

Who needs a break from taxes in India? According to the Union Finance Minister, it is those Indians with annual incomes of many lakhs and or even crores. As per the new tax regime introduced in the recent budget, to be implemented for the fiscal year 2025-26, Indians earning salaries of up to 12.75 lakhs a year (almost doubled from Rs 7 lakh previously) no longer have to pay income tax on their income. And the highest tax slab is 30% for an income of over Rs 24 lakhs a year; it is 30% currently too, but on incomes above Rs 10 lakhs. It is noteworthy that, as a result of these proposals, the government will forego revenue of about Rs 1 trillion in direct taxes, and Rs 2600 crore in indirect taxes, according to the minister herself.

How can these tax breaks be justified? Even the media seemed astounded at first, with many admitting that most of the developed world have much higher income tax rates than India – the highest slab being usually above 50%, and with salaried people usually paying 33% of their income as tax. But the surprise was followed by a rush to rationalize the bonanza. We were informed that income-tax-payers in India, although smaller in percentage compared to other countries, are much more in number, so a lot of money will come in despite these changes. Further, we heard, the countries who tax heavily have governments that use the tax revenue to provide public facilities. In India, that doesn't happen. Hence, it makes sense that the government tax less.

Shouldn't the question be about why our government does not provide more public facilities? But that question was not asked. Which is not surprising given that many in the Indian establishment believe that even the very limited facilities provided currently are too much. Thus, one recently saw Supreme Court judges asking whether provision of facilities like subsidized food (rations), stipends, shelter for the homeless, etc. is not turning people into 'parasites', and discouraging them from joining the workforce to 'contribute towards national development'.

The Finance Minister's own justification for the tax cuts, in her budget speech, was that "The new structure will substantially reduce the taxes of the middle class and leave more money in their hands, boosting household consumption, savings and investment."

Who is this so-called 'middle class' which needs more money in their hands? In other parts of the world, the term middle class implies people in the middle of the income spectrum, with their income somewhere around the median income of the country, i.e. the level below which lies the incomes of 50% of the population. Is this class that is earning from 7 to 12 lakhs a year (and above) really the middle class of India?

Far from it. According to a study by World Inequality Lab (WIL) in 2023 ('World Inequality Report 2022'), the median income of India is just one lakh a year. Yes, just one lakh. So the

actual middle class would be those who earn around this income, from somewhat less to somewhat more. Why is it, then, that the Indian establishment, including the Finance Minister, the media, academia, and others as well, portrays the middle class as those who earn a whopping 5 lakhs to 30 lakhs per year?

One big reason is surely that they themselves belong to this class of earners, and would prefer to call themselves middle class. Because this term has, attached to it, a lot of casteist values beloved of the privileged sections of India, mixed up with superficial 'westernisation'. Middle class implies, for example, dominant caste location, officer-level jobs, ownership of land and gold, and the best-possible education, along with very popular myths of initial poverty, struggle to rise, thriftiness, and frugality. The myths are important – they bolster a strong, almost surreal, sense of entitlement, such that one can regularly hear this class complain that, while the rich are rich and the poor are poor, it is we 'middle class' who are the real sufferers!

This hypocrisy masks the fact that India, which now ranks 3rd in the world in the number of billionaires, is also one of the most unequal countries in the world, as the WIL study shows. Just to give you an idea of the severity of this inequality: if you earn the average income in India, you earn more than 90% of the population. The top 1% of the population cornered a huge 22.6% of national income in 2022, which made it the highest earning top 1% of any country in the world. The top 10%, meanwhile, cornered about 60% of national income in 2022. And the bottom 50%, i.e. half the population, received less than 15% of the national income.

When it comes to national wealth, the top 1% of India owns more than a whopping 40% of national wealth (up from 12.5% in 1980), while the top 10% owns more than 60% — leaving less than 40% of national wealth for 90% of the population. All in all, the country is now more unequal than it was under the British; the Billionaire Raj, as some have called it, has left the British Raj far behind.

Coming back to the middle class, the report further reveals that an income of over Rs 20.7 lakhs a year means that you are in the top 1% of the country, while that over Rs 2.9 lakhs a year means that you are in the top 10% of the country.

So, this is the reality of Sitharaman's 'middle class': the top ten per cent of the country, who now must be worrying about how to spend even more money. An even more obscene wedding? More gold? More foreign vacations? A couple more cars, or maybe a personal jet? More properties in Goa? So many difficult decisions – all of which will count as boosting 'national development' for this government!

The WIL report also found that the rise in inequality in India had been particularly intense since 2014, when the BJP returned to power. India, it says, is well on its way to becoming a plutocracy. But things could still improve, it says, if the government was willing to invest heavily in public health, education, and nutrition; and, moreover, to collect a “super-tax” of just 2% of the wealth of the 167 richest families in India, in order to facilitate such public investments.

Going by the new tax regime, this is surely the last thing on the Indian government’s mind.

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