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Middle Class in the Tax Crossfire

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Abstract: ***The middle class occupies an important place within India's economic structure since it contributes to the generation of revenue through the payment of taxes directly and indirectly. Unfortunately, in recent times, this class has had to face growing expenses associated with various needs, such as education, housing and other vital necessities, along with minimal tax incentives. This paper explores the difficulties that the middle class experiences in terms of financial stability due to the impact of factors like inflation, the cost of private education, and housing expenses. Besides, this research considers the inefficiencies of the current tax policy in relation to the problems being discussed. Using information from policy papers and judicial opinion, this paper demonstrates the imbalance present in terms of the allocation of economic burdens in society.***

I. INTRODUCTION

‘‘A good tax system should do as little harm as possible’’- Herbert A. Simon

In the recent past, the tax system has undergone considerable change, from the liberalization policies adopted in the year 1991 to the periodic reviews undertaken in the income tax slabs and the implementation of the GST. While the tax system has undergone considerable change, the Indian middle class has been increasingly concerned with the fairness and equity with which the tax burden is being apportioned.

The middle class, in this regard, has a special position in the Indian economy, earning enough to be comfortably within the tax bracket but not enough to comfortably keep up with the increasing trend in basic expenses such as housing, education, healthcare, fuel, and other consumables. While the direct tax reduces the overall money available to the individual, the indirect taxes levied on the goods and services consumed by the middle class further reduce their already dwindling funds.

At the same time, the middle class does not qualify to be a part of the welfare measures that the government extends to the poor and the needy. Unlike the high-income individuals and the corporate sector, the middle-class taxpayer, who is mostly a salaried employee, does not have the luxury of sophisticated tax planning measures such as deductible investments that can be claimed to reduce tax liabilities. The middle-class taxpayer, therefore, has a constant tax liability, which is visible and unavoidable.

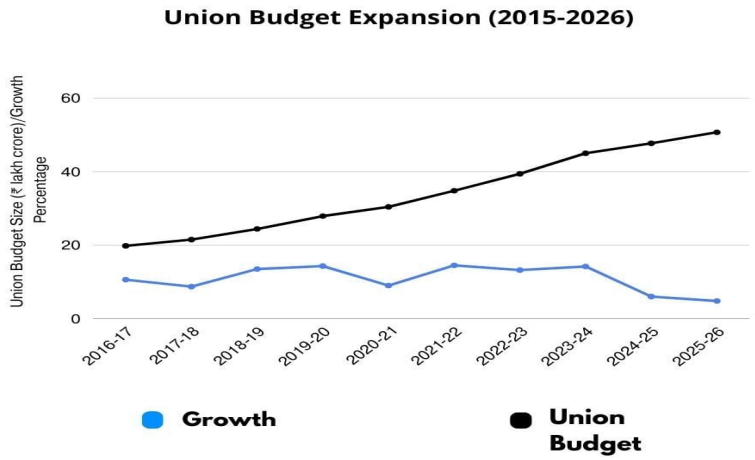
This has led to the Indian middle class increasingly feeling that they are caught in the crossfire of taxes, and the issue, therefore, is not merely the payment of taxes but the larger issue of the balance and fairness with which the tax burden is apportioned and the equity with which the tax burden is distributed.

II. MIDDLE CLASS SUFFRAGE

One of the primary means of earning revenue for providing public and social facilities is through taxation. The tax structure of India comprises direct and indirect taxation, including personal income tax and Goods and Services Tax, respectively. Though taxation is vital for economic growth and development, its cumulative effect on the lives of people belonging to the middle-income group is a matter of concern for economists and policymakers. The middle-class families of India are those families whose income is moderate and whose consumption capacity is higher than others. These families are a major contributor to India’s direct and indirect tax revenues. In recent times, direct tax revenues from individuals are higher than corporate tax revenues, which clearly indicates that a small number of wage earners are making significant contributions to India’s exchequer. At the same time, middle-class families are subject to indirect taxation on all expenditures, which is affecting their savings and financial positions.

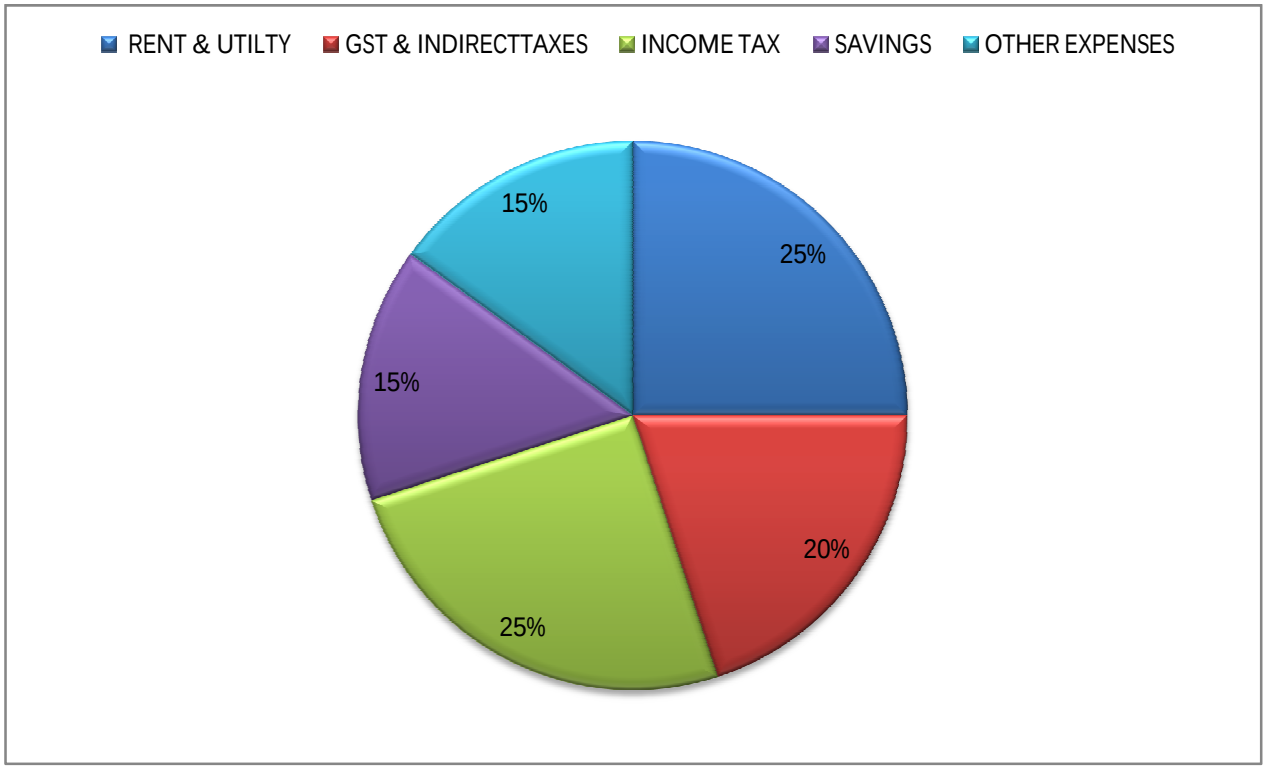
Though some tax relief is offered and some tax burden is shifted from
lower income groups to higher income groups in recent times, middle-class families are facing financial constraints because of tax expenditures and rising living costs, wage stagnations, and poor social support systems.

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YEAR	Budget(₹Lakh Cr)	Growth %
2016-17	19.8	10.6%
2017-18	21.5	8.6%
2018-19	24.4	13.5%
2019-20	27.9	14.3%
2020-21	30.4	9.0%
2021-22	34.8	14.5%
2022-23	39.4	13.2%
2023-24	45.0	14.2%
2024-25	47.7	6.0%
2025-26	50.0	4.8%

Financial Burden on a Salaried Middle Class Employee



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III. PROBLEMS FACING BY MIDDLE CLASS

A. Education

Middle-class families in India have found it difficult to afford education due to the increasing costs, which have risen at a much higher rate than the income of the people. According to the National Sample Survey Office report of 2024, urban fees of private schools have risen by more than 169% over the last ten years, which is much higher than the rise in inflation and income levels. The middle-class families living in metro cities have to pay anywhere from Rs. 1.5 lakhs to Rs. 5 lakhs per annum per child for the education of their kids, which includes the cost of the school fees, transport, books, uniforms, and other expenses, which is a major chunk of the income of the middle-class people. Therefore, the parents have been forced to compromise on their savings, loans, and career changes just to support the education of their kids.

B. Limited Tax Relief

Tax relief for education expenses in India is very limited. Under Section 80C of the Income Tax Act, 1961, only tuition fees for up to two children are eligible for deduction within the overall ₹1.5 lakh limit, which also includes other investments. Expenses like transport, books, uniforms, and development fees are not covered.

Similarly, Section 80E of the Income Tax Act, 1961 allows deduction only on interest paid for higher education loans, not school expenses. Therefore, tax benefits are insufficient to reduce the financial burden on middle-class families.

C. Inflation

Rising inflation has pushed the cost of education and everyday living expenses upward faster than incomes, forcing families to spend more on schooling, food, transport, and other essentials without equivalent salary growth. Education inflation in India has been running higher than general inflation, and many families report fee hikes of 50–80% over recent years, compounding financial burden.

D. House Cost

Housing prices in India have climbed sharply over the last decade, increasing the cost of living for middle-class families. In cities like Mumbai, average home prices are now many times a typical annual income, making homeownership difficult and leaving families with higher rents or loans, reducing disposable income available for other expenses

E. Real Income Reduction (TDS)

While nominal incomes have increased in recent years, rising inflation and higher taxes like TDS mean the real income (income after adjusting for inflation and tax) for many middle-class households hasn't kept pace with cost increases. This effectively reduces purchasing power and leaves less money for major expenses like education and housing, squeezing household budgets.

F. Limited opportunities for additional homes

Typically, middle-class families rely on formal sources of employment, such as salaried jobs, which have a fixed and fully recorded income. The transparent nature of their earnings, which is subject to tax, means that there is less scope to earn additional income. This makes them more susceptible to the effects of increasing inflation or a worsening economic situation.

G. Declining capacity for Saving and investments

Inflation and increased household expenditures limit the saving potential of the middle class. Expenditure on primary needs like food, shelter, healthcare, and education accounts for a major proportion of their income. Hence, the saving potential diminishes gradually.

H. High cost of urban living-

Middleclass families are also faced with high living costs because of the rising costs of living in urban areas, such as houses, transport, healthcare, and education. The rapid growth of urbanization and inflation makes the cost of living higher in urban areas than in rural areas.

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I. Limited influence in policy decisions

Despite forming a significant share of taxpayers and consumers, the middle class often has limited influence in policy decisions. Governments frequently focus on poverty-reduction programs for low-income groups or economic incentives for corporations. Consequently, middle-class concerns such as tax burden and cost-of-living pressures receive comparatively less policy attention.

J. Dual economic burden

The middle class often experiences pressure from both economic extremes. They pay a significant portion of taxes yet receive fewer subsidies than lower-income groups. At the same time, they lack the wealth and financial security of high-income households, creating a persistent economic burden and financial stress

IV. LITERATURE REVIEW

A. National Sample Survey office (2024)

Several studies and reports have highlighted the increasing financial pressure on the families of the middle class in India, which has been caused by the increasing costs of education and other necessities. One factor that has been highlighted by recent studies is the increasing costs of fees in private educational institutions. According to the National Sample Survey Office's report for 2024, the costs of fees in private educational institutions have been increasing at a very high rate compared to the rates of inflation and wage growth in the country during the past ten years. Therefore, a greater percentage of the income of the families of the middle class is being spent on education-related expenses.

B. Right Of Children to Free and Compulsory Education Act

Similarly, there are a number of policy debates on the Right of Children to Free and Compulsory Education Act, wherein it has been emphasized that though the law seeks to ensure the free education of economically weaker sections of society, the difficulties faced in the reimbursement create a financial burden on private schools. It has also been emphasized that the financial pressure on private schools indirectly leads to the increased fees for general category students.

C. Reserve Bank Of India

Inflation is another significant factor which affects the finances of households. According to data and reports released by the Reserve Bank of India, the increase in prices of goods such as education, housing, and transportation has significantly increased the cost of living in cities. It has been reported that inflation in the education sector has been higher compared to the general inflation rate, which makes it difficult for people to manage their finances for their children's education.

D. NITI Aayog

The costs of housing have been a major factor in the financial pressure felt by the middle class. Studies and analyses carried out by various research and policy institutions, such as NITI Aayog, have shown that the costs of housing in major cities in the country have been increasing significantly, thereby making it difficult for the middle class to own homes. When the costs of housing are high, the disposable income is reduced, which in turn affects the amount of money spent on education and other necessities.

E. Income Tax Act Of 1961

Besides the increasing costs, the taxation policy impacts the financial condition of the middle-class families. Though the Income Tax Act of 1961 allows tax deductions for educational expenditures under various provisions, the tax deductions are limited and do not cover a range of expenditures such as transportation, books, uniforms, etc., which are a part of the educational expenditures.

V. RESEARCH OBJECTIVE

1) To analyse the rising cost of private education in India and its impact on middle-class families.
2) To examine the effect of inflation on the purchasing power of middle-class households.
3) To study the impact of increasing housing costs on the financial stability of families.
4) To evaluate how taxation and limited tax relief affect the disposable income of the middle class.
5) To understand the overall financial stress experienced by middle-class households due to these economic factors.

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VI. ANALYSIS AND DISCUSSION

The middle class is feeling squeezed due to increasing costs of education, housing, and inflation, as well as the general increase in prices. This is affecting them as they have less money to spend on other things when their daily expenses are increasing. As a result, it is very hard for them to maintain their lifestyle.

The judicial perspective on this issue can be explained in the case of Modern School v. Union of India, wherein it was held that private schools cannot arbitrarily hike their fees, and their fee structure must be transparent. The Supreme Court stated that it is up to private schools to manage their own affairs, but education should not be an enterprise for profit.

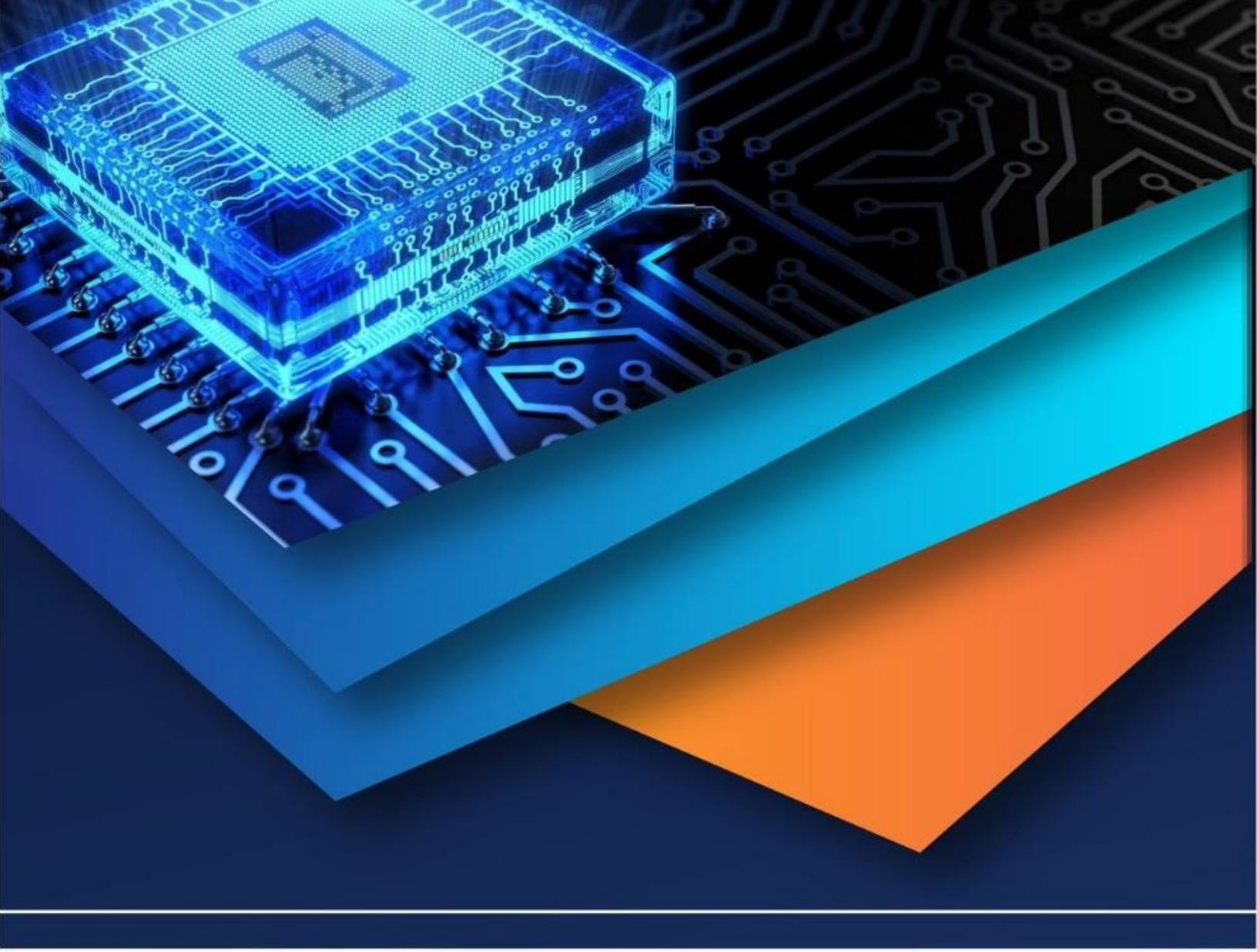
This case is an example of how regulation is needed for private schools so that parents, especially those belonging to the middle class, do not face an enormous hike in school fees.

VII. CONCLUSION

In conclusion, it is evident that India is experiencing a squeeze on its middle class from both ends—the rising costs of living, as well as taxes piling up. The costs of education, housing, and other necessities are rising, but salaries are no longer enough to support these increasing costs. The Modern School v. Union of India case is an important reminder of the need for transparency and regulation when it comes to education fees. Essentially, it is important for India to have proper tax policies that will help reduce the burden on its middle class.

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