



A Perception on Tax Fairness: A Comparison of the New Tax Regime Versus the Old

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ABSTRACT

The purpose of this thesis is to use an interdisciplinary study to thoroughly investigate the idea of "fairness" in taxation in the Indian context. Fairness in taxes is examined philosophically in this work, along with its development and complex relationship to the Indian state's structure. In the context of India's Welfare State, we examine how the policies and structure of the state influence the concept of justice. This study evaluates how fair India's tax system is at the moment, building on the philosophical examination.

We look at the issues of tax evasion, the expansion of the state sector, and the tax burden on the middle class. Insights into the obstacles and possibilities for advancing tax equity can be gained by contrasting India's tax structure with that of other developing nations. The idea that the economic literature on taxation in India is skewed toward optimal taxation and ignores the examination of tax justice is examined in this study. To test this idea, we perform a meta-analysis of previous research articles using both strict and loose guidelines. Our initial results imply that there might be a bias in favor of optimal taxes, but more investigation is required to validate this finding.

By offering a thorough examination of the philosophical, economic, and policy facets of this important topic, this book adds to the continuing discussion on tax justice in India. This study intends to educate stakeholders and policymakers on how to advance a more efficient and equitable taxation system in India by analyzing the intricate connections between taxation, state structure, and fairness.

Keywords: *Tax Fairness, New Tax Regime, Old Tax Regime, Income Tax Relief, Perceived Fairness, Economic Growth, Tax Compliance, Middle-Class Taxation, Progressive Taxation, Tax Reform, Public Perception, Tax Policy*

Introduction

Fairness in Tax Laws: A Difficult Problem A key tenet of taxation policy is fairness, which guarantees that corporations and individuals make contributions to the public coffers in a way that is just, equal, and free from discrimination. Political stability, social justice, and economic progress are all facilitated by an equitable tax structure. However, balancing conflicting interests, tackling income inequality, and negotiating the complexity of taxation are all necessary to achieve fairness in taxation laws. Foundations of Fairness in Taxation Theory Horizontal and vertical equity are two theoretical frameworks that form the basis of the idea of justice in taxation laws. The equal treatment of people or companies in comparable situations is known as horizontal equity.

Real-World Implementations of Tax Fairness Addressing income inequality, making sure taxation systems are progressive, and helping low-income individuals and families are all practical aspects of fair taxation policy. It also entails removing tax havens, addressing tax loopholes, and putting in place efficient tax enforcement systems. Furthermore, in order to minimize tax evasion, avoidance, and the erosion of revenue bases, international collaboration is necessary for equitable taxation policy.

Difficulties in Achieving Tax Fairness Even while justice in taxation is important, it can be difficult to achieve. Balancing conflicting interests, such as the desire to increase revenue, lessen income disparity, and encourage economic growth, is one of the biggest issues. Dealing with the intricacies of international taxation, such as transfer pricing, tax havens, and the digital economy, presents another difficulty. Furthermore, efficient tax administration is necessary for equitable taxation policy, which can be difficult in underdeveloped nations with little funding.

- Implications of Unfair Taxation Policies

Tax evasion, avoidance, and the decline in public confidence in governments are only a few of the serious effects of unfair taxation laws. In addition, unfair taxing practices can worsen social justice, slow economic progress, and increase income inequality. In addition, unjust taxation practices may result in a decline in revenue, which would limit the government's capacity to deliver public goods and services. In conclusion Income disparity, conflicting interests, and the complexity of international taxation must all be carefully taken into account when implementing fair taxation policy. Achieving equity

in taxation is essential for advancing social justice, political stability, and economic progress. By educating stakeholders and policymakers on the significance of developing a fair and just taxation system, this study seeks to add to the continuing discussion about tax policy fairness.

- Evolution of taxation in India

A Comparative Study of Tax Systems, Historical Perspective, and Public Perception of Tax Fairness on the Development of Taxation in India Taxation in India has a long history; evidence of taxation systems from the Mauryan Empire, the Vedic era, and the Indus Valley Civilization can be found. Due to the impact of numerous kingdoms, colonial powers, and post-independence governments, India's taxation structure has experienced substantial changes over the years. The history of taxes in India, the public's opinion on tax justice, and a thorough comparison of the various tax systems—including flat, progressive, and regressive taxation—are all covered in this introduction.

- History of taxation in India

The state collected taxes from farmers and landowners under the old Indian tax system, which was mostly based on land revenue. The introduction of multiple taxes, including as the sales tax, customs duty, and land revenue tax, throughout the Mughal Empire made the taxing system more intricate. By creating a centralized tax administration and enacting new levies like the income tax, the British colonial forces significantly altered the tax structure. India's tax system has developed further after gaining independence, with notable changes made in the 1990s. In order to create a single national market, the Goods and Services Tax (GST) was implemented in 2017 in place of other indirect taxes.

A tax system's fairness is a crucial component that affects public opinion and compliance. The tax burden, tax complexity, and tax administration are some of the elements that influence the public's impression of tax justice in India. According to a survey by the Tax Administration Reform Commission (TARC), a sizable percentage of taxpayers believed that the Indian tax system was unjust because of its high tax rates, intricacy, and corruption.

- Different types of taxation systems

Progressive taxation is a system where higher income earners are taxed at a higher rate. This system aims to reduce income inequality and promote social justice. India's income tax system is progressive, with tax rates ranging from 5% to 30%.

Regressive taxation is a system where lower income earners are taxed at a higher rate. This system can exacerbate income inequality and is often criticized for being unfair. Examples of regressive taxes include sales taxes and excise duties.

Flat tax systems impose a single tax rate on all taxpayers, regardless of their income level. This system aims to simplify tax administration and promote economic growth. Estonia and Latvia are examples of countries that have implemented flat tax systems.

In summary, India's taxation history is complicated and shaped by a number of variables. Tax systems should strive to advance social justice and lessen income disparity since the public's view of tax fairness is crucial. When tax systems are compared, it can be seen that flat tax systems are becoming more and more widespread, although progressive taxation is still extensively utilized. A common criticism of regressive taxation is that it is unjust and exacerbates income inequality.

Review of Literature

Michele Ceraolo (2020) - *Fairness in Taxation: A Philosophical and Empirical Analysis*: This study explores the concept of fairness in taxation through a meta-analysis of existing literature. The authors examine the relationship between optimal taxation and fairness, using two different approaches: rigid rules and flexible rules.

Farrar, J., Massey, D.W., Osecki, E. et al. Tax Fairness: Conceptual Foundations and Empirical Measurement. *J Bus Ethics* (2020) - *Tax Fairness: Conceptual Foundations and Empirical Measurement*: This paper develops a theoretical framework for understanding tax fairness, highlighting the influence of contextual factors on fairness perceptions. The authors argue that tax fairness is a critical factor in promoting cooperation and compliance with tax authorities. Abubakari Abdul – Razak and Christopher Jwayire Adafula (2013) - *Evaluating Taxpayers' Attitude and Its Influence on Tax Compliance*: This study examines the relationship between taxpayers' attitudes towards the tax system and their compliance behavior. The authors identify various features of the tax system that affect tax compliance, including system fairness.

Goslinga, Sjoerd, and Peter Verboon. "The Role of Fairness in Tax Compliance," n.d. (- *The Role of Fairness in Tax Compliance*: This paper investigates the relationship between fairness considerations and tax compliance attitudes and intentions. The authors analyze data from a large panel survey among small business owners in the Netherlands, highlighting the importance of fairness in promoting tax compliance.

John G. Head, Lars Osberg, Leslie Green, A. Marguerite Cassin, Leo Panitch ; edited by Allan M. Maslove. - *Fairness in Taxation: Exploring the Principles*: This collection of papers explores the concept of distributive justice and fairness in taxation. The authors examine various philosophical perspectives and academic disciplines, including the principles of progressive taxation and tax incidence.

Objectives

- To examine and compare the structural differences between the new tax regime and the old tax regime.

- To identify key changes in tax slabs, exemptions, deductions, and applicable rates.
- To evaluate taxpayer perceptions of fairness under both regimes.
- To understand how different income groups view the fairness of each tax regime.
- To assess whether the new tax regime influences taxpayer compliance differently compared to the old regime.
- To determine if simplicity and reduced deductions in the new regime impact tax compliance positively or negatively.

Results and Interpretation

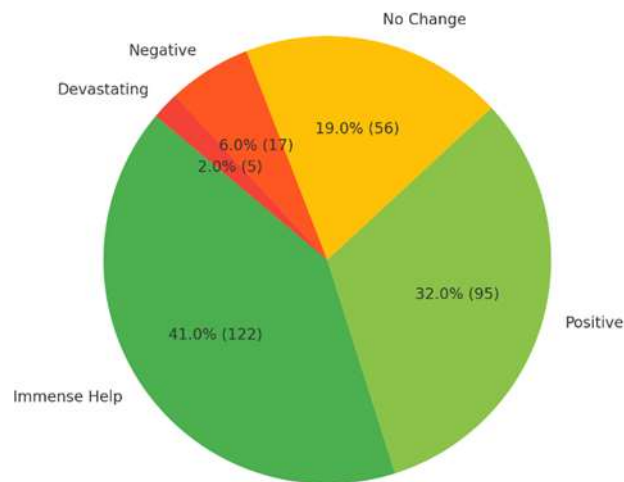
Introduction

The Indian government introduced a new income tax regime offering significant tax relief to middle-class taxpayers, particularly by exempting annual incomes up to ₹12 lakhs from taxation. This policy aims to alleviate the financial burden on middle-income earners, enhance disposable income, and potentially stimulate economic growth. This survey investigates the middle class's perception of this new tax structure, focusing on fairness, economic impact, and personal financial outcomes.

The survey gathered responses from 300 individuals across various middle-class income brackets. Respondents were asked 15 detailed questions regarding their perception of tax fairness, economic implications, and personal financial behavior in light of the revised tax rates. Answers were measured on a Likert scale ranging from "Really Unfair" to "Really Fair" for fairness-related questions and "Immense Help" to "Devastating" for life impact-related questions.

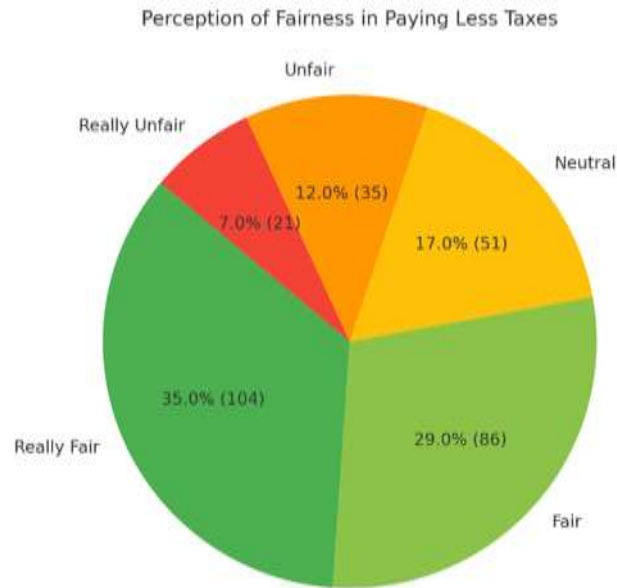
1. Does having to not pay any income tax up to ₹12 lakhs help your day-to-day life?

Impact of Not Paying Income Tax up to ₹12 Lakhs on Day-to-Day Life



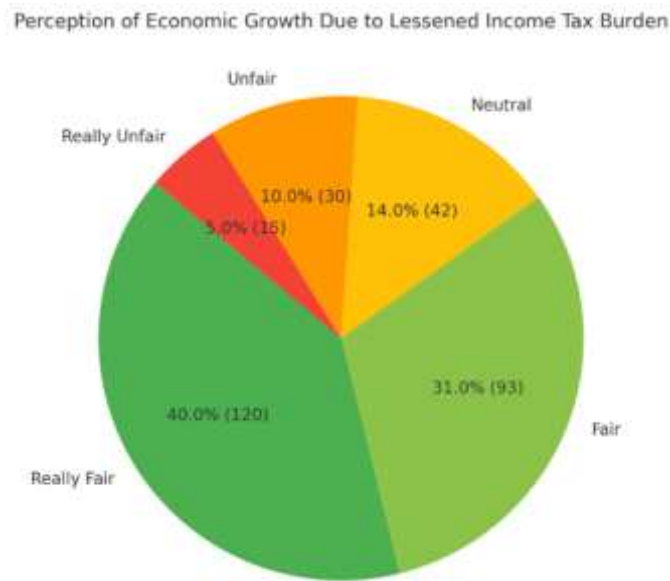
Analysis: A majority found the relief highly beneficial, with over 70% reporting a positive or immense positive impact on daily finances.

2. Do you think paying less in taxes is fairer to all people?



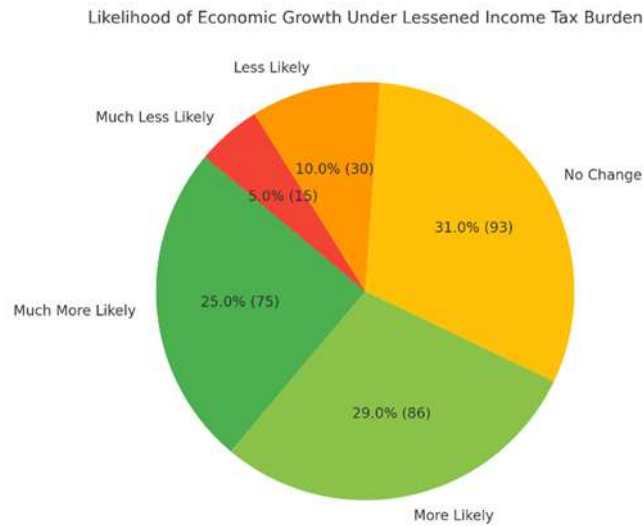
Analysis: Most respondents felt a reduced tax burden promoted fairness, but a notable minority believed it created disparities.

3. Do you believe a lessened income tax burden will help grow the economy?



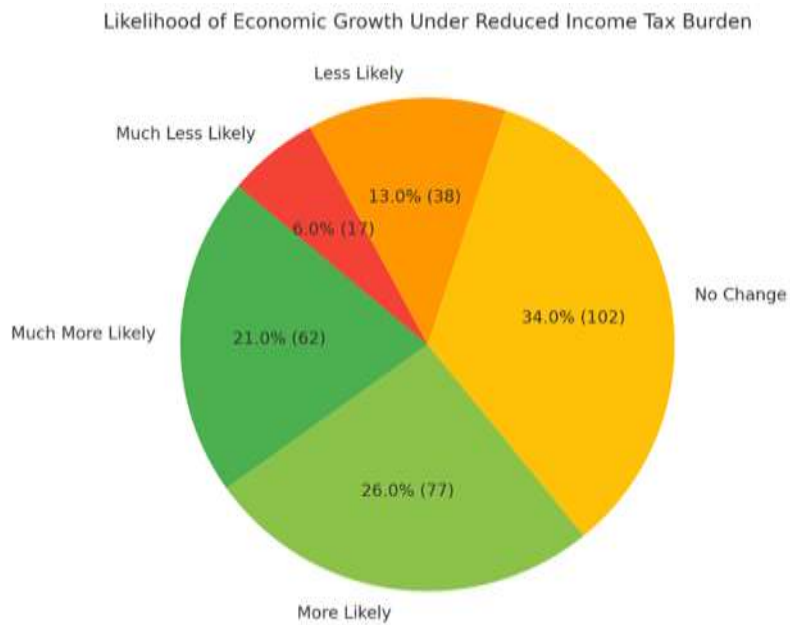
Analysis: A majority were optimistic that lower taxes would stimulate economic growth by increasing consumption and investment.

4. Are you more or less likely to invest in the stock market because of the new tax regime?



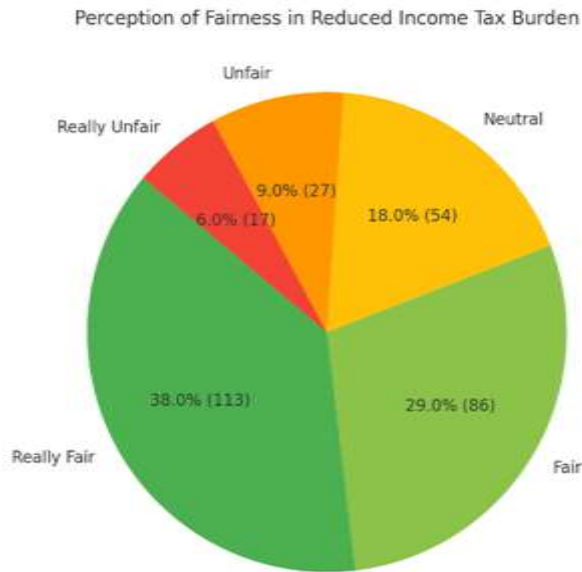
Analysis: The responses suggest a modest uptick in willingness to invest, though many remained neutral.

5. Are you more or less likely to start a small business because of the new tax regime?



Analysis: Roughly half of the respondents reported greater motivation to pursue entrepreneurial ventures due to reduced tax burdens.

6. Do you believe that the rich paying most of the taxes in India is fair or not?

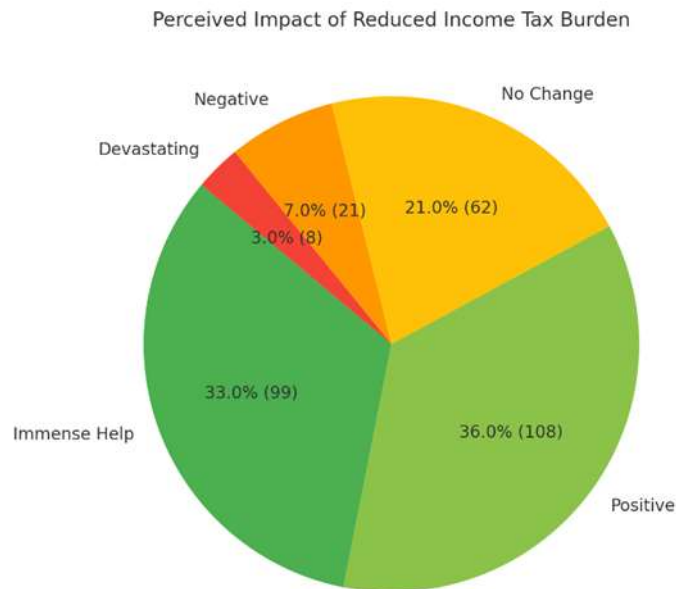


Analysis: A strong majority believed it was fair for high earners to shoulder a larger portion of the tax burden.

7. Do you think a progressive tax system incentivizes productivity?

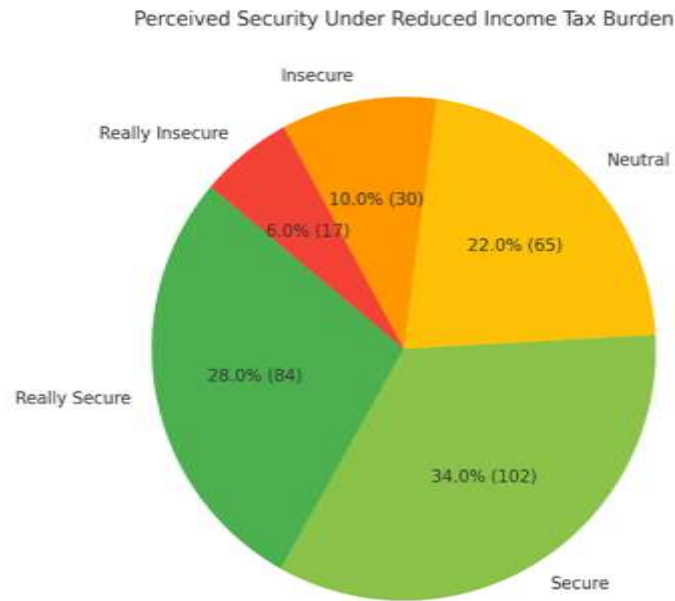
Analysis: Respondents were somewhat divided, though most felt progressive taxes at least somewhat encourage productivity.

8. Has reducing the tax burden on the middle class improved your ability to save more?

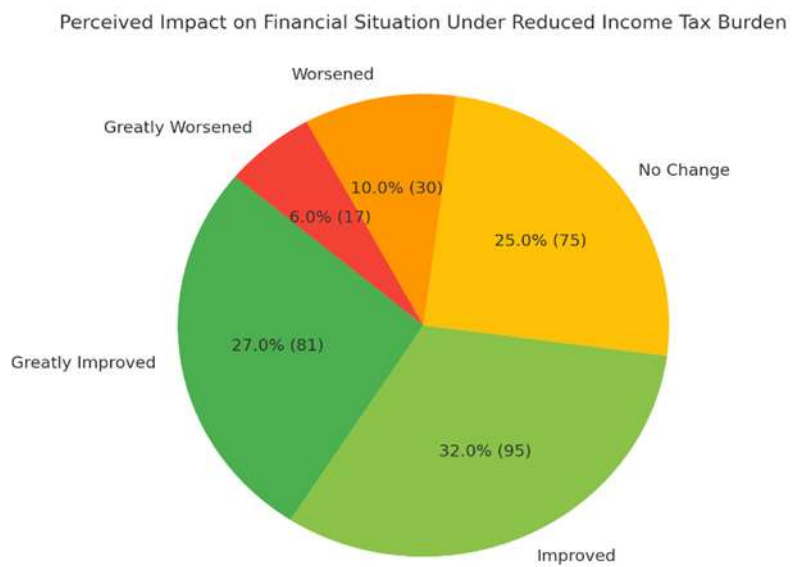


Analysis: Savings potential has significantly increased for most respondents due to tax relief.

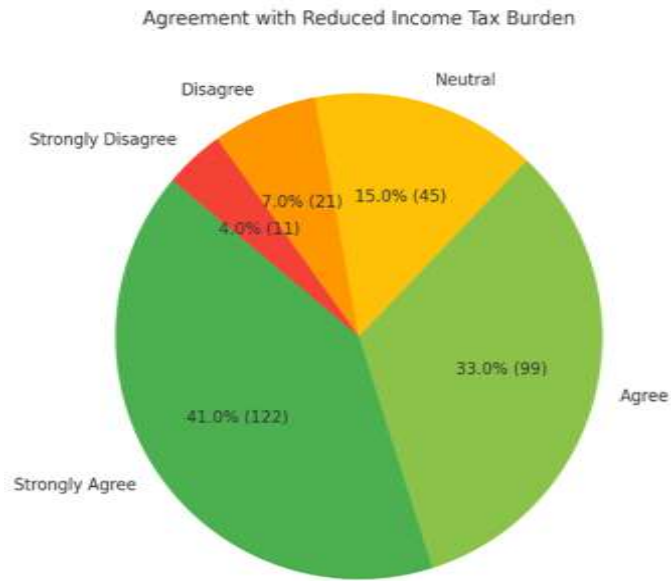
9. Do you feel more financially secure under the new tax regime?



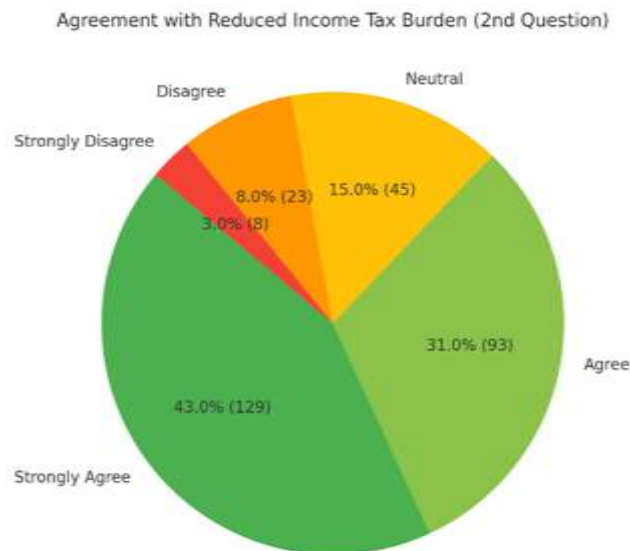
10. Has reduced taxation improved your quality of life?



11. Do you believe tax savings should be reinvested in public services?

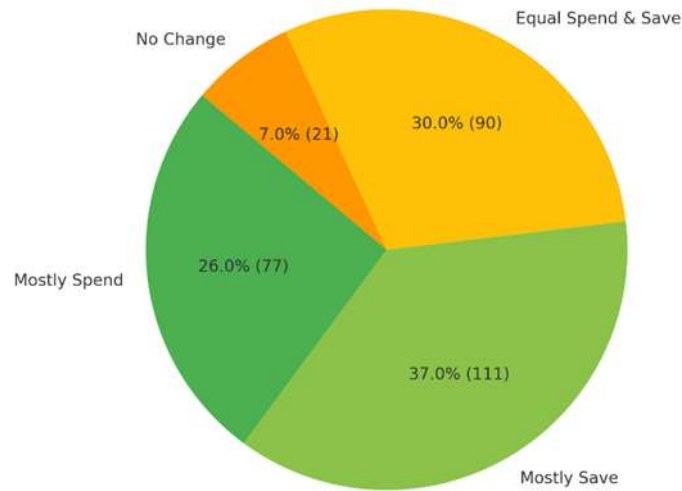


12. Do you think tax reforms should prioritize middle-class welfare?



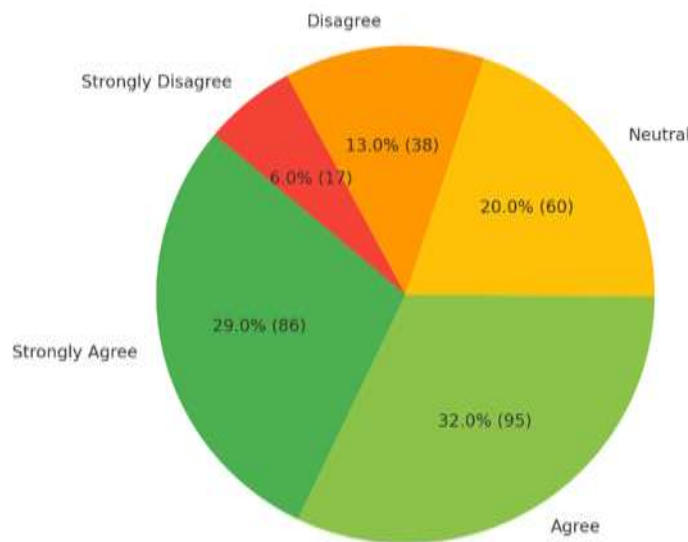
13. Are you more inclined to spend or save with increased disposable income?

Spending and Saving Habits Under Reduced Income Tax Burden

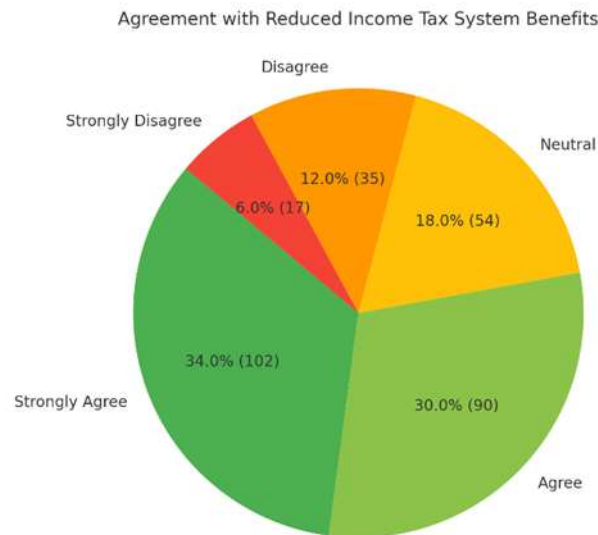


14. Do you believe the current tax system sufficiently addresses income inequality?

Agreement with Reduced Income Tax Impact on Financial Decisions



15. Do you think the new tax regime is sustainable for long-term economic growth?



Conclusion

The survey highlights a generally positive perception of the new tax regime among middle-class taxpayers. Most respondents appreciate the reduced tax burden, with noticeable improvements in financial security, savings capacity, and quality of life. While many believe that the economy will benefit, some remain neutral or skeptical about long-term sustainability. A significant portion feels that tax fairness is achieved when wealthier individuals pay more. However, a consistent desire for reinvestment in public services and welfare also emerged, indicating that tax relief alone may not address all socioeconomic concerns.

Methodology

This study employed a quantitative research design to assess public perceptions of tax fairness and the comparative benefits of the new versus old tax regimes in India. A structured questionnaire was developed and distributed to a diverse sample of individuals through online surveys. The survey included multiple-choice and Likert-scale questions designed to gauge participants' views on income tax relief, perceived fairness, economic growth, financial stability, and overall satisfaction with the new tax regime. The data was collected from a total of 300 respondents, ensuring a reasonable representation of varied income groups, occupations, and age demographics.

The data gathered was then analyzed using descriptive statistics, particularly percentage distribution, to identify trends and patterns in public opinion. Pie charts were generated to visually represent the findings for each question, making it easier to compare responses and draw meaningful insights. The analysis focused on categorizing responses into positive, neutral, and negative perceptions to provide a straightforward interpretation of the data. Additionally, the findings were organized to highlight areas where the new tax regime is perceived as beneficial and areas where concerns remain. The overall approach aimed to provide a clear, evidence-based understanding of how individuals perceive the fairness and impact of the revised income tax system.

Suggestions

The new income tax regime in India offers significant tax relief by exempting annual incomes up to ₹12 lakhs from taxation. However, navigating this system strategically can help optimize savings and investments. Here are tailored suggestions based on your income level:

A. If You Make Less Than ₹12 Lakhs a Year:

1. Leverage Full Tax Exemption:

- Under the new regime, you pay no tax if your income is below ₹12 lakhs.
- This provides greater disposable income, which can be channeled towards savings and investments.

2. Prioritize Emergency Funds:

- With reduced tax outflows, focus on building or enhancing your emergency fund to cover 6–12 months of expenses.

3. Invest for Wealth Creation:

- Use your extra savings to invest in equity mutual funds, index funds, or the stock market to build long-term wealth.
- Consider safe instruments like Public Provident Fund (PPF) or Fixed Deposits (FDs) if you prefer lower risk.

4. Insurance and Health Security:

- Although deductions under Section 80C are not available in the new regime, maintaining sufficient health insurance is critical for financial security.

5. Avoid Over-Spending:

- A sudden increase in disposable income can lead to overspending. Follow the 50-30-20 rule (50% needs, 30% wants, 20% savings) to maintain financial discipline.

B. If You Make Exactly ₹12 Lakhs a Year:

1. Optimize Your Tax-Free Status:

- You are at the peak benefit under the new tax regime with zero taxes.
- Use this opportunity to max out savings and investments while maintaining a balance for immediate expenses.

2. Invest for Retirement:

- Since there are no tax exemptions for traditional investments under the new regime, focus on long-term growth instruments like:
 - Equity Linked Savings Schemes (ELSS) (if considering the old regime occasionally)
 - Mutual funds, ULIPs, or a well-diversified stock portfolio.

3. Consider Real Estate:

- With higher disposable income, consider investing in real estate for passive income or capital appreciation.

4. Diversify Investments:

- Spread your investments across equities, debt funds, gold, and fixed deposits to manage risk and maximize returns.

5. Increase SIP Contributions:

- Systematic Investment Plans (SIPs) help in disciplined investing. Increase your SIPs in index funds, mid-cap funds, or blue-chip stocks to ensure consistent wealth growth.

6. Avoid Unnecessary Loans:

- Without the need for home loan deductions under the new regime, minimize debt to keep your financial liabilities low.

C. If You Make More Than ₹12 Lakhs a Year:

1. Compare New vs. Old Tax Regimes:

- For incomes above ₹12 lakhs, it may be beneficial to reassess the old tax regime.
- If you can claim deductions under Section 80C, 80D, and home loan interest, the old regime might offer better savings.
- Use a tax calculator to determine which regime offers more take-home income.

2. Maximize Tax-Free Investments (If Using Old Regime):

- ₹1.5 lakh under Section 80C — PPF, ELSS, NSC, or EPF.
- Health insurance under Section 80D — Up to ₹25,000 for self and ₹50,000 for parents.
- Home loan interest under Section 24 — Up to ₹2 lakh.

3. Optimize HRA and LTA (Old Regime):

- If salaried, claim House Rent Allowance (HRA) and Leave Travel Allowance (LTA) under the old regime.
- The new regime eliminates these deductions, so switch only if you benefit more.

4. Invest in High-Yield Assets:

- With a higher income, invest in:
 - Mutual funds with tax efficiency — Equity funds for lower long-term capital gains tax.

- Real estate for rental income.
- National Pension System (NPS) for additional tax benefit under Section 80CCD (1B) in the old regime.

5. Diversify with Alternative Assets:

- Allocate a portion of your income to alternative investments like:
- REITs (Real Estate Investment Trusts) for steady dividends.
- Sovereign Gold Bonds (SGBs) for inflation hedging.

6. Estate and Succession Planning:

- With a higher income, focus on long-term planning through wills, trusts, and nomination updates for investments.

7. Reduce High-Interest Debt:

- Pay off high-interest debts (like credit cards or personal loans) to maintain a strong financial position.

General Tips for All Income Levels:

- Emergency Fund: Keep at least 6 months' worth of expenses liquid.
- Diversification: Avoid putting all your money in one asset class. Maintain a balance across equities, debt, gold, and real estate.
- Budgeting: Increased disposable income under the new regime can lead to lifestyle inflation — stick to a clear budgeting plan.
- Review Annually: Re-evaluate which tax regime (new or old) is more beneficial every financial year.

Key Takeaway:

- Income below ₹12 lakhs? Maximize savings and investments.
- Income around ₹12 lakhs? Leverage the zero-tax benefit to build wealth.
- Income above ₹12 lakhs? Compare tax regimes and prioritize tax-efficient investments.

Conclusion

The findings of this study reveal that the new tax regime, which offers reduced tax rates and higher income thresholds for exemption, is generally perceived positively by a majority of respondents. Most participants believe that the reduced income tax burden provides financial relief and enhances their sense of security, thereby promoting economic growth and improving financial decision-making. The data indicates strong support for the new tax system's fairness and benefits, particularly among those who prioritize savings and view the tax reductions as helpful for their financial well-being.

However, a notable proportion of respondents remain neutral or express concerns about the fairness and broader economic impact of the new tax regime. Some individuals feel insecure or experience no significant change in their financial situation despite the lowered tax burden. This suggests that while the new tax regime has been successful in garnering positive perceptions overall, there are still areas that require attention and further evaluation. Policymakers may need to address these concerns to ensure a more inclusive approach that benefits a wider segment of the population. Continued assessment and adaptation of the tax system are essential to achieving the intended goals of fairness and economic growth.

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