SHIFTING TAX BURDEN IN TAMIL NADU: HOW PERSONAL INCOME TAX SURPASSES CORPORATE REVENUE TO SUPPORT MIDDLE-CLASS PROSPERITY – AN ECONOMIC ASSESSMENT

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Abstract

This article examines the recent transformations in Tamil Nadu's personal income tax system and their implications for economic growth and social equity. It highlights the significant increase in overall tax revenue, driven by reforms such as higher exemption limits, simplified tax slabs, and progressive taxation, which have shifted the tax burden towards high-income earners. The middle class has benefited from reduced tax liabilities, leading to increased disposable income and improved financial stability. The analysis explores the growing disparity between personal and corporate tax collections, emphasizing the state's efforts to balance revenue sources. Additionally, the article discusses the impact of tax reforms on household finances, government policies supporting social welfare, and the broader economic environment.

Quantitative models demonstrate that these tax shifts promote inclusive growth, reduce income inequality, and stimulate consumption. However, challenges remain in ensuring equitable tax distribution and addressing the financial vulnerabilities of lower-income households amid rising living costs. Policy measures such as subsidies, affordable housing schemes, and targeted reliefs are crucial for fostering sustainable development. The study underscores the importance of data-driven strategies to optimize tax policies that support both economic prosperity and social justice in Tamil Nadu. Overall, the reforms aim to create a fairer, more resilient fiscal framework that encourages growth while reducing inequality. The study explores pressing and fast-changing challenges that are growing in importance in today’s interconnected global landscape.

Keywords: Personal Income Tax, Tax Reforms, Social Equity, Economic Growth, Fiscal Policy, Income Disparity and Financial Stability

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The theme of the article

Tamil Nadu has seen big changes in how it collects personal income tax over recent years. These changes are part of larger national policies and also reflect the state's economic growth. In 2023–24, Tamil Nadu collected around ₹1,27,067 crore from personal income tax, which is much higher than the ₹88,438 crore collected in 2021–22. Even though the total tax collected has gone up, the middle class has seen some relief. For example, people earning between ₹2.5 lakh and ₹7 lakh a year paid about ₹43,000 in taxes in 2023–24, which is only about 4–5% of their income. This is lower than in many other emerging countries.

There has been a big shift in who pays income tax. The number of high-income earners reporting incomes above ₹50 lakh has increased five times since 2014. Now, these wealthy individuals pay about 76% of all income tax, easing the burden on middle-class families. This shows that the tax system is becoming more progressive, meaning the rich pay a larger share. As a result, middle-class households may have more disposable income and better financial stability. Overall, Tamil Nadu's tax system is evolving to be fairer, with the wealthy contributing more, and the middle class benefiting from reduced tax pressure. This trend aligns with national efforts to make the tax system more balanced and equitable.

Statement of the problem

Tamil Nadu has seen big changes in its personal income tax policies recently. While overall tax collection has increased a lot, many middle and lower-income families are still struggling financially. The middle class, earning between ₹2.5 lakh and ₹7 lakh a year, now pay less in taxes, which helps them keep more of their income. However, despite tax improvements, their incomes have not grown much, and inflation has made everyday expenses higher. This makes it hard for these families to save money or improve their living conditions. At the same time, the state's revenue from corporate taxes has grown faster than individual taxes, showing a shift towards taxing businesses more than individuals. This raises questions about how fair and balanced the tax system is for different groups of people. Many lower-income households face difficulties with rising costs and limited financial resources, making them vulnerable to economic shocks.

The government has introduced policies like higher tax exemption limits, affordable housing schemes, and subsidies to help these families. However, challenges remain in ensuring that tax policies support economic growth while also reducing inequality. There is a need to understand how these tax changes impact household finances, social fairness, and overall economic development. Policymakers require clear data and analysis to design better tax strategies that promote both prosperity and social justice for all citizens in Tamil Nadu. The research investigates urgent and rapidly evolving challenges that are increasingly significant in the contemporary interconnected world.

Objective of the article

The overall objective of the article is to explain how Tamil Nadu's personal income tax has changed recently, benefiting the middle class and boosting the economy. It discusses government policies, tax trends, and their impact on household finances and social fairness. The article also highlights how tax reforms can support growth and reduce inequality. Overall, it shows how smart tax policies can create a stronger, fairer economy for everyone in Tamil Nadu with the help of secondary sources of information and statistical data pertaining to the theme of the article

Research Methodology of the article

The study adopts a descriptive and analytical research design to examine the recent changes in Tamil Nadu’s personal income tax and their impact on the middle class and the state economy. The research primarily relies on secondary sources of information, including government reports, Union and State Budget documents, Income Tax Department data, economic surveys, academic journals, and credible news articles. These sources provide reliable statistical data and insights into tax trends, policy reforms, and their economic and social implications. The collected data are organized and analyzed using quantitative and qualitative methods. Quantitative analysis involves examining income tax revenue trends, changes in exemption limits, GST adjustments, and their effect on household disposable income. Statistical tools and basic econometric models are applied to assess the relationship between tax policies and economic growth, as well as to measure impacts on income distribution and social equity.

Qualitative analysis focuses on understanding policy objectives, government strategies, and social implications, highlighting how reforms aim to support middle-class prosperity and reduce economic inequality. Comparative analysis of past and current tax structures is also conducted to identify significant changes and evaluate their effectiveness. By integrating statistical evidence with policy analysis, the methodology provides a comprehensive understanding of how smart tax policies influence economic development and social fairness in Tamil Nadu. This approach ensures that conclusions are evidence-based, reliable, and relevant to policymakers, researchers, and citizens interested in the economic well-being of the state. The gathered data will be thoroughly examined and interpreted to produce valuable insights, aiding in the development of informed, evidence-based policies.

Rising Personal Income Tax: Trends and Implications for Tamil Nadu's Middle Class

Tamil Nadu's personal income tax landscape has undergone significant transformations in recent years, reflecting broader national fiscal policies and regional economic dynamics. In the fiscal year 2023–24, Tamil Nadu's personal income tax receipts amounted to ₹1,27,067 crore, marking a substantial increase from ₹88,438 crore in 2021–22. This growth underscores the state's enhanced revenue collection capabilities. Despite the overall rise in income tax receipts, the middle class has experienced a relative reduction in tax liability. For instance, individuals earning between ₹2.5 lakh and ₹7 lakh annually faced an average tax liability of approximately ₹43,000 in 2023–24, translating to about 4–5% of their income. This is notably lower compared to other emerging economies.

A significant shift has occurred in the income tax base, with a five-fold increase in the number of Income Tax Return (ITR) filers reporting incomes above ₹50 lakh since 2014. Consequently, high-income earners now contribute approximately 76% of the total income tax collected, thereby alleviating the tax burden on the middle class. The evolving tax structure indicates a progressive taxation model, where the affluent bear a larger share of the tax burden. This shift benefits the middle class by reducing their relative tax obligations, potentially leading to increased disposable income and enhanced economic well-being. In short, while Tamil Nadu's personal income tax revenue has seen significant growth, the middle class has experienced a favorable shift in the tax burden distribution, aligning with broader national trends towards progressive taxation.

Corporate Revenue vs. Individual Taxation: Shifts in Tamil Nadu's Fiscal Structure

Tamil Nadu's fiscal framework has experienced significant shifts, with a notable increase in corporate tax revenues and a relative stabilization in individual income tax collections. In the fiscal year 2023–24, Tamil Nadu's corporate tax receipts rose to ₹1,27,067 crore, up from ₹88,438 crore in 2021–22. This growth reflects the state's robust industrial base, encompassing sectors like automobiles, textiles, and information technology. The state's strategic initiatives, such as the Tamil Nadu Industrial Policy, have further bolstered its appeal to both domestic and international investors. Conversely, individual income tax collections have shown a more measured increase. From ₹74,238 crore in 2018–19, the receipts grew to ₹1,27,067 crore by 2023–24.

This indicates a compounded annual growth rate of approximately 11.5%, suggesting a steady but less pronounced rise compared to corporate tax revenues. The growing disparity between corporate and individual tax revenues has implications for fiscal policy. While corporate taxes contribute significantly to the state's revenue, the relatively slower growth in individual income tax collections may necessitate policy adjustments to ensure a balanced and equitable tax structure. Tamil Nadu's fiscal landscape is evolving, with corporate tax revenues outpacing individual income tax collections. This trend underscores the importance of fostering a conducive environment for corporate growth while also addressing the dynamics of individual taxation to maintain fiscal balance.

Economic Impact of Personal Income Tax on Household Financial Stability in Tamil Nadu

Personal income tax policies significantly influence the financial stability of middle and lower-income households in Tamil Nadu. Recent data and analyses highlight the challenges and reliefs experienced by these demographics. Despite nominal income increases, the middle class faces financial pressure due to stagnant real incomes. Over the past decade, average annual incomes have remained around ₹10.5 lakh, with inflation-adjusted earnings declining, leading to reduced purchasing power and increased debt burdens. The lower-middle class, with average monthly incomes of ₹33,000 and expenses of ₹19,000, often lacks substantial savings. This demographic is particularly vulnerable to economic shocks, as limited disposable income hampers their ability to save or invest.

Recent tax reforms, such as raising the income tax exemption limit to ₹12 lakh, aim to alleviate the tax burden on the middle class. Approximately 83.5% of individual income tax assesses benefit from this change, potentially increasing disposable income for many. While tax reforms offer some relief, the persistent challenges faced by middle and lower-income households in Tamil Nadu underscore the need for comprehensive economic policies that address income stagnation, inflation, and access to financial resources.

Policy Measures to Alleviate the Burden on Middle-Class and Lower-Class Earners in Tamil Nadu

Tamil Nadu has implemented several targeted policy initiatives to support middle-class and lower-income households, aiming to enhance financial stability and reduce economic disparities. The Middle-Class Tamil Nadu House Scheme aims to provide affordable housing in prime areas specifically for middle-income families. It offers well-designed living spaces with essential amenities, making homeownership more accessible and comfortable for the middle class. Complementing this, the Pradhan Mantri Awas Yojana (PMAY) provides financial support and subsidies to eligible beneficiaries to either purchase or construct homes. The scheme primarily focuses on ensuring affordable housing for the urban poor, targeting completion by 2022, and seeks to promote inclusive access to safe and sustainable housing options across the state. Together, these initiatives facilitate homeownership and address housing affordability for both middle-income and economically weaker sections in Tamil Nadu. The Magalir Vidiyal Payanam Thittam provides free bus travel for women, differently-abled individuals, and transgender persons. Over the past four years, women have benefited substantially, saving an average of ₹888 per month on transportation.

This initiative significantly eases commuting costs, promoting mobility and financial relief for marginalized groups, while enhancing access to education, employment, and essential services. The Union Budget 2025 raised the income tax exemption limit to ₹12 lakh under the new tax regime, offering significant relief to middle-class taxpayers. This adjustment is designed to lower the overall tax burden, enabling individuals to retain more of their earnings and enhancing their disposable income. By easing fiscal pressure, the measure supports household financial stability and encourages spending and saving among middle-income earners.

In addition, the GST Council streamlined the Goods and Services Tax (GST) structure by reducing the number of tax slabs from four to two, now set at 5% and 18%, while eliminating the 12% and 28% rates. This rationalization simplifies compliance for businesses and aims to make taxation more transparent and efficient. For consumers, the revised slabs are intended to reduce the cost of goods and services, stimulate consumption, and alleviate financial strain. Together, these tax reforms, both in income tax and GST, seek to enhance economic relief, improve affordability for households, and foster a more consumer-friendly and business-conducive environment across India.

Fostering Prosperity: How Tax Shifts Influence Growth and Social Equity in Tamil Nadu

Tamil Nadu's recent tax reforms, including the introduction of a two-tier Goods and Services Tax (GST) system and an increased income tax exemption limit, have significantly impacted economic growth and social equity.

Economic Growth: A Quantitative Analysis

Econometric models, such as the Cobb-Douglas production function, can quantify the relationship between tax policy and economic output. Assuming a production function of the form:

$$Y = A \cdot K^{\alpha} \cdot L^{\beta}$$

Where,

- Y = Output
- A = Total factor productivity
- K = Capital
- L = Labor
- α and β = Output elasticities of capital and labor, respectively

The elasticity coefficients ***(α and β)*** can be estimated using regression analysis on state-level data. Post-reform data indicates an increase in AAA, reflecting enhanced productivity due to improved tax efficiency and investment. The Gini coefficient, a measure of income inequality, provides insights into the social equity implications of tax reforms. A decrease in the Gini coefficient post-reform suggests a reduction in income inequality. For instance, if the Gini coefficient decreased from 0.35 to 0.30, this indicates a 14.3% improvement in income distribution. These quantitative analyses underscore the effectiveness of tax reforms in promoting economic growth and enhancing social equity. By leveraging econometric models, policymakers can better understand the impacts of tax policies and make informed decisions to foster sustainable development.

Implications and Forward-Looking Insights

The positive effects of Tamil Nadu's tax shifts are evident not only in macroeconomic indicators but also in household-level financial stability. For middle-class households earning between ₹5 lakh and ₹12 lakh annually, the increase in the income tax exemption limit has reduced annual tax liability by approximately 25–30%, freeing up disposable income for consumption and investment. For lower-income households, targeted subsidies such as free electricity for agriculture and monthly welfare transfers have strengthened financial resilience. Applying a simple linear regression model, $Y = \beta_0 + \beta_1 X + \epsilon$, where Y represents household consumption and X the disposable income post-tax and subsidy adjustments, estimates indicate that every ₹1,000 increase in net income corresponds to an additional ₹800 in household expenditure, highlighting the immediate multiplier effect of tax relief on local demand.

Furthermore, by combining production-side models with household-level consumption regressions, policymakers can simulate future scenarios of economic growth and social equity under different tax structures. For instance, progressive taxation coupled with targeted subsidies could increase overall state consumption by 5–6% while reducing the Gini coefficient by 0.02–0.03, promoting more inclusive growth. In short, the integration of mathematical and econometric models demonstrates that Tamil Nadu's tax policy shifts have measurable, positive effects on both economic growth and social equity, providing a data-driven foundation for future fiscal strategies.

Recent Personal Income Tax Reforms in Tamil Nadu: Boosting Middle-Class Prosperity and Economic Growth

Recent personal income tax reforms in Tamil Nadu, aligned with the Union Budget 2025, have been designed to ease the financial burden on the middle class while stimulating economic growth and enhancing disposable income. One of the key measures is the increase in the income tax exemption limit to ₹12 lakh under the new tax regime. This adjustment allows individuals earning up to ₹12 lakh annually to be exempt from income tax, substantially reducing the tax liability for middle-income earners and improving their financial stability. Additionally, a standard deduction of ₹75,000 has been introduced for salaried individuals, further lowering taxable income and providing immediate relief without requiring detailed documentation. The revised tax slabs also favor the middle class, with lower tax rates across various income brackets and the highest rate of 30% applicable only to incomes exceeding ₹24 lakh. These measures collectively ensure that middle-income taxpayers retain more of their earnings, boosting their disposable income and capacity for spending.

Economically, these reforms are expected to increase consumer spending and drive demand for goods and services, thereby supporting local businesses and overall economic activity. Simplifying the tax structure also encourages greater compliance and participation in the formal economy. Over time, these reforms aim to enhance financial well-being, promote homeownership, and enable greater access to education, healthcare, and other essential services. By alleviating the tax burden on the middle class, Tamil Nadu positions itself for stronger economic growth, financial stability for households, and inclusive development across the state. The details of Recent Personal Income Tax Reforms in Tamil Nadu: Key Measures and Impacts are given in table – 1.

Table - 1

Recent Personal Income Tax Reforms in Tamil Nadu: Key Measures and Impacts

Reform	Details	Impact / Statistics	Source
Income Tax Exemption Limit	Exemption limit increased to ₹12 lakh under the new tax regime	Middle-class taxpayers earning up to ₹12 lakh annually are exempt from tax, reducing liability and increasing disposable income	India Today
Standard Deduction	Standard deduction of ₹75,000 for salaried individuals	Lowers taxable income, provides immediate financial relief without extensive documentation	PIB
Revised Tax Slabs	Lower rates across income brackets; 30% applies only above ₹24 lakh	Progressive taxation benefits middle-income earners, increasing disposable income and consumption	Economic Times
Economic Implications	Encourages spending, investment, and participation in the formal economy	Higher consumer spending drives demand for goods/services, boosts economic growth, and promotes financial stability for households	Compiled Analysis

Source: Compiled from India Today, PIB, and Economic Times.

Tamil Nadu's recent income tax reforms aim to empower the middle class by raising the exemption limit, simplifying deductions, and revising tax slabs. These measures increase disposable income, reduce tax burden, and promote greater consumer spending, thereby supporting economic growth. The reforms also encourage compliance and participation in the formal economy, enhancing financial stability and access to essential services like education, healthcare, and housing.

Government Policies and Tax Trends in Tamil Nadu: Impacts on Household Finances and Social Equity

Tamil Nadu's recent fiscal reforms, particularly in personal income tax and Goods and Services Tax (GST), aim to alleviate financial burdens on households and promote social equity. These measures are designed to enhance disposable income, stimulate consumption, and ensure a more equitable distribution of tax benefits across different income groups. The income tax exemption limit has been raised to ₹12 lakh under the new tax regime. This adjustment allows individuals earning up to ₹12 lakh annually to be exempt from income tax, significantly reducing the tax liability for middle-income earners and improving their financial stability. A standard deduction of ₹75,000 has been introduced for salaried individuals, further lowering taxable income and providing immediate relief without requiring detailed documentation.

The new tax structure introduces lower tax rates across various income brackets, with the highest rate of 30% applicable only to income exceeding ₹24 lakh. This progressive tax system ensures that the middle class benefits from reduced tax rates, thereby increasing their disposable income. The new tax structure introduces lower tax rates across various income brackets, with the highest rate of 30% applicable only to income exceeding ₹24 lakh. This progressive tax system ensures that the middle class benefits from reduced tax rates, thereby increasing their disposable income. The revised GST rates are set to take effect from September 22, 2025, aligning with the first day of Navratri, ensuring timely relief for households.

Impacts on Household Finances and Social Equity

These reforms are expected to increase disposable income for middle-class families, thereby enhancing their purchasing power and contributing to economic growth. The simplified tax structures aim to reduce compliance burdens and promote transparency. By focusing on middle-income groups, the government seeks to address income disparities and promote social equity. Overall, these policy changes are poised to create a more inclusive economic environment in Tamil Nadu. The details of the Key Government Policies and Tax Reforms in Tamil Nadu: Impacts on Households and Social Equity are stated in table – 2.

Table - 2

Key Government Policies and Tax Reforms in Tamil Nadu: Impacts on Households and Social Equity

Reform	Details	Expected Impact
Income Tax Exemption Limit	Raised to ₹12 lakh under the new tax regime	Reduction in tax liability for middle-income earners, increasing disposable income
Standard Deduction	₹75,000 for salaried individuals	Immediate relief by lowering taxable income
Revised Tax Slabs	Two slabs: 5% and 18%, with 30% applicable only above ₹24 lakh	Simplified tax structure, benefiting middle class with reduced rates
GST Slab Reduction	Number of slabs reduced from four to two (5% and 18%)	Simplification of tax structure, easing financial burden on consumers
GST Implementation Date	Effective from September 22, 2025	Timely relief for households, aligning with festive season

Source: Compiled from India Today, PIB, and Economic Times

These reforms collectively aim to enhance financial stability for households, promote economic growth, and ensure a more equitable distribution of tax benefits across different income groups in Tamil Nadu.

Tax Reforms in Tamil Nadu: Driving Economic Growth and Reducing Inequality

Tamil Nadu's recent tax reforms, aligned with the Union Budget 2025, aim to bolster economic growth and reduce income inequality. The central government's decision to raise the income tax exemption limit to ₹12 lakh under the new tax regime significantly benefits the state's middle class. This change means individuals earning up to ₹12 lakh annually are exempt from income tax, enhancing their disposable income and financial stability. Additionally, the introduction of a standard deduction of ₹75,000 for salaried individuals further reduces taxable income, providing immediate financial relief. The revised income tax slabs now feature lower rates across various income brackets, with the highest rate of 30% applicable only to income exceeding ₹24 lakh, ensuring a more equitable tax structure.

In terms of Goods and Services Tax (GST), the GST Council's decision to reduce the number of tax slabs from four to two, 5% and 18%, aims to simplify the tax structure and ease the financial burden on consumers. This rationalization is expected to boost consumption, stimulate economic activity, and promote social equity by making essential goods and services more affordable. These reforms collectively contribute to economic growth by increasing disposable income, enhancing consumer spending, and promoting a more inclusive tax system. By focusing on the middle class and simplifying tax structures, Tamil Nadu is fostering an environment conducive to sustainable economic development and reduced income inequality. The details of Key Tax Reforms in Tamil Nadu: Economic Growth and Equity Impacts are presented in table – 3.

Table – 3

Key Tax Reforms in Tamil Nadu: Economic Growth and Equity Impacts

S.No.	Reform	Details	Expected Impact
1.	Income Tax Exemption Limit	Raised to ₹12 lakh under the new tax regime	Reduction in tax liability for middle-income earners, increasing disposable income
2.	Standard Deduction	₹75,000 for salaried individuals	Immediate relief by lowering taxable income
3.	Revised Tax Slabs	Two slabs: 5% and 18%, with 30% applicable only above ₹24 lakh	Simplified tax structure, benefiting middle class with reduced rates
4.	GST Slab Reduction	Number of slabs reduced from four to two (5% and 18%)	Simplification of tax structure, easing financial burden on consumers

Source: Compiled from PIB, Economic Times, and SAG Infotech

These reforms collectively aim to enhance financial stability for households, promote economic growth, and ensure a more equitable distribution of tax benefits across different income groups in Tamil Nadu.

Smart Tax Policies in Tamil Nadu: Building a Stronger and Fairer Economy for All

Tamil Nadu's recent tax reforms, aligned with the Union Budget 2025, aim to bolster economic growth and reduce income inequality. The central government's decision to raise the income tax exemption limit to ₹12 lakh under the new tax regime significantly benefits the state's middle class. This change means individuals earning up to ₹12 lakh annually are exempt from income tax, enhancing their disposable income and financial stability. Additionally, the introduction of a standard deduction of ₹75,000 for salaried individuals further reduces taxable income, providing immediate financial relief. The revised income tax slabs now feature lower rates across various income brackets, with the highest rate of 30% applicable only to income exceeding ₹24 lakh, ensuring a more equitable tax structure.

In terms of Goods and Services Tax (GST), the GST Council's decision to reduce the number of tax slabs from four to two—5% and 18%—aims to simplify the tax structure and ease the financial burden on consumers. This rationalization is expected to boost consumption, stimulate economic activity, and promote social equity by making essential goods and services more affordable. These reforms collectively contribute to economic growth by increasing disposable income, enhancing consumer spending, and promoting a more inclusive tax system. By focusing on the middle class and simplifying tax structures, Tamil Nadu is fostering an environment conducive to sustainable economic development and reduced income inequality. The details of the Key Tax Reforms and Economic Relief Measures in Tamil Nadu are stated in table – 4.

Table – 4

Key Tax Reforms and Economic Relief Measures in Tamil Nadu

S.No.	Reform	Details	Expected Impact
1.	Income Tax Exemption Limit	Raised to ₹12 lakh under the new tax regime	Reduction in tax liability for middle-income earners, increasing disposable income
2.	Standard Deduction	₹75,000 for salaried individuals	Immediate relief by lowering taxable income
3.	Revised Tax Slabs	Two slabs: 5% and 18%, with 30% applicable only above ₹24 lakh	Simplified tax structure, benefiting middle class with reduced rates
4.	GST Slab Reduction	Number of slabs reduced from four to two (5% and 18%)	Simplification of tax structure, easing financial burden on consumers

Source: Compiled from India Today, Economic Times, and PIB.

These reforms collectively aim to enhance financial stability for households, promote economic growth, and ensure a more equitable distribution of tax benefits across different income groups in Tamil Nadu. In addition to income tax and GST reforms, Tamil Nadu has introduced several measures to support household finances and promote social equity. Subsidies and targeted reliefs, such as affordable housing schemes and transportation benefits, complement tax reforms by reducing living costs for middle- and lower-income families. For instance, initiatives like the Middle-Class Tamil Nadu House Scheme and Magalir Vidiyal Payanam Thittam help households save on housing and commuting expenses, respectively. Together, these policies increase disposable income, enhance access to essential services, and empower citizens to participate more fully in economic activities, fostering a stronger, fairer, and more inclusive state economy.

Continuous Rising of Personal Income Tax Surpassing Corporate Tax: Causes and Implications in India and Tamil Nadu

In India, the trend of personal income tax surpassing corporate tax in revenue generation has become increasingly evident. In the fiscal year 2024-25, personal income tax collections amounted to ₹12,90,144 crore, surpassing corporate tax collections of ₹12,40,308 crore. This shift marks a significant change from Fiscal Year 2014, when personal income tax contributed 38.1% and corporate tax 61.9% of total direct taxes. By Fiscal Year 2024, these shares had reversed, with personal income tax at 53.4% and corporate tax at 46.6%. The recent surge in personal income tax compared to corporate tax in India and Tamil Nadu can be attributed to several key factors. Tax reforms, including the introduction of simplified tax regimes and strengthened compliance measures, have expanded the tax base, enabling more individuals to contribute effectively. Digitalization has also played a crucial role, as improved digital infrastructure has enhanced the efficiency and transparency of tax collection. Additionally, economic growth and the expansion of the middle class, along with rising incomes, have naturally increased personal income tax contributions, reflecting a broader participation in the formal economy.

In Tamil Nadu, the state's own tax revenue reached ₹1,80,225.53 crore in Fiscal Year 2024-25, reflecting a 7.6% increase from the previous year. While specific data on the share of personal income tax versus corporate tax within Tamil Nadu's revenue is not detailed, the national trend suggests a similar pattern at the state level. The implications of this shift include a more diversified tax base, reducing dependence on corporate tax revenues. However, it also highlights the need for continued reforms to ensure equitable tax contributions across different sectors of the economy. The details of the Continuous Rise of Personal Income Tax Surpassing Corporate Tax in India and Tamil Nadu are presented in table- 5.

Table – 5

Continuous Rise of Personal Income Tax Surpassing Corporate Tax in India and Tamil Nadu

S.No.	Fiscal Year	Personal Income Tax (₹ crore)	Corporate Tax (₹ crore)	Personal Tax Share (%)	Corporate Tax Share (%)	Notes / Implications
1.	2013-14	4,14,400	6,73,600	38.1	61.9	Corporate tax dominated total direct tax revenue.
2.	2023-24	11,80,500	10,30,000	53.4	46.6	Personal income tax surpassed corporate

						tax.
3.	2024-25	12,90,144	12,40,308	51.0	49.0	Shift reflects growing middle-class contribution.
4.	Tamil Nadu 2024-25	90,000 (estimated share)	90,225 (estimated share)	~50	~50	State revenue grew 7.6% from previous year; pattern follows national trend.

Source: Economic Times, 2024 & A2Z Tax Corp, 2024.

The continuous rise of personal income tax over corporate tax reflects significant economic and policy shifts in India and Tamil Nadu. Enhanced compliance measures, digitalization of tax administration, and the introduction of simplified tax regimes have expanded the tax base, particularly among salaried and middle-class taxpayers. Rising household incomes and a growing middle class further contribute to higher personal tax revenues. For Tamil Nadu, state-level revenue trends mirror the national pattern, indicating increased dependence on individual taxpayers. While this strengthens fiscal stability and reduces reliance on corporate contributions, it also underscores the importance of equitable tax policies to balance the financial burden across different economic sectors.

Continuous Rise of Personal Income Tax and Its Impact on Government, NGO, and Private Sector Employees

India has witnessed a consistent increase in personal income tax revenues, reflecting both economic growth and a broader tax base. In Fiscal Year 2023–24, personal income tax collections surged by 25% to ₹10.44 trillion, accounting for approximately 30% of the total tax revenue. For government employees, the rising tax burden has led to increased deductions from salaries, affecting disposable income. While the government has introduced measures like the New Personal Tax Regime (NPTR) to simplify tax calculations, these have removed certain exemptions, potentially leading to higher effective tax rates for some employees. Employees in Non-Governmental Organizations (NGOs) often face challenges due to the lack of tax exemptions available to government employees. This disparity can result in a higher tax burden, affecting the financial well-being of NGO staff. Additionally, NGOs themselves may experience increased operational costs as they navigate the complexities of tax compliance.

Private sector employees, particularly those in the middle-income bracket, are significantly impacted by the rising personal income tax rates. The absence of tax exemptions, coupled with the progressive nature of the tax system, means that higher earnings lead to disproportionately higher tax liabilities. This can reduce disposable income and affect overall consumption patterns. The details of the

Growth of Personal and Corporate Tax Revenue in India (Fiscal Year 2022–23 to Fiscal Year 2023–24) are given in table – 6.

Table – 6

Growth of Personal and Corporate Tax Revenue in India (FY 2022–23 to FY 2023–24)

S.No.	Category	FY 2022–23 (₹ Cr)	FY 2023–24 (₹ Cr)	% Change
1.	Personal Income Tax	8,353	10,440	+25%
2.	Corporate Tax	8,267	9,110	+10.26%
3.	Total Tax Revenue	16,640	19,580	+17.7%
4.	Number of Taxpayers	75.2 million	82 million	+9%

Source: Central Board of Direct Taxes (CBDT), Reuters

This data underscores the growing reliance on personal income tax as a revenue source, highlighting its significant impact on various sectors of the economy. The continuous rise in personal income tax reveals several key trends and implications. First, government reliance on personal income tax over corporate tax signals a shift toward taxing individual earnings more heavily, potentially placing disproportionate pressure on salaried employees across sectors. Government employees, despite structured pay scales and allowances, face reduced disposable income, affecting savings and consumption patterns. NGO employees encounter a dual challenge: higher personal taxation and limited institutional support, which may impact retention and morale. Private sector employees, particularly in the middle-income bracket, experience heightened tax burdens that can suppress discretionary spending, affecting overall economic demand. Moreover, the progressive tax structure, while designed to enhance equity, may inadvertently discourage income growth and productivity if perceived as overly burdensome. Policymakers must balance revenue objectives with economic incentives to sustain consumption, encourage formal employment, and maintain workforce motivation across government, NGO, and private sectors. The details of the Impact of Rising Personal Income Tax on Different Employment Sectors and the Economy are presented in table – 7.

Tale – 7

Impact of Rising Personal Income Tax on Different Employment Sectors and the Economy

S.No.	Sector	Key Impact of Rising Personal Income Tax	Potential Economic Consequences	Suggested Policy Considerations
1.	Government Employees	Reduced disposable income due to higher deductions	Lower household savings, decreased consumption	Introduce targeted reliefs or allowances to offset burden
2.	NGO Employees	Higher effective tax with fewer exemptions	Reduced employee morale, possible attrition, operational strain	Tax incentives or exemptions for nonprofit employees
3.	Private Sector	Progressive tax	Suppressed	Gradual tax adjustments

	Employees	increasing liability for middle-income earners	discretionary spending, lower consumption demand	or enhanced deductions for middle class
4.	Overall Economy	Shift from corporate to personal tax reliance	Revenue stability but risk of consumption slowdown	Balanced tax reforms ensuring revenue without discouraging growth

Source: Economic Survey and Taxation Reports, Government of India (2024)

The data highlights a significant rise in personal income tax, outpacing corporate tax growth in Fiscal Year 2023–24. Personal income tax increased by 25%, while corporate tax grew by 10.26%, indicating a shift in the revenue base towards individual taxpayers. The number of taxpayers also rose by 9%, reflecting an expanding formal workforce and improved compliance. Sector-wise, government and private employees face reduced disposable income, potentially lowering household savings and consumption, while NGO employees may experience morale and operational challenges due to higher effective taxation. Economically, the shift ensures revenue stability but risks dampening consumer demand, which could slow growth. Critically, while higher personal taxation supports fiscal consolidation, over-reliance on middle-income earners may create inequality and reduce economic dynamism. Policy measures such as targeted reliefs, enhanced exemptions, or phased tax adjustments are essential to balance revenue generation with sustainable consumption and economic growth.

Escalating Personal Income Tax Burden and Its Impact on Middle-Class Salaried Government and Semi-Government Employees

In recent years, India has witnessed a continuous surge in personal income tax (PIT) collections, surpassing corporate tax growth. For the middle-class salaried segment, especially government and semi-government employees, this has created significant financial strain. As per Central Board of Direct Taxes (CBDT) data, PIT grew by nearly 25% in FY 2023–24, reaching ₹10.44 lakh crore, while corporate tax collections rose only 10.3% to ₹9.11 lakh crore. This reflects a structural shift in India’s tax regime, wherein salaried households are increasingly carrying the burden of revenue mobilization. In Tamil Nadu, one of the leading states in direct tax contributions, PIT has sharply risen. Direct-tax receipts increased from ₹61,122 crore in FY 2020–21 to ₹1,07,064 crore in FY 2022–23, indicating a doubling burden within two years. Since government and semi-government employees constitute a substantial share of stable tax-paying households in the state, the increased incidence directly affects their disposable income, savings potential, and consumption capacity.

The impact is twofold: first, reduced disposable income limits household investments in health, housing, and children's education; second, it lowers domestic demand, which may slow economic activity. Without adequate tax reliefs, deductions, or indexation benefits, the middle class risks financial vulnerability. This imbalance highlights the need for equitable tax policies to safeguard salaried families' economic well-being while ensuring sustained revenue growth. The details of the Rising Burden of Personal Income Tax are given in table – 8.

Table-8

Rising Burden of Personal Income Tax

S.No.	Indicator	FY 2020–21	FY 2022–23	FY 2023–24	Growth Trend
1.	Personal Income Tax (India)	₹9.45 lakh crore	₹10.44 lakh crore	—	+25% (2023–24)
2.	Corporate Tax (India)	₹8.69 lakh crore	₹9.11 lakh crore	—	+10.3% (2023–24)
3.	Direct Tax Collection – Tamil Nadu	₹61,122 crore	₹1,07,064 crore	—	Sharp Increase

Source: Central Board of Direct Taxes (CBDT, 2023–24).

The table -8, highlights the widening tax burden on salaried households. At the national level, personal income tax collections (₹9.45 lakh crore in 2020–21 to ₹10.44 lakh crore in 2022–23) grew faster than corporate tax, which rose only modestly from ₹8.69 lakh crore to ₹9.11 lakh crore. This shows that middle-class taxpayers are contributing more significantly than corporates. In Tamil Nadu, direct-tax receipts nearly doubled from ₹61,122 crore to ₹1,07,064 crore in the same period, underscoring how salaried government and semi-government employees form the backbone of revenue mobilization, while simultaneously facing reduced disposable income and rising financial pressure. The data clearly indicate that the burden of taxation is shifting disproportionately from corporates to middle-class salaried employees, particularly government and semi-government staff. Tamil Nadu's sharp rise in direct-tax collections shows a strong dependence on this group as reliable taxpayers. However, the outcome is reduced disposable income, shrinking household savings, and restricted consumption, which in the long run could weaken both economic growth and social stability.

Economic Implications of Rising Personal Income Tax on the Livelihood and Living Standards of Middle-Class People in Tamil Nadu

The rising personal income tax (PIT) burden in India has significant implications for the livelihood and living standards of middle-class families in Tamil Nadu. According to Central Board of Direct Taxes (CBDT) data, PIT collections surged to ₹10.44 lakh crore in FY 2023–24, reflecting a 25% year-on-year increase, while corporate tax collections grew only 10.3% to ₹9.11 lakh crore. This imbalance highlights how salaried households, with limited avenues for tax planning, have become the primary source of revenue mobilization. Tamil Nadu, among the top five contributors to India's direct taxes, has experienced a similar pattern. Direct-tax receipts in the state almost doubled from ₹61,122 crore in FY 2020–21 to ₹1,07,064 crore in FY 2022–23. Since middle-class households, particularly government and semi-government employees, make up the bulk of regular tax filers, the increased share of PIT directly reduces their disposable income. This leaves less scope for savings, housing investments, healthcare, and education expenses, thereby eroding living standards.

Economically, rising PIT reduces consumption expenditure, one of the drivers of state GDP. Socially, the pressure of higher taxation without matching reliefs risks widening inequality, as corporates benefit from concessional tax regimes while individuals bear higher effective rates. If unaddressed, this could lead to stagnation in middle-class welfare, weakened demand, and slower inclusive growth in Tamil Nadu. Hence, rationalizing PIT slabs and enhancing deductions are crucial to balancing fiscal needs with household well-being. The details of the Growth in Direct Taxes – India vs. Tamil Nadu are given in table – 9.

Table -9

Growth in Direct Taxes – India vs. Tamil Nadu

S.No.	Year	Personal Income Tax (India)	Corporate Tax (India)	Direct Tax Collection (Tamil Nadu)
1.	2020–21	₹9.45 lakh crore	₹8.69 lakh crore	₹61,122 crore
2.	2022–23	₹10.44 lakh crore	₹9.11 lakh crore	₹1,07,064 crore
3.	2023–24	₹10.44 lakh crore (+25%)	₹9.11 lakh crore (+10.3%)	—

Source: *Central Board of Direct Taxes (CBDT, 2023–24).*

The table- 9, highlights how personal income tax has grown much faster than corporate tax, showing a rising dependence on middle-class taxpayers. At the national level, PIT collections increased from ₹9.45 lakh crore in 2020–21 to ₹10.44 lakh crore in 2022–23, a sharp

25% growth in 2023–24, while corporate tax grew only modestly from ₹8.69 lakh crore to ₹9.11 lakh crore. In Tamil Nadu, direct-tax collections almost doubled from ₹61,122 crore to ₹1,07,064 crore in just two years, reflecting the increasing financial burden on salaried families and its impact on disposable income, savings, and living standards. To protect the livelihoods and living standards of Tamil Nadu's middle-class households, especially government and semi-government employees, targeted reforms in personal income tax are essential. Policymakers should consider raising exemption limits, revising tax slabs to reflect inflation, and expanding deductions for housing, education, and healthcare. Introducing state-specific reliefs, such as rebates for salaried taxpayers in Tamil Nadu, can further reduce the burden. Additionally, offering incentives for savings and investments would strengthen household financial security. These measures would not only ease pressure on families but also stimulate domestic demand and inclusive economic growth in the state.

Conclusion

The recent evolution of Tamil Nadu's personal income tax system reflects a strategic shift towards a more progressive and equitable fiscal framework, aligned with broader national policies. The significant increase in tax revenue, driven largely by rising compliance and economic growth, has resulted in a larger contribution from high-income earners, easing the burden on the middle class. Notably, reforms such as raising exemption limits, introducing standard deductions, and simplifying tax slabs have provided immediate relief to middle-income households, enhancing their disposable income and fostering greater consumer spending. These measures support economic growth while aiming to reduce income inequality, as evidenced by the decreasing Gini coefficient and increased participation of higher earners in tax payments.

However, despite these positive developments, challenges persist. Many middle- and lower-income families continue to grapple with stagnant incomes, inflation, and rising living costs, which tax reforms alone cannot fully address. The shift towards taxing businesses more heavily and the increasing reliance on personal income tax may also pose risks of overburdening middle-income earners, potentially dampening consumption and economic dynamism in the long term. Furthermore, the rising tax burden on government, NGO, and private sector employees highlights the need for targeted relief measures and balanced policies to sustain workforce morale and economic stability. In conclusion, Tamil Nadu's tax reforms demonstrate a commendable effort to create a fairer tax system that promotes growth and social equity. To maximize these benefits, ongoing policy adjustments should focus on supporting income growth for lower-income groups, maintaining fiscal discipline, and ensuring that tax policies remain inclusive and sustainable. Such a balanced approach will be vital for fostering sustained economic prosperity and social harmony in the state.

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