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Research Paper

Beyond Revenue: Rethinking India's Tax Policy for Fiscal, Social, and Administrative Sustainability

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ABSTRACT

Sustainability in governance is considered as beyond environmental component to include the interconnected pillars of economic resilience, social equity, and long-term administrative viability. A progressive tax structure focus on direct taxes, traditionally promotes equity and redistribution, a regressive structure dominated by indirect taxes (GST), offers administrative simplicity and enhancing revenue collection. The study focuses on the Progressive and Regressive tax structure and evaluates the contribution to the pillars of Economic Sustainability, Social Sustainability & Administrative Sustainability to fostering equitable and sustainable development in India. This study is descriptive and analytical in nature. We used secondary data and collected from various authentic sources e.g. Union Budget, report of World Bank, IMF, RBI report etc. Trend analysis, Incident Analysis and Policy Analysis are used to interpret the data for analyzing purpose. The study highlights that direct tax system in India is Progressive but has a narrow base and Indirect tax system is Regressive which gives an effect of disposable income of the masses, post-tax income inequality etc. Though the cascading of taxes can be eliminated through digitalization process in GSTN portal, but, this imbalance, which exacerbates post-tax income inequality, undermines the social, and Administrative Sustainability of the country. The study reveals that a progressive or regressive tax-system is sub-optimal for India's socio-economic condition. A balanced policy that broadens the progressive direct tax base, reorient the regressive (GST) taxes by zero-rating on essential goods, and use modern technology to improve tax administration. We know that tax-structured are used as a revenue-increasing tool. But it should be designed strategically to balance between economic efficiency and distributive social justice.

Keywords: *In-equality, social Justice, Sustainability, progressive vs regressive taxation*

Indian economy has changed and made a paradigm shift and impacted by globalization and liberalisation since 1991. Resulting- Indian economy witnessed a steady compounding annual growth rate of 6.12% in GDP. In Business sector, it has also seen the massive rise of e-commerce and information technology, telecommunications platforms. These changes were successful in promoting investment and market forces, which resulted in national prosperity. However, as a result of the rapid expansion in the corporate sector, income inequality is growing continuously, which is reflected in the rising

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Gini coefficient. The increasing share of wealth is entirely captured by the top 1% of the population. The Indian economic pyramid can contribute equal social outcomes through in-depth analysis of the policy mechanism. The unequal distribution of wealth in economy happened due to the poor Indian tax structure. The study indicates the certain aspect of the Indian tax system, specifically the reduction in the corporate tax rate and the imposition of goods and service tax on essential goods, have played a major role in the economic stress. This study demonstrates the intricate relationship between social equity and tax policy, and it reveals that the tax structure in India can play vital role for promoting equality in the distribution of wealth in the Nation.

LITERATURE REVIEW

Smith, A. (1776) carried out research to outline the "canons of taxation" and other political economics ideas. He suggested that a particular, practical, and effective tax structure.

Musgrave, R. A. (1959) Discussed the primary goal of government fiscal policy with respect to fund allocation, distribution, and stabilisation. He also found that a progressive taxation system is a means of redressing income disparities in the marketplace.

In order to determine the efficacy of direct and indirect taxes for redistribution, **Atkinson, A. B., and Stiglitz, J. E. (1976)** conducted a study. The results showed that, in certain situations, direct taxation is appropriate for redistribution, and that the different indirect tax rates on the consumption of goods can improve equity among various income groups.

Gupta, S., & Keen, M. (2016) investigated whether fiscal policies, particularly tax policy, assist the sustainable development goals and mentioned that the tax system should prioritise equality rather than revenue.

Rao, M. G., & Mukherjee, S. (2018) Conducted a study to investigate the effectiveness of GST in terms of economic efficiency and revenue collection and they emphasized the difficulties and burdens faced by SMEs due to the regressive character of the GST, which charges a single rate on essential goods.

According to **Lahiri, A., & Kar, S. (2020)**, examined the influence of tax policy and the trends in post-tax income disparity in India and revealed that the redistributive impact is limited since direct taxes are progressive, while indirect taxes have a regressive effect on that inequality.

Goyal, A., & Agarwal, A. (2021) conducted a study to evaluate the impact of digitalization via the GST Network (GSTN) on tax compliance and administration in India and found that the GSTN portal has significantly improved transparency, reduced manual intervention, and helped eliminate the cascading effect of taxes, leading to better compliance and administrative viability.

According to **Jha, S. (2022)**, tax systems perceived as favouring the elite while burdening the poor can be a significant trigger for widespread protests and loss of state legitimacy and provides a direct theoretical and empirical basis for studies' reference to "social unrest in neighbouring countries" as a cautionary tale, strengthening the argument for equitable tax design.

Research Gap

Current research on Indian tax policy frequently emphasizes particular, disconnected elements instead of a comprehensive evaluation of its overall sustainability. Although certain studies investigate the effects of tax reforms on economic growth and revenue generation, and others focus on administrative efficiency, a significant gap exists in research that comprehensively links fiscal, social, and administrative sustainability. In particular, the review of literature indicates that:

- Research such as Musgrave's offers the theoretical basis for employing taxation for redistribution and equity but does not examine its practical implementation in India.
- Additional studies analyze the administrative effectiveness of systems such as GST, yet they fail to adequately link this effectiveness to the social and equitable results of the tax system.
- Tax policy of India –considered as tools to generate revenue, not any study interlink –fiscal, social and administrative sustainability.

Objectives of the Study

In light of the recognized research gap, this study intends to examine the progression of India's tax system since 1991, concentrating particularly on the changing dynamics between direct and indirect tax revenues and their impact on fiscal sustainability. The study has following objectives:

- To empirically assess the redistributive effects of the existing tax system by analyzing the shift in income inequality (Gini coefficient) prior to and following taxation
- To evaluate the impact of Technology and Digitalization (GSTN) through the viability of administrative tax framework.

RESEARCH METHODOLOGY

The research employs a descriptive and analytical framework, utilizing both quantitative and qualitative techniques to investigate the connection between India's taxation system and social inequality. The study employs longitudinal data from the economic liberalization period of 1991 to 2024 to analyze changes in tax trends in relation to increasing inequality. The study is based on secondary information obtained from credible domestic and global sources. Following are some factors -

- Dependent Variable: We assessed the income disparity through Gini Coefficient and the we also measure the wealth distribution of top 1% vs the bottom 50% of the population. We have collected the data from NSSO surveys, Union Budget, Reserve Bank of India, World Bank and World Inequality Database.
- Variables Independents: These consist of Net Corporate Tax Rate: Corporate tax income considering deductions and incentives. Indirect Tax Contribution: The proportion of overall tax income derived from indirect taxes, mainly GST, excise taxes, and customs duties. Share of Personal Income Tax: The proportion of overall tax revenue derived from personal income taxes.
- Contextual Variables: The research will additionally examine GDP growth to provide context for economic performance. Information will be gathered from Union Budget Documents, RBI Statistic Handbooks, and India's Economic Survey

The study will use a suite of statistical tools to test the key hypotheses.

1. **Trend Analysis**: This will involve examining the trends in the ratio of direct to indirect tax revenues from 1991 to 2024 to understand the shifting tax burden.

2. **Gini Index and Lorenz Curve Analysis**:
    - The **Gini Coefficient** will be calculated for different years to quantify income inequality. The difference between the "before-tax" and "after-tax" Gini will be used to measure the redistributive effect of the tax system.
    - **Lorenz Curves** will be plotted to visually represent the income distribution before and after the application of taxes and transfers, with a minimal shift in the curve indicating a lack of redistributive impact.
3. **Correlation and Regression Analysis**:
    - **Correlation analysis** will be used to check the relationship between the Gini coefficient and independent variables like corporate tax, personal income tax, and indirect tax shares.
    - **Regression analysis**, specifically a **Fully Modified Ordinary Least Squares (FM-OLS)** model, will be employed to estimate the causal link between tax structure and inequality over time. FM-OLS is a suitable method for this time-series data as it corrects for issues like serial correlation and endogeneity, providing more reliable estimates than standard OLS. The regression model will be specified as:

$GINIt=\beta0+\beta1(NetCorpTaxt)+\beta2(IndirectTaxt)+\beta3(PITt)+\epsilon t$ This model will help confirm if indirect taxes have a positive coefficient (increasing inequality) and if corporate tax has a negative one (reducing inequality) as hypothesized

This study is basically descriptive and analytical in nature. We used Longitudinal secondary data for the period from 1991 to 2024. We follow three Primary statistical method for the analysis purpose-

1. **Trend Analysis:** To chart the shifting ratio of direct versus indirect tax revenues over the decades.
2. **Gini Index Analysis:** To quantify the change in income inequality (Gini Coefficient) **before-tax and after-tax** to measure the actual redistributive power of the tax system.
3. **FM-OLS Regression Model:** To establish a causal link, a Fully Modified Ordinary Least Squares (FM-OLS) model is used to estimate the relationship between key tax variables (Net Corporate Tax, Indirect Tax Share) and the Gini coefficient over time.

Data Analysis

1. The Dualistic Nature of India's Tax System

- The findings will first highlight the hybrid nature of India's tax system, where the direct tax framework (progressive) has a narrow base, while the indirect tax system (regressive) is a dominant and buoyant source of revenue.
- The analysis will show the increasing reliance on indirect taxes, especially post-GST implementation in 2017.
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2. Empirical Evidence of Social Imbalance

- The Gini coefficient analysis will show a clear trend of rising income inequality in India, with the top 10% of the population's income share increasing while the bottom 50%'s share declines. The analysis will demonstrate that the after-tax Gini is not significantly lower than the before-tax Gini, suggesting a lack of a strong redistributive effect from the current tax system.
- The regression analysis will statistically confirm that rising indirect tax shares and declining net corporate tax rates have a significant positive correlation with the Gini

coefficient, proving that the tax structure is a measurable driver of income inequality. The positive coefficient for Net Corporate Tax in the regression model suggests that even with higher collections, the tax structure is not effectively redistributing income to combat rising inequality.

3. The Rationale and Reality of Corporate Tax Cuts

The analysis will explore the government's rationale for cutting corporate taxes—to boost economic growth, attract FDI, and promote "Make in India". However, the findings will present a counter-argument: despite these tax cuts, corporate profits soared, but the "trickle-down" effect in terms of proportional job creation and investment did not materialize. Due to this tax cuts, a huge loss occurred in public revenue. As a result public service and welfare schemes have also been cut down.

4. Policy Implication:

The final analysis will connect the statistical findings to the broader theme of sustainable governance. It will argue that a tax system that relies on regressive taxes and under-taxes the wealthy is not merely an economic issue but a threat to long-term social and administrative stability.

Table-1: Summary of Annual GDP Growth rate (1991 to 2024)

YEAR	GDP Growth Rate (%)
1991	1.01
1992	5.48
1993	4.75
1994	6.66
1995	7.57
1996	7.55
1997	4.05
1998	6.18
1999	8.95
2000	3.84
2001	4.82
2002	3.80
2003	7.86
2004	7.92
2005	9.28
2006	9.26
2007	9.80
2008	3.89
2009	8.48
2010	10.26
2011	6.64
2012	4.74
2013	4.70
2014	5.41
2015	8.00
2016	8.26
2017	6.80
2018	6.45
2019	3.87
2020	-5.78

YEAR	GDP Growth Rate (%)
2021	9.69
2022	6.99
2023	7.58
2024	7.6*
CAGR (%)	**6.12**

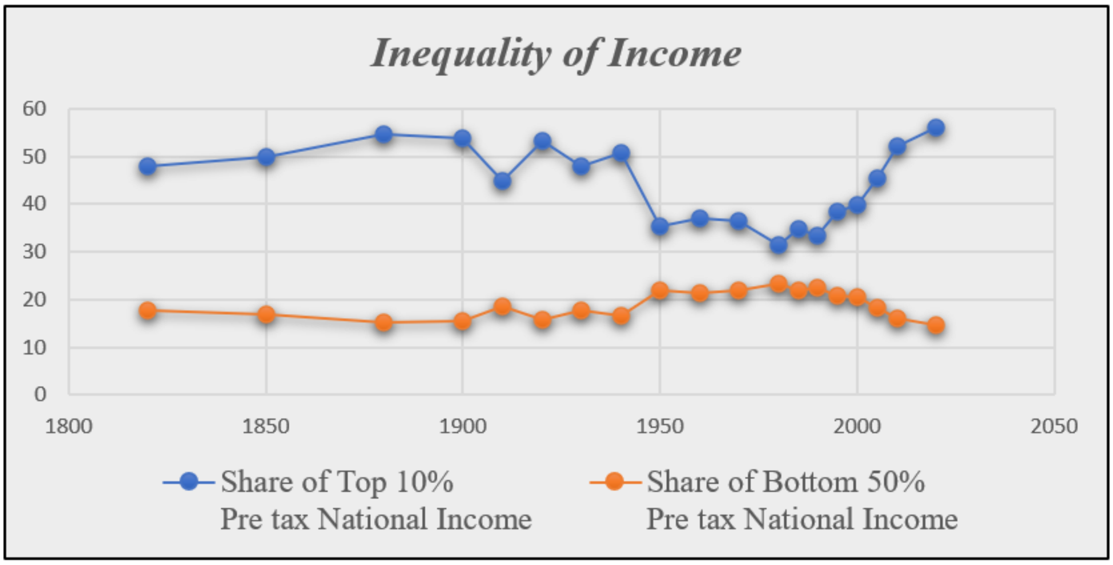
* The figure for 2024 is an estimate based on available data.
(Source: RBI, Report)

Table-2: Inequality of Income over the periods of 1820 - 2020

Year	Share of Top 10% Pre-tax National Income	Share of Bottom 50% Pre-tax National Income
1820	48	17.6
1850	50	16.9
1880	54.6	15.3
1900	53.8	15.6
1910	44.8	18.6
1920	53.3	15.8
1930	47.8	17.6
1940	50.7	16.7
1950	35.2	21.9
1960	36.9	21.3
1970	36.5	22
1980	31.5	23.3
1985	34.8	21.9
1990	33.5	22.4
1995	38.3	20.9
2000	39.9	20.6
2005	45.5	18.4
2010	52.2	16
2020	56.1	14.7

(Source: World Bank Data)

Diagram:



The NSO's findings on income distribution and social metrics frequently feature information on the Gini coefficient. The growing inequality and growing corporate wealth in India from 1991 to 2024 are closely linked. We can find the huge growth in IT, e-commerce and telecom sector due to disparity in distribution of wealth. Gini coefficient has been rising because of wealth has controlled under top 1%, while the other population are holding the minimal income growth. The widening gap indicates that the disparity of wealth between the corporate prosperity and social welfare.

Income Inequality and the Growth of the Economy

Year	Market Capitalization	Gini Coefficient	Top 1% Wealth Share	Key Corporate Wealth Milestones
1991	$100 billion	0.32	15%	Beginning of liberalization
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2010	$1 trillion	0.38	22%	TCS, Reliance growth, market cap > $1 trillion
2020	$2.5 trillion	0.40	30%	Increase of Technology, E-commerce
2024	$3 trillion	0.42-0.43	35%	Surge in wealth of the corporate, startups and Technology

From 1991 to 2024, there have huge growth in the India's GDP, as well as we can find the growth in Gini coefficient, rose from 0.32 to 0.42

Table-3: DIVERSIFIED TAX RATES (incl. GST)

FY	Tax Rate of Corporate	Tax rate on Personal Income	Indirect Tax Rate
1991-1992	45%	Up to 56%	Excise Duty: 15% - 20% State sales tax: Varies
1992-1993	40%	Up to 50%	Excise Duty: 15% - 20% State sales tax: Varies
1997-1998	35%	Up to 40%	Excise Duty: 15% - 20% State sales tax: Varies
2000-2001	30%	Up to 30%	16% Excise duty State sales tax: Varies
2005-2006	30%	Up to 30%	4% and 12.5% VAT rates were introduced in many state
2017-2018	30%	Up to 30%	0%, 5%, 12%, 18%, and 28% were introduced through GST
2019-2020	22% (25.17% inclusive cess)	Up to 30%	GST rates are 0%, 5%, 12%, 18%, and 28%
2023-2024	22% (25.17% incl. cess)	Up to 30%	GST rates are 0%, 5%, 12%, 18%, and 28%
2024-2025	**22%** (25.17% incl. cess) 15% (new Mfg Co.)	Up to 30%	GST rates are 0%, 5%, 12%, 18%, and 28%
2025-2026	**22%** (25.17% incl. cess) 15% (new Mfg Co.)	Up to 30%	**GST new regime**: 5% (merit / essential), 18% (standard goods & services), **40%** (sin / luxury goods) + some transitional provisions for tobacco, etc.

(Source: Union Budgets and Finance Acts)

Corporate Tax: In 2019, the Government of India lowered the base corporate tax rate to 22% (25.17% with surcharge and cess) for current domestic firms that do not utilize exemptions or incentives. A reduced tax rate of 15% (17.01% with surcharge and cess) was established for new domestic manufacturing firms incorporated on or after October 1, 2019, that start production before March 31, 2023, without utilizing any exemptions or incentives.

Personal Tax: Over the years, the peak marginal personal income tax rate has fluctuated, hitting 56% in the early 1990s and settling around 30% during the 2000s. In recent years, the actual top marginal rate, accounting for surcharges and cess, may be greater.

Indirect Tax Percentage: Before 2017, India utilized a complicated system of indirect taxes, which encompassed excise duty, sales tax, and value-added tax (VAT), where rates differed by state and by category of goods/services. In 2017, the introduction of the Goods and Services Tax (GST) merged various indirect taxes into a single framework with rates of 0%, 5%, 12%, 18%, and 28%, based on the type of goods and services.

Corporate Wealth Expansion & Tax Load Redistribution

Aspect	Corporate Wealth Growth	Tax Burden Shift
Effective Tax Rates	Corporate taxes remain relatively low.	Indirect taxes (GST) place a higher burden on individuals.
Policy Benefits	₹1 lakh crore+ in subsidies/waivers annually.	Minimal subsidies for lower-income individuals.
Concentration on Wealth	Monopolies and mergers help to grow in the corporations	Stagnant wages and high living costs are faced by the Individual
Revenue Contribution	Corporate share stagnates despite high profits.	Personal and GST contributions grow rapidly.

(Source: Author's observation based on the available data)

The table above clearly indicated that pro-business policies and backward taxation systems lead to the accumulation of wealth among major corporations. This trend highlights the contradiction of economic expansion alongside increasing inequality

- Progressive corporate taxation.
- Reduce the rate of GST on essential goods.

Table-4: Corporate Tax Less Loan Waivers and Other Benefits Vs personal tax

(Rs. In thousands crore)

Year	Corporate Tax (Rs.) (1)	Less: Benefits (Approx.) (2)	Net Corporate Tax (Rs) (3=1-2)	Personal Income Tax (Rs.) (4)	Indirect Tax/GST Collection (Rs) (5)	Total Personal Tax (6=4+5)
2000-01	35.696	5.000	30. 696	31.764	119.814	151.578
2001-02	36.609	5.500	31.109	32.004	117.318	149.322
2002-03	46.172	7.000	39.172	36.866	132.608	169.474
2003-04	63.562	8.500	55.062	41.386	148.608	189.994
2004-05	82.680	10.000	72.680	49.268	170.936	220.204
2005-06	101.277	12.000	89.277	63.689	199.348	263.037
2006-07	144.318	15.000	129.318	85.623	241.538	327.161
2007-08	193.561	20.000	173.561	120.429	279.031	399.460
2008-09	213.395	25.000	188.395	120.034	269.433	389.467
2009-10	244.725	30.000	214.725	132.833	243.939	376.772

Year	Corporate Tax (Rs.) (1)	Less: Benefits (Approx.) (2)	Net Corporate Tax (Rs) (3=1-2)	Personal Income Tax (Rs.) (4)	Indirect Tax/GST Collection (Rs) (5)	Total Personal Tax (6=4+5)
2010-11	298.688	35.000	263.688	146.258	343.716	489.974
2011-12	322.816	40.000	282.816	170.181	390.953	561.134
2012-13	356.326	45.000	311.326	201.840	472.915	674.755
2013-14	394.678	50.000	344.678	242.888	495.347	738.235
2014-15	428.925	55.000	373.925	265.772	543.215	808.987
2015-16	453.228	60.000	393.228	287.637	711.885	999.522
2016-17	484.924	70.000	414.924	349.503	861.515	1211.018
2017-18*	571.202	75.000	496.202	420.084	915.256	1335.340
2018-19*	663.572	80.000	583.572	473.179	1177.369	1650.548
2019-20*	556.876	85.000	471.876	492.717	1222.116	1714.833
2020-21*	457.719	90.000	367.719	487.560	1136.805	1624.365
2021-22*	712.037	100.000	612.037	696.604	1483.292	2179.896
2022-23	825.834	110.000	715.834	833.307	1807.679	2640.986
2023-24	911.055	120.000	791.055	1045.139	2018.249	3063.389
2024-25	1082.000	130.000	952.000	1187.000	2640.000	3827.000
2025-26	1150.000	140.000	1010.000	1438.000	3000.000	4438.000

Notes / sources / assumptions: For Indirect Tax/GST in 2025-26, Estimate based on trend.

Observations from the Data: The data suggests that wealth concentration in India is being driven in large part by corporate tax structures and the growth of indirect taxes like GST. While the personal tax system has expanded, it hasn't kept pace with corporate growth. The tax benefits granted to corporations also play a role in maintaining high profits and wealth concentration. However, the rising GST collections indicate that consumers, especially from lower income brackets, are bearing a disproportionate burden of taxation, contributing to wealth inequality. Corporate wealth concentration, therefore, seems to be facilitated by tax structures that favour corporate growth and consumer taxation.

Corporate Tax Expansion vs. Personal Tax Expansion: Corporate tax revenues have experienced a significantly higher growth rate than personal income tax, particularly following the 2000s, indicating the rising profitability and scale of corporate organizations.
Regressive Nature of Indirect Taxes: The significant increase in indirect tax (GST) collections may worsen wealth inequality, as these taxes primarily burden low- and middle-income individuals, despite corporate entities contributing a substantial portion of GST.

Increasing Corporate Wealth: The higher net corporate tax collections and benefits granted to corporations suggest that wealth concentration is increasingly happening within large firms. The benefit structure allows these firms to maintain high profits, contributing to wealth disparity.

Personal Tax Contribution: While personal income tax contributions have grown, they have not kept pace with the corporate sector’s tax contributions, suggesting a slower rate of wealth distribution.
Findings of the study:

- **Dualistic Structure and Burden Transfer**: India upholds an advanced direct taxation framework, yet its tax base is still limited. On the other hand, the regressive

indirect tax system, particularly after GST, has become the primary and most vigorous source of government income.
- **Weak Redistribution:** A distinct trend of increasing income inequality is confirmed empirical evidence. Crucially, it reveals that the **after-tax Gini Coefficient is not significantly lower** than the before-tax Gini. This lack of substantial change proves that the existing tax structure is failing its fundamental redistributive purpose.
- **Corporate-Wealth Correlation:** The FM-OLS regression analysis provides statistical confirmation: rising indirect tax shares and declining net corporate tax rates are significantly correlated with a rising Gini coefficient, establishing the tax structure as a quantifiable driver of inequality.
- **Wealth Concentration:** The data clearly illustrates the paradox of growth: while the country's market capitalization has soared from approximately **$100 billion in 1991 to $3 trillion in 2024**, the wealth share of the **top 1% has skyrocketed from 15% to 35%** in the same period. The government's rationale for corporate tax cuts—to boost growth—has not materialized into proportional job creation or the desired "trickle-down" effect. Attribution to individuals from the top income brackets compared to corporations.

CONCLUSION

The paper posits that India's tax structure has become a central contributor to the nation's rising income inequality and wealth concentration, thereby undermining the critical pillars of fiscal, social, and administrative sustainability. The study argues that the country's over-reliance on a regressive indirect tax system (Goods and Services Tax, or GST) and a concurrent decline in the effective corporate tax burden have deliberately shifted the tax weight onto the common citizen, facilitating corporate prosperity at the expense of equitable social outcomes. The paper concludes that India's tax policy, driven primarily as a **revenue-increasing tool**, has created a systemic threat to long-term national stability by prioritizing **economic efficiency over distributive social justice**. A tax system that places a disproportionate burden on consumers while under-taxing corporate profits and the wealthy is not merely an economic concern but a direct risk to social harmony and state legitimacy.
To achieve genuine and holistic sustainability, the paper proposes a strategic policy framework that moves beyond mere equality and embraces the principle of **equity**—adjusting the tax burden based on the ability to pay.

This **new framework** must encompass:
- **Broadening the progressive direct tax base** to capture the actual income of the wealthy.
- **Reorienting regressive indirect taxes** by implementing measures such as the **zero-rating of essential goods** under the GST framework.
- **Employing technology** (like the GSTN portal) not just for compliance but to ensure administrative efficiency and transparency in tax delivery.
- Implementing **progressive corporate taxation** and strict anti-trust regulations to curb monopolies that facilitate wealth concentration.

In final assessment, the paper asserts that long-term fiscal stability is inseparable from social stability, and therefore, India's tax structure must be strategically redesigned as a critical instrument for achieving a sustainable balance between corporate growth and equitable wealth distribution. The paper concludes that India's tax policy, driven primarily as a **revenue-increasing tool** rather than an instrument of social engineering, has created a systemic threat to long-term national stability by prioritizing **economic efficiency over**

distributive social justice. A tax system that places a disproportionate burden on consumers while simultaneously under-taxing corporate profits and the wealthy is not merely an economic concern but a fundamental threat to the nation's social contract and administrative stability. The key finding is that the existing framework does not fulfil its redistributive role, as shown by the minimally reduced after-tax Gini coefficient. This structural issue promotes wealth concentration by transferring the tax burden onto those with lower incomes through regressive indirect taxes (GST), leading to a belief in an unjust system that advantages the elite.

Suggested Structure for Sustainable Taxation: -- To address these challenges and attain true, comprehensive sustainability, the study suggests a strategic policy framework that transcends simple revenue goals and incorporates the principle of fairness—modifying the tax load according to the capacity to pay.

This **new framework** must encompass:

- **Broadening the progressive direct tax base** to capture the actual income and wealth of the top economic segments.
- **Reorienting regressive indirect taxes** by implementing measures such as the **zero-rating of essential goods** under the GST framework.
- **Employing technology** (like the GSTN portal) for not just compliance and eliminating cascading effects but also to ensure administrative transparency and efficiency.

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Conflict of Interest
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