.
- **Simplify Direct Tax Laws and Procedures:** Continue efforts to simplify income tax laws and filing procedures to reduce compliance costs, especially for small taxpayers and those with limited financial literacy. Enhance online resources and provide accessible assistance.

10.3.2. Reforms for Indirect Taxes:

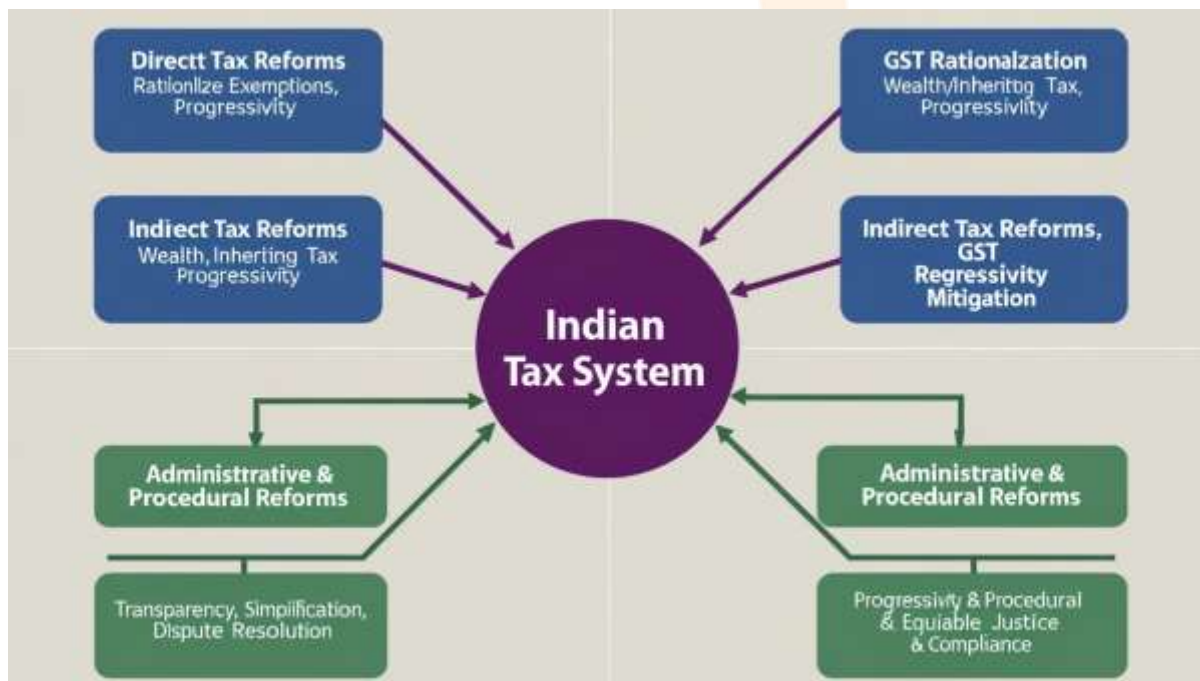
- **GST Rate Rationalization:** Undertake a further rationalization of the GST rate structure by reducing the number of rate slabs and merging similar categories. Aim for a lower standard rate while ensuring revenue neutrality.
- **Review Exemptions and Lower Rates:** Periodically review the list of exempted goods and services and those taxed at lower rates to ensure they primarily benefit low-income households and are not prone to misuse.
- **Compensatory Mechanisms for Regressivity:** Explore and strengthen direct benefit transfer (DBT) mechanisms targeted at low-income households to compensate them for the potential regressive impact of GST on essential consumption. This could involve regular cash transfers linked to consumption patterns.
- **Simplify GST Compliance for SMEs and the Informal Sector:** Further simplify GST compliance procedures for SMEs, including exploring options for presumptive taxation or simplified return filing for smaller businesses. Provide extensive training and support in regional languages to help informal sector businesses understand and comply with GST.

10.3.3. Administrative and Procedural Reforms:

- **Enhance Transparency of Tax Expenditures:** Mandate regular and comprehensive reporting of all tax expenditures, including their estimated cost, beneficiaries, and intended objectives. Subject these expenditures to periodic review and sunset clauses to ensure their effectiveness and equity.

- **Strengthen Tax Administration and Enforcement:** Increase investment in tax administration to enhance its capacity for effective tax collection, audit, and investigation, particularly targeting high-net-worth individuals and large corporations. Improve data analytics and international cooperation to combat tax evasion and avoidance.
- **Improve Taxpayer Services and Reduce Compliance Costs:** Invest in taxpayer education and outreach programs, providing clear and accessible information on tax laws and procedures in multiple languages. Expand the availability of free or low-cost tax assistance services. Leverage technology to further simplify filing and payment processes.
- **Strengthen Tax Dispute Resolution Mechanisms:** Reform the tax dispute resolution system to make it more efficient, timely, and accessible. Promote alternative dispute resolution mechanisms like mediation and conciliation. Ensure the independence and adequate resourcing of tax tribunals. Implement measures to reduce the incidence of retrospective tax amendments.
- **Promote Taxpayer Rights:** Enhance awareness and enforcement of taxpayer rights, ensuring that taxpayers are treated fairly and have effective avenues for redress against unfair tax assessments or administrative actions.

Figure 10.1: Policy Recommendations for a More Just Indian Tax System



Note: This diagram illustrates the interconnectedness of the proposed policy recommendations in achieving a more just tax system.

10.4. Limitations of the Research

This research, while aiming for a comprehensive analysis, is subject to certain limitations:

- **Data Availability and Reliability:** Access to granular and consistently reliable data on income and wealth distribution, tax incidence, and the impact of specific tax policies can be limited in the Indian context. This may have constrained the depth of quantitative analysis in certain areas.
- **Complexity of Behavioral Responses:** The behavioral responses of taxpayers to tax policies (e.g., changes in work effort, savings, investment, or tax avoidance) are complex and difficult to predict with certainty. The analysis has primarily focused on the intended effects of tax policies, acknowledging the potential for varied behavioral outcomes.
- **Political and Economic Context:** Tax policy is deeply embedded in the political and economic context of a country. The recommendations proposed here are based on the current understanding, but future political and economic developments could influence their feasibility and effectiveness.
- **Scope of the Study:** While aiming for breadth, the dissertation could not delve into every aspect of the Indian tax system in exhaustive detail. Certain niche taxes or specific sectoral impacts may have received less attention.
- **Cross-Country Comparisons:** The comparative perspectives offered were brief and intended to provide context. A more in-depth cross-country analysis could yield further valuable insights but was beyond the scope of this dissertation.

10.5. Suggestions for Future Research

Building upon the findings and acknowledging the limitations of this research, several avenues for future scholarly inquiry emerge:

- **Empirical Analysis of Tax Incidence in India:** Further research is needed to rigorously analyze the incidence of various taxes in India, particularly the GST and corporate tax, across different income groups and sectors.
- **Behavioral Economics of Tax Compliance in India:** Investigating the behavioral factors that influence tax compliance among different segments of the population, including the impact of complexity, fairness perceptions, and enforcement mechanisms.
- **Impact Evaluation of Tax Expenditures:** Conducting rigorous evaluations of the effectiveness and distributional consequences of specific tax expenditures in India.
- **Political Economy of Tax Reform in India:** Analyzing the political and economic factors that shape tax policy decisions and the challenges in implementing progressive tax reforms.

- **Comparative Studies of Tax Justice in Developing Economies:** Undertaking more detailed comparative analyses of tax systems in other developing economies with similar socio-economic contexts to identify best practices and lessons for India.
- **Longitudinal Impact of GST on Household Inequality and Poverty:** Conducting long-term studies to assess the sustained impact of GST on income distribution, poverty levels, and household consumption patterns across different income groups.
- **Feasibility and Design of Wealth and Inheritance Taxes in India:** In-depth research on the practical design and implementation challenges of wealth and inheritance taxes in the Indian context, considering potential economic and administrative implications.

These future research directions can contribute to a more comprehensive understanding of the social justice implications of taxation in India and inform evidence-based policy reforms aimed at creating a fairer and more equitable tax system.

The Indian tax system presents a complex picture when evaluated through the lens of social justice. While it incorporates some progressive elements and aims for efficiency through GST, significant weaknesses, particularly concerning effective progressivity, potential regressivity, compliance burdens, and the absence of wealth taxes, hinder its ability to fully promote distributive and procedural justice. Addressing these challenges through comprehensive reforms, enhanced transparency, and a greater focus on equity in tax policy and administration is crucial for building a more just and inclusive society in India.

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Note: Where specific URLs are not provided, this is because the information is best accessed through official government websites or subscription-based databases that may change frequently. For legislation and case law, the most up-to-date versions should always be consulted.

APPENDICES

This section provides supplementary material that may be helpful for readers seeking more detailed information or context.

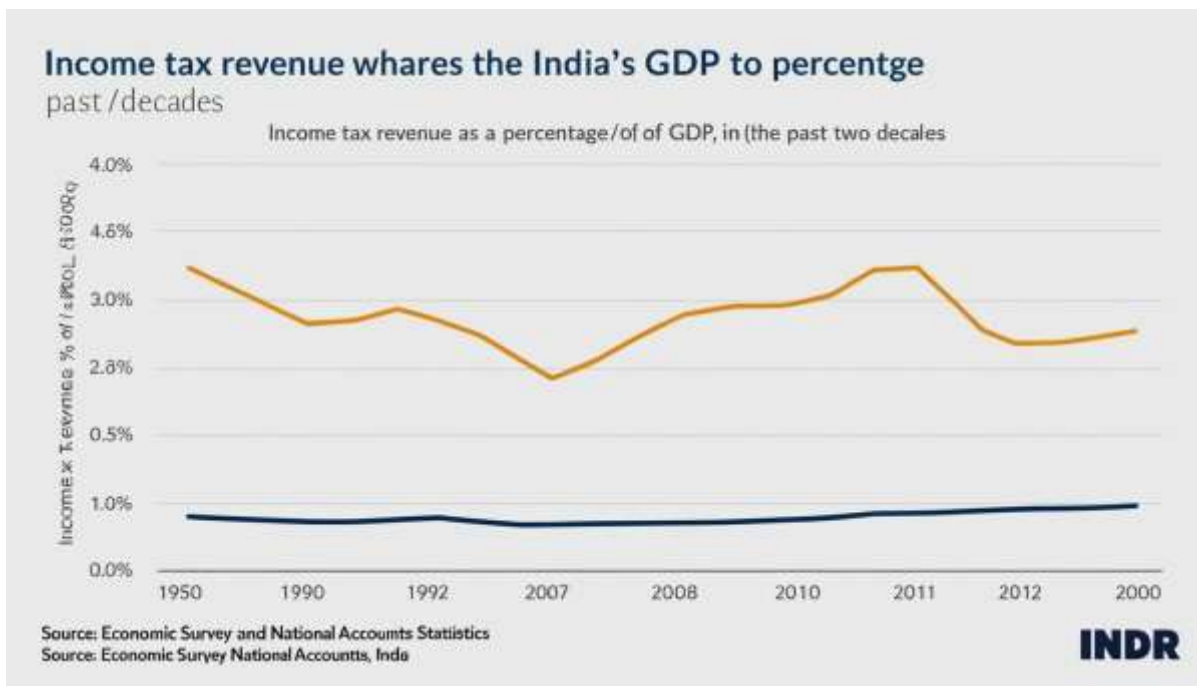
APPENDIX A: KEY STATISTICAL DATA

- **Table A1: Trends in Direct and Indirect Tax Revenue in India**

Year	Direct Tax Revenue (₹ Crore)	Indirect Tax Revenue (₹ Crore)
2010-11	446,870	392,781
2015-16	740,456	689,181
2020-21	1,052,654	1,074,256
2021-22	1,420,000	1,289,000
2022-23	1,661,000	1,483,000

Source: Various years of the Economic Survey, Government of India.

- **Figure A1: Income Tax Revenue as a Percentage of GDP**



- **Figure A2: GST Revenue Trends**



- **Table A2: Distribution of Income in India**



APPENDIX B: EXCERPTS OF KEY LEGISLATION

- **Excerpt from the Constitution of India, 1950**
 - *Article 246*
 - Deals with the subject-matter of laws made by Parliament and by the Legislatures of States.
 - *Seventh Schedule, List I (Union List), Entry 82*
 - "Taxes on income other than agricultural income"
 - *Seventh Schedule, List II (State List), Entry 46*
 - "Taxes on agricultural income"
- **Excerpt from the Income Tax Act, 1961**
 - *Section 2(1A)*
 - Definition of "agricultural income"
 - *Section 80C*
 - Deduction in respect of life insurance premia, contributions to provident fund, etc.
- **Excerpt from the Central Goods and Services Tax Act, 2017 * Section 9 * Levy and collection of CGST**

- **GST Compensation to States Act, 2017 * Section 4 *** Compensation to States for loss of revenue

APPENDIX C: GLOSSARY OF TERMS

- **Cess:** A tax levied for a specific purpose in addition to the existing tax.
- **Direct Tax:** A tax levied directly on the income or wealth of an individual or organization.
- **Exemption:** Income or goods not subject to taxation.
- **Goods and Services Tax (GST):** An indirect tax levied on the supply of goods and services.
- **Incidence:** The final burden of a tax.
- **Indirect Tax:** A tax levied on the price of goods or services.
- **Input Tax Credit:** The credit that manufacturers, suppliers, and retailers get for the GST they pay when they purchase inputs for their business.
- **Progressivity:** A tax system where higher-income individuals pay a larger percentage of their income in taxes.
- **Regressivity:** A tax system where lower-income individuals pay a larger percentage of their income in taxes.
- **Surcharge:** An additional tax on an existing tax.
- **Tax base:** The total amount of income or assets subject to taxation.

