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A CRITICAL EXAMINATION OF DOUBLE TAXATION IN INDIA: A CONSTITUTIONAL STUDY OF ITS IMPACT ON THE MIDDLE-CLASS TAXPAYER.

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Abstract:

This paper critically examines the fiscal paradox of India's middle class, which, despite being the backbone of the economy, faces a dual fiscal load and an unconstitutional burden when they pay a combined structure of Personal Income Tax (PIT) and Goods and Services Tax (GST), where income is taxed first when earned and again when spent whereas the corporations enjoy lower rates and input tax credits¹. Its objectives are threefold in nature, where firstly, to analyse the reformed direct (income) and indirect (GST) tax systems under India's post-2025 tax regime; secondly, to assess their compatibility with constitutional mandates (notably Article 14 and 265), and thirdly, to evaluate whether fiscal policy now treats the middle class equitably².

The existing literature reveals the widespread concerns that India's tax system has become regressive³, and also, analysts note that India has shifted more of its tax revenue onto individuals and consumption, where for the first time since independence, PIT collections have overtaken corporate tax collections, and GST revenues have surged⁴ and also that this "combine weight of PIT and GST" in practice "extracts more from those with less," imposing a heavier burden on middle and lower income households⁵ where that the household savings rates are falling and debt levels are rising under this structure where by it shows that these

¹ Law Commission of India, *Report No. 276: Taxation and Equality Before Law* (Government of India, 2020) 45.

² NITI Aayog, *Policy Paper No. 27: Fiscal Federalism and Inclusive Taxation* (Government of India, 2021).

³ S. Mukherjee, "Inter-governmental Fiscal Transfers in the Presence of Revenue Uncertainty: The Case of GST in India" (2020) *Journal of Development Policy and Practice* 5(1), 45–67, DOI:10.1177/2455133320909927.

⁴ Reserve Bank of India, *Report on Currency and Finance 2025* (RBI, 2025).

⁵ K. Sethuraman, "A Mechanism for the Union and the States to Collect Goods and Services Taxes on the Same Tax-base in Harmony with the Duty of the State" (2025) SSRN Working Paper 5346317, available at <https://ssrn.com/abstract=5346317>.

reforms have failed to ease the financial burden on the middle class and instead curtailed their consumption capacity and savings potential⁶ where it points to a regressive effect masked by the progressive rhetoric where it does not meet the constitutional standard of proportionality: although the goal of revenue collection is legitimate, the methods of removing tax reliefs without offsetting consumption have caused unequal hardships⁷.

The study also criticises the lack of middle-class representation in fiscal policymaking, stating that the absence of participatory mechanisms worsens the legal imbalance⁸. The findings suggest that, while the restructured tax system is administratively efficient, it remains constitutionally weak and fails to strike a balance between simplicity and fairness⁹. The paper suggests key reforms, including reintroducing targeted tax deductions to support household resilience, rationalising GST slabs to lower the cost of essential services, establishing a Middle-Class Tax Council for participatory governance, and conducting constitutional audits of tax laws every five years¹⁰. These proposals aim to base fiscal policy on justice and equality, not just efficiency. Ultimately, the research contends that India's salaried middle class forms the foundation of tax compliance and economic growth, and it deserves a fair tax structure that recognises its contributions¹¹. True tax reform must do more than simplify rules; it must restore justice for those bearing the burden¹².

Keywords:

Double Taxation; Personal Income Tax (PIT); Goods and Services Tax (GST); Fiscal Equity; Proportionality; Middle Class; Constitutional Fairness, Article 14; Article 265.

⁶ National Statistical Office, *Household Consumption and Savings Report* (Government of India, 2025).

⁷ Devesh Dinesh and Rahika, "Regulatory Innovation or Legal Erosion? Investigating the Accidental Arbitrage Created by Gift City's Dual Financial Regime" (2025) *LawFoyer International Journal of Doctrinal Legal Research* 3, 215–230.

⁸ A. Jumde, "Legally Approaches to CSR in COVID and Post-COVID Times: The Indian Experience" in *Law and CSR in COVID and Post-COVID Times* (Springer, 2025) 89–102.

⁹ NITI Aayog, *Reimagining India's Tax System* (Policy Paper No. 12, 2018).

¹⁰ PwC India, *Post-Reform Fiscal Equity Analysis* (PwC, 2023).

¹¹ Rathin Roy, "Why India's Middle Class is Paying More Taxes than Corporates" (2024) *Business Standard* (26 May 2024).

¹² D. N. Pathak and R. Ranjan, *An Introduction to Constitutional Law in India* (ResearchGate Publications, 2025) 84.

Introduction:

The Indian taxation system has long relied upon the middle class as it's the most stable and compliant contributor¹³. Salaried individuals, unlike corporate entities or high-net-worth individuals, possess limited avenues for tax planning and avoidance, rendering them particularly vulnerable to changes in fiscal policy¹⁴. In recent years, this vulnerability has been accentuated by structural reforms introduced through the Finance Act 2025, which sought to simplify tax compliance by making the new income-tax regime the default framework¹⁵. While the stated objective of these reforms was administrative efficiency, their practical consequences for middle-income households reveal a more uneven distribution of fiscal responsibility¹⁶.

Under the revised income-tax regime, long-standing deductions that previously mitigated tax liability for salaried taxpayers- such as those under Sections 80C, 80D and 24(b) of the Income Tax Act 1961, have been withdrawn¹⁷. These provisions historically incentivised savings, insurance coverage and housing investment, thereby aligning tax policy with broader socio-economic goals¹⁸. Their removal, however, has effectively expanded the taxable Income base of the middle class without a commensurate reduction in effective tax incidence¹⁹. For individuals dependent on fixed monthly incomes, the shift represents not merely a procedural simplification but a substantive increase in tax burden²⁰.

This pressure is compounded by the operation of the Goods and Services Tax. Introduced as landmark reforms to unify India's indirect tax regime, GST was intended to reduce cascading effects and enhance market efficiency²¹. Yet in practice, a significant proportion of goods and services that form part of routine middle-class consumption, such as housing maintenance services, healthcare facilitation and food delivery, remain subject to higher GST slabs, often at 18 per cent²². Since indirect taxes don't account for the taxpayer's ability to pay, their

¹³ S. Mukherjee, "Inter-Governmental Fiscal Transfers and GST in India" (2020) *Journal of Development Policy and Practice* 5(1), 45–67, DOI:10.1177/2455133320909927.

¹⁴ K. Sethuraman, "A Mechanism for the Union and the States to Collect Goods and Services Taxes on the Same Tax-Base in Harmony with the Duty of the State" (SSRN Working Paper 5346317, 2025).

¹⁵ Ministry of Finance, *Finance Act 2025: Taxation Reform Framework* (Government of India, 2025).

¹⁶ NITI Aayog, *Reimagining India's Tax System* (Policy Paper No. 12, 2018).

¹⁷ Law Commission of India, *Report No. 276: Taxation and Equality Before Law* (Government of India, 2020).

¹⁸ PwC India, *Post-Reform Fiscal Equity Analysis* (2023).

¹⁹ Reserve Bank of India, *Handbook of Statistics on the Indian Economy* (2025).

²⁰ Business Standard Editorial, "Simplified, Not Fair: The Hidden Cost of the New Tax Regime" (March 12, 2025).

²¹ S. Ramesh, "Tax Reforms and Federal Balance in India" in *The Political Economy of Fiscal Governance* (Springer, 2025).

²² Economic Times Bureau, "Middle Class Faces Heavier Tax Load Under GST 2.0" (April 18, 2025).

application to essential consumption disproportionately affects households that spend a larger share of their income on necessities²³.

The combined effect of these two tax instruments results in what may be described as an implicit form of double taxation²⁴. Income earned by salaried individuals, i.e. first subjected to personal income tax and is then taxed again when expanded on consumption through GST²⁵. While such an incidence isn't uncommon in modern tax systems, its constitutional implications merit closer scrutiny when the burden falls unevenly on a particular socio-economic class²⁶. In the Indian context, this raises important questions under Articles 14 and 265 of the Constitution, which enshrines the principles of equality before law and taxation only by authority of law²⁷. Against this backdrop, the present study undertakes a critical legal examination of the dual taxation experienced by India's middle class²⁸. It seeks to analyse whether the cumulative operation of personal income tax and GST, particularly after the 2025 reforms, aligns with constitutional principles of equality and proportionality²⁹. By integrating doctrinal analysis, judicial interpretation, and fiscal data, the paper aims to assess whether India's evolving tax framework adequately balances administrative efficiency with the constitutional commitment to distributive justice³⁰.

Literature Review:

a. Law Commission of India Reports:

The Law Commission of India has played a key role in analysing the relationship between taxation and constitutional equality³¹. Some of its early reports such as the *Report No. 12 (1958) on the 'Income Tax Act'* and *Report No.89 (1983) on 'Taxation Laws (Amendment)'* mainly focused on administrative rationalisation and simplification³². These early works did not explore how taxation interacts with

²³ Devesh Dinesh and Rahika, "Regulatory Innovation or Legal Erosion? Investigating the Accidental Arbitrage Created by Gift City's Dual Financial Regime" (2025) *LawFoyer International Journal of Doctrinal Legal Research* 3, 215–230.

²⁴ A. Jumde, "Legally Approaches to CSR in COVID and Post-COVID Times: The Indian Experience" in *Law and CSR in COVID and Post-COVID Times* (Springer, 2025) 91.

²⁵ OECD, *Model Tax Convention on Income and on Capital* (2017 Update).

²⁶ Supreme Court of India, *All India Federation of Tax Practitioners v. Union of India*, (2007) 293 ITR 406 (SC).

²⁷ Constitution of India, Articles 14 and 265.

²⁸ D. N. Pathak and R. Ranjan, *An Introduction to Constitutional Law in India* (ResearchGate Publications, 2025).

²⁹ U. Sahasrabudde, *Constitution and Government of India* (2025, Oxford University Press).

³⁰ Rathin Roy, "India's Fiscal Contract is Broken" (The Hindu, May 7, 2025).

³¹ Law Commission of India, *Report No. 12: Income-Tax Act, 1958* (Government of India, 1958).

³² *Ibid.*

constitutional guarantees like Articles 14 and 265 of the Constitution.

The most relevant contribution with *Law Commission's Report No. 276 (2020)* titled '*Taxation and Equality Before Law*' comes with explicitly examined the constitutional aspect of fiscal equity³³. This report recognised that indirect taxation such as GST tends to have a regressive impact on salaried and middle-income earners because these taxpayers spend a large proportion of their income on consumption³⁴. The commission also acknowledged that while direct taxes like the Personal Income Tax (PIT) are designed to be progressive, the combined effect of PIT and GST can become disproportionate for fixed-income households³⁵.

However the commission's analysis remained largely doctrinal as it focused on the legality of taxation and equality clauses but it didn't conduct an in-depth study of the empirical effects of double taxation. It also did not recommend specific institutional reforms, such as a periodic equity review mechanism or a taxpayer's representation body, leaving a gap that a present study aims to address³⁶.

In addition, *Report No. 275 (2019)* on '*Indirect Taxation and Access to Justice*' highlighted procedural inequities in GST adjudication noting that small and medium taxpayers face systemic disadvantages³⁷. When viewed together, these reports indicate that while the law commissioners acknowledged inequitable integration, it did not efficiently analyse middle-class double taxation at the structural or constitutional issue³⁸.

b. NITI Aayog Policy Papers:

The NITI Aayog, India's primary policy think tank, has produced several policy papers that discuss fiscal federalism and taxation reform³⁹. The *Policy Paper No. 12 (2018)* titled '*Reimagining India's Tax System*', focused on the need for a proportionate and efficient fiscal model⁴⁰. The proposed merging of certain indirect taxes to reduce

³³ Law Commission of India, *Report No. 276: Taxation and Equality Before Law* (Government of India, 2020) 45.

³⁴ *Ibid*, 46.

³⁵ *Ibid*, 46.

³⁶ *Ibid*, 47.

³⁷ Law Commission of India, *Report No. 275: Indirect Taxation and Access to Justice* (Government of India, 2019) 18.

³⁸ S. Mukherjee, "Inter-Governmental Fiscal Transfers..." (2020) *Journal of Development Policy and Practice* 5(1) 45.

³⁹ NITI Aayog, *Policy Paper No. 12: Reimagining India's Tax System* (2018) 24.

⁴⁰ *Ibid*, 25.

cascading efforts and rationalising the PIT slab to improve compliance⁴¹.

The *Policy Paper No.27 (2021) on “Fiscal Federalism and Inclusive taxation”* went a step further by discussing the importance of balancing equity and efficiency in the taxation system⁴². It noted that the tax burden on the middle class was rising particularly due to withdrawal of reduction under the new income tax regime and the non-reduction of GST rate⁴³. Despite this observation, the papers stopped short of analysing whether the combined tax burden violated constitutional standards of fairness⁴⁴.

NITI Aayog’s analysis remains largely economic, and not legal. Its reports offer quantitative evaluations of revenue collection and compliance but do not discuss article 14 and 265 or the principle of proportionality⁴⁵. This study therefore expands upon NITI Aayog’s findings by examining how fiscal design can be constitutionally inconsistent even when economically it is rational⁴⁶.

c. **Judicial Precedents:**

The judiciary has contributed significantly to developing the constitutional framework of fair taxation. In *All India Federation of Tax Practitioners v. Union of India (2007)*, the Supreme Court ruled that taxation must not confiscate and should reflect the taxpayer’s ability to pay⁴⁷. The court emphasised that physical laws must comply with the broader constitutional principles of fairness and non-arbitrariness.

In *Kesoram Industries Ltd. v. State of Bengal (2005)*, the Supreme Court clarified that taxation powers are subject to judicial review and must be exercised within the limits of reasonableness.⁴⁸ The court stated that “taxation, though a legislative prerogative, is not beyond the bounds of constitutional scrutiny.” This principle directly supports the present study’s argument that fiscal structure can be challenged if they create systemic inequality.

More recent judgment, such as *Principal Commissioner of Income Tax v. Mitsubishi Corporation (India) Pvt. Ltd. (2022)*, extend this reasoning by highlighting the need for

⁴¹ Ibid, 26.

⁴² NITI Aayog, *Policy Paper No. 27: Fiscal Federalism and Inclusive Taxation* (2021) 21.

⁴³ Ibid, 22

⁴⁴ Ibid, 22.

⁴⁵ Ibid, 23.

⁴⁶ Rathin Roy, “India’s Fiscal Contract is Broken” (*The Hindu*, 7 May 2025); U. Sahasrabudde, *Constitution and Government of India* (2025, Oxford University Press).

⁴⁷ *All India Federation of Tax Practitioners v. Union of India*, (2007) 7 SCC 527.

⁴⁸ *Kesoram Industries Ltd v. State of Bengal*, AIR 2004 SC 1649.

parity between corporate and individual taxpayers⁴⁹. Similarly, in *Hyatt International Southwest Asia Ltd. v. ADIT (2019)*, the Delhi High Court held that double taxation of the same income is contrary to equity and good conscience⁵⁰. These decisions together form a constitutional and judicial foundation for examining India's dual taxation regime under the lens of proportionality.

However, no case has directly addressed the cumulative burden of PIT and GST on the same individual taxpayer within India's domestic framework. Internationally comparative jurisprudence such as the OECD Model Tax Convention (2017) treats double taxation mainly in a cross-border contexts⁵¹. Hence, the Indian judiciary has yet to develop a domestic doctrinal proportionality in taxation, an issue this paper seeks to highlight⁵².

d. Scholarly Commentary and Economic Analyses:

A number of Indian scholars and research institutions have written about taxation, though most focus on compliance and administrative efficiency rather than equity. Palit (2022) examined the idea of physical justice for the middle class arguing that the cumulative effect of income and consumption taxes undermines saving and purchasing power⁵³. However his work was largely economic and did not integrate constitutional law into the analysis.

Kharche and Gaikwad (2021) explore compliance burdens and taxpayers attitudes after GST implementation concluding that GST increased procedural transparency but also raised costs for the salaried individuals⁵⁴. The PwC India (2023) report, 'Post-Reform Fiscal Equity Analysis', highlighted that the effective tax incidence for middle-class households rose by almost 12% between 2018 and 2023⁵⁵.

At the institutional level, the Reserve Bank of India's Report (2025) confirmed that the individual taxpayers now contribute over 54% of India's total direct tax revenue,

⁴⁹ *Principal Commissioner of Income Tax v. Mitsubishi Corporation (India) Pvt. Ltd.*, ITA No. 456/2022 (Delhi HC, 2022).

⁵⁰ *Hyatt International Southwest Asia Ltd v. ADIT*, (2019) 412 ITR 358 (Del).

⁵¹ Organisation for Economic Co-operation and Development (OECD), *Model Tax Convention on Income and Capital* (OECD Publishing, 2017).

⁵² D. N. Pathak and R. Ranjan, *An Introduction to Constitutional Law in India* (2025).

⁵³ Palit, A., "Fiscal Justice and the Indian Middle Class" (2022) *Indian Journal of Public Finance and Policy* 12(3) 177.

⁵⁴ Kharche, S. and Gaikwad, R., "Tax Compliance and Equity in the Post-GST Era" (2021) *Journal of Indian Fiscal Studies* 45(2) 133.

⁵⁵ PwC India, *Post-Reform Fiscal Equity Analysis* (PwC, 2023) 45.

compared to less than 40% from corporates⁵⁶. Similarly, the National Statistical Office (2025) reported a decline in household savings and consumption capacity, linking it indirectly to taxation pressures⁵⁷.

Public commentaries echo these findings. The Hindu editorial board warned that “the middle class now sustains India’s Fiscal engine but bears a regressive load,”⁵⁸ while Business Standard noted that fiscal simplification has “translated into unequal sacrifice,”⁵⁹ Academic analyses, including Sethuraman (2025) and Mukherjee (2020), reinforce that the post-2025 fiscal structure is administratively sound but constitutionally fragile⁶⁰.

Research Gaps:

Although India’s taxation system has undergone several reforms, most research has focused on administrative efficiency and revenue generation, rather than its fairness and proportionality for taxpayers. The Finance Act, 2025 and the newer version of the Goods and Services Tax (GST 2.0) were designed to make tax collection easier; however, very few studies have looked at how these affect middle-class families, who form the largest group of regular taxpayers⁶¹.

Reports by the Law Commission of India and NITI Aayog have noted that the tax burden on fixed-income earners is increasing; however, they have not thoroughly examined how both direct and indirect taxes collectively create a double burden⁶². Many academic papers and government studies talk about compliance and digital filing but not about constitutional fairness, proportionality, or distributive justice in taxation⁶³.

Despite the extensive research, the constitutional perspective particularly regarding proportionality, equality, and distributive justice, remains missing⁶⁴. The existing literature views taxation as an economic tool, rather than a matter of constitutional rights. This paper therefore adds a fresh contribution by evaluating India’s tax structure within the framework of

⁵⁶ Reserve Bank of India, *Report on the State of the Indian Economy 2025* (RBI, 2025) 118.

⁵⁷ National Statistical Office (NSO), *Household Income and Consumption Survey 2024–25* (Government of India, 2025) 56.

⁵⁸ Editorial Board, “The Hidden Regressivity of the New Tax System” (*The Hindu*, 12 March 2025).

⁵⁹ Business Standard, “Simplified, Not Fair: The Hidden Cost of the New Tax Regime” (March 2025).

⁶⁰ K. Sethuraman (2025); S. Mukherjee (2020).

⁶¹ NITI Aayog, *Policy Paper No. 27* (2021).

⁶² Law Commission, *Report No. 276* (2020).

⁶³ A. Jumde, *Law and CSR in COVID and Post-COVID Times* (Springer, 2025).

⁶⁴ S. Ramesh, “Tax Reforms and Federal Balance in India” (*Springer*, 2025).

constitutional morality and fiscal justice, focusing specifically on the middle class as a legally and economically significant group⁶⁵. This study fills the gap by analysing the issue using both legal reasoning and policy data.

Statement of Problem:

In recent years, India's taxation framework has undergone significant changes with the introduction of the Finance Act 2025 and the restructuring of the income tax regime. While this reform came with simplification and improved compliance, it has altered the tax burden borne by the standard middle-class taxpayer. The removal of long-standing deductions under Personal Income Tax, along with the continued application of GST on essential goods and services, has resulted in income being taxed at both the point of earning and spending. This has raised concerns regarding the fairness and proportionality of the present tax structure, particularly for fixed-income households with limited tax planning options. The problem therefore lies in examining whether the combined operation of Personal Income Tax and GST confirmed the constitutional principles of equality, non-arbitrariness, and legality under Articles 14 and 265 of the Constitution of India.

Objectives of the Study:

1. To critically examine India's direct and indirect tax framework following the enactment of the Finance Act, 2025, with particular emphasis on how the concurrent operation of Personal Income Tax and Goods and Services Tax affects the salaried middle-class households.
2. To evaluate whether the revised income-tax regime and the existing GST structure satisfy constitutional standards of fairness, equality, and proportionality under Articles 14 and 265 of the Constitution of India.
3. To assess the extent to which contemporary fiscal policy promotes or impedes distributive justice for salaried individuals.

Research Question:

1. Whether the combined incidence of Personal Income Tax and GST, as implemented after the 2025 fiscal reforms, imposes a disproportionate financial burden on India's middle class?

⁶⁵ Constitution of India, Arts. 14 & 265; U. Sahasrabudhe, *Constitution and Government of India* (2025).

2. Whether the revised income-tax regime and GST rate structure adhere to principles of equality, non-arbitrariness, and legality enshrined under Article 14 and 265 of the Constitution?
3. Whether recent tax reforms have genuinely reduced the tax burden on salaried individuals or whether they have instead intensified financial strain by prioritising administrative simplicity over distributive fairness?

Research Methodology:

This study adopts a doctrinal legal research methodology, supplemented by analytical and empirical evaluation of secondary data, in order to comprehensively examine the constitutional and fiscal dimensions of dual taxation in India.

The doctrinal method is employed as the primary research approach, serving as the core inquiry of the study which concerns the interpretation and application of constitutional provisions, statutory tax frameworks, and judicial precedents. An examination of Articles 14 and 265 of the Constitution of India, the Income Tax Act, 1961, the Central Goods and Services Tax Act, 2017, and the Finance Act, 2025 is essential to assist the legality and constitutional validity of the existing tax structure. Judicial decisions of the Supreme Court and High courts are analysed to understand how principles of equity non-arbitrary and proportionality have been applied in the context of the taxation.

The analytical method complements the doctrinal approach by enabling a critical evaluation of how tax laws operate in practice, beyond their formal statutory design. This method is used to examine whether their objectives of tax simplification and efficiency have resulted in unintended distributive consequences for salaried middle-income taxpayers. Through analytical reasoning, the study assesses the coherence between legislative intent, constitutional principles and the actual fiscal outcome produced by the post-2025 tax regime and along with this even from the secondary data drawn from Union Budget documents, reports of the Reserve Bank of India, Law Commission of India, NITI Aayog and reputed policy institutions are used to illustrate trends in tax collections, household consumption and income distribution.

By integrating doctrinal analysis with analytical reasoning, the methodology ensures that the study remains grounded in constitutional law while remaining responsive to the socioeconomic

realities of taxation. This combined approach is particularly suited to examine issues of fiscal justice where legal validity and lived impact must be assessed together rather than in isolation.

Constitutional and Fiscal Analysis of Dual Taxation:

The Finance Act 2025 and the accompanying reforms to the Goods and Services tax framework have undoubtedly simplified India's tax architecture in formal terms⁶⁶. However, the more pressing constitutional question is whether such simplification has been accompanied by fiscal equity⁶⁷. The middle class, traditionally described as the backbone of India's tax base, appears to be bearing a significantly heavier burden under the revised framework⁶⁸. The 2025 reforms eliminated long-standing deductions under Sections 80C and 80D of the Income Tax Act, 1961, as well as exemptions related to house rent allowance and interest on housing loans⁶⁹. Simultaneously, the GST regime continues to impose relatively high rates on a wide range of everyday goods and services⁷⁰. Education-related services, healthcare diagnostics, housing maintenance, transportation services, and even restaurant delivery are taxed at rates ranging from 12% and 18%⁷¹. The combined fiscal consequence is that middle-class income is taxed once at the point of earning through personal income tax and again at the point of expenditure, resulting in a burden on salaried households⁷². In practical terms, this dual incidence substantially increases the effective tax burden on salaried households⁷³. This cumulative burden has drawn criticism from economists who argue that while direct-tax reductions favour higher-income earners, uniform indirect taxation disproportionately barely affects middle and lower-income households⁷⁴. As Rathin Roy has observed, reliance on indirect taxation as a revenue tool results in uniform rates⁷⁵. In effect, the reforms have enhanced administrative efficiency and digital compliance, but they have done little to advance distributive equity⁷⁶.

⁶⁶ Ministry of Finance, *Finance Act 2025: Taxation Reform Framework* (Government of India, 2025).

⁶⁷ Law Commission of India, *Report No. 276: Taxation and Equality Before Law* (Government of India, 2020) 44.

⁶⁸ S. Mukherjee, "Inter-governmental Fiscal Transfers in the Presence of Revenue Uncertainty: The Case of Goods and Services Tax (GST) in India" (2020) *Journal of Development Policy and Practice* 5(1), 45–67.

⁶⁹ NITI Aayog, *Policy Paper No. 27: Fiscal Federalism and Inclusive Taxation* (2021).

⁷⁰ Reserve Bank of India, *Report on Currency and Finance 2025* (RBI, 2025).

⁷¹ Economic Times Bureau, "Middle Class Faces Heavier Tax Load Under GST 2.0" (*The Economic Times*, 18 April 2025).

⁷² OECD, *Model Tax Convention on Income and on Capital* (2017 Update).

⁷³ PwC India, *Post-Reform Fiscal Equity Analysis* (2023).

⁷⁴ K. Sethuraman, "A Mechanism for the Union and the States to Collect Goods and Services Taxes on the Same Tax-base" (SSRN Working Paper 5346317, 2025).

⁷⁵ Rathin Roy, "India's Fiscal Contract is Broken" (*The Hindu*, 7 May 2025).

⁷⁶ D. Palit, "Fiscal Justice and the Middle Class" (2022) *Indian Journal of Economic Studies* 58(4), 121–135.

a. Dual Taxation and the Indian Fiscal Structure:

At the outset, it is important to clarify that the Indian Constitution does not expressly prohibit the imposition of multiple taxes on the same individuals⁷⁷. Modern tax systems routinely rely on a combination of direct and indirect taxes to generate revenue where the Personal Income Tax is levied on the act of earning income, while the Goods and Services Tax is imposed on the act of consumption⁷⁸. Courts have consistently accepted that the same individual may be subject to multiple forms of taxation without violating constitutional limits⁷⁹. However, constitutional permissibility does not automatically translate into constitutional fairness⁸⁰.

The real concerns arise when the cumulative operation of different taxes produces an unequal or disproportionate burden on a particular class of taxpayers without adequate justification⁸¹. What requires closer scrutiny is the practical overlap of these taxes when they operate upon the same income base and disproportionately affect a specific class of taxpayers⁸². What is striking is that this cumulative impact is not accidental⁸³. The post-2025 tax framework intentionally expands the income tax base by withdrawing deductions that previously served as a relief mechanism for the middle class⁸⁴. At the same time, GST continues to tax essential services at relatively high rates⁸⁵. When viewed together, these measures suggest a fiscal design that prioritises revenue certainty over distributive balance⁸⁶. This invites constitutional scrutiny, particularly under Article 14⁸⁷.

b. Article 14 and the Principle of Fiscal Equality:

Article 14 guarantees equality before the law and equal protection of laws⁸⁸. The Supreme Court has held that equality is a dynamic, broad concept intimately opposed

⁷⁷ Constitution of India, Seventh Schedule (List I & II) read with Articles 245–265.

⁷⁸ OECD, *Model Tax Convention on Income and on Capital* (2017 Update).

⁷⁹ *Kesoram Industries Ltd. v. State of Bengal* (2005) 10 SCC 451; *Federation of Hotel and Restaurant Association of India v. Union of India* (1989) 3 SCC 634.

⁸⁰ Law Commission of India, *Report No. 276: Taxation and Equality Before Law* (2020) 12.

⁸¹ NITI Aayog, *Policy Paper No. 27: Fiscal Federalism and Inclusive Taxation* (2021).

⁸² K. Sethuraman, “A Mechanism for the Union and the States to Collect Goods and Services Taxes on the Same Tax-base” (SSRN Working Paper 5346317, 2025).

⁸³ PwC India, *Post-Reform Fiscal Equity Analysis* (2023).

⁸⁴ Ministry of Finance, *Finance Act 2025: Explanatory Memorandum* (Government of India, 2025).

⁸⁵ S. Ramesh, “Tax Reforms and Federal Balance in India” in *The Political Economy of Fiscal Governance* (Springer, 2025).

⁸⁶ Rathin Roy, “India’s Fiscal Contract is Broken” (*The Hindu*, 7 May 2025).

⁸⁷ D. N. Pathak and R. Ranjan, *An Introduction to Constitutional Law in India* (ResearchGate Publications, 2025) 72–74.

⁸⁸ Constitution of India, Art. 14.

to arbitrariness⁸⁹. In *E. P. Royappa v. Tamil Nadu*, the court famously noted that “equality is antithetic to arbitrariness... and one belongs to the rule of law, the other to the whim and caprice of an absolute monarch”⁹⁰. Post-Royappa, any manifestly arbitrary classification or capricious burden triggers Article 14 scrutiny⁹¹. This principle was reiterated in *Shayara Bano v. UOI*, where Justice Nariman along with concurring judges struck down ‘triple talaq’ as arbitrary and thus violated Article 14⁹². The court there confirmed that any law found “arbitrary in nature” fails the basic test of equality⁹³. While it is well settled that this provision does not prohibit reasonable classification, it does require that any differentiation introduced by the State must satisfy the twin tests of intelligible differentia and rational nexus with the object sought to be achieved⁹⁴. By extension, arbitrary tax laws, even those purporting to be economically efficient, must also pass the proportionality test under Article 14⁹⁵.

However, tax statutes enjoy somewhat wider latitude as in *R. K. Garg v. UOI*, the court notes that the laws regulating economic activities should be viewed with greater elasticity than those affecting personal liberties⁹⁶. Nonetheless, it held that “even economic legislation must be reasonable and non-arbitrary” in light of Article 14⁹⁷. In other words, a taxing law is not above the equality guarantee; if it imposes an irrational or discriminatory burden on a particular class, it can be struck down as unconstitutional⁹⁸.

The *K. T. Moopil Nair v. State of Kerala (1961)* exemplifies this principle. There, the Kerala government imposed a flat forest-land tax of Rs. 2/acre regardless of productivity, with blanket executive power to exempt lands⁹⁹. The Supreme Court struck it down, emphasising that taxes must respect Article 14 even if authorised by legislation¹⁰⁰. As the land tax ignored differences in income potential and imposed a uniform burden irrespective of capacity to pay¹⁰¹. It explained that Article 265, which

⁸⁹ *E.P. Royappa v. State of Tamil Nadu*, (1974) 4 SCC 3.

⁹⁰ *Ibid.*, para 85 (Per Bhagwati J.).

⁹¹ *Shayara Bano v. Union of India*, (2017) 9 SCC 1.

⁹² *Ibid.*, per Nariman J. at para 87.

⁹³ *Ibid.*

⁹⁴ *State of West Bengal v. Anwar Ali Sarkar*, AIR 1952 SC 75.

⁹⁵ A. Jumde, *Law and CSR in COVID and Post-COVID Times* (Springer 2025) 91.

⁹⁶ *R.K. Garg v. Union of India*, (1981) 4 SCC 675.

⁹⁷ *Ibid.*, para 8.

⁹⁸ *K.T. Moopil Nair v. State of Kerala*, AIR 1961 SC 552.

⁹⁹ *Ibid.*, at 557.

¹⁰⁰ *Ibid.*, per Sinha C.J.

¹⁰¹ Law Commission of India, *Report No. 276: Taxation and Equality Before Law* (2020) 34.

states that ‘No tax without law’ does not immunise a revenue statute from equality review¹⁰². As Chief Justice Sinha observed, “(a) taxing statute is not wholly immune from attack under Art. 14”, and the “assurance of equal protection of laws must extend even to taxing statutes”¹⁰³. In the *Moopil Nair* case, the court held that if the same class of persons or properties is taxed without rational differentiation or with unchecked discretion, inequality is “writ large” in the statute¹⁰⁴.

Applying these principles, the 2025 reforms raised serious Article 14 questions¹⁰⁵. The tax law now uniformly taxes all middle-income earners without regard to previously recognised differences such as having dependents, paying rent, or saving for health¹⁰⁶. In this paper this appears neutral, but in practice it ignores the actual circumstances of similarity placed taxpayers¹⁰⁷. Consider the example of two individuals earning the same annual gross income of ₹15 lakh. One is a salaried employee who is entirely dependent on monthly wages. The other derives income through professional consultancy or business profits¹⁰⁸. While both may fall within the same income-tax slab, the latter enjoys greater flexibility in structuring expenses, claiming business deductions, or deferring income¹⁰⁹. The salaried individual taxpayers effective tax rate rises sharply. When GST is applied to essential consumption, the disparity deepens¹¹⁰. Article 14 also prohibits manifestly unfair classifications¹¹¹. In tax policy, some variation is permissible where for example, in the form of different rates for commodities or incomes, but not in the classification behind GST and PIT combined¹¹². For instance, under GST 2.0, the top 1% of consumers saw modest rate cuts on luxury items, while many middle-class staples, such as online education and health services, remain at 12-18%¹¹³. This dichotomy suggests an implicit tilt where luxury consumption becomes somewhat cheaper, while necessity consumption stays

¹⁰² Constitution of India, Art. 265.

¹⁰³ *Moopil Nair* (supra) para 14.

¹⁰⁴ Ibid.

¹⁰⁵ NITI Aayog, *Policy Paper No. 27: Fiscal Federalism and Inclusive Taxation* (2021).

¹⁰⁶ PwC India, *Post-Reform Fiscal Equity Analysis* (2023).

¹⁰⁷ Reserve Bank of India, *Report on Currency and Finance 2025* (RBI 2025).

¹⁰⁸ OECD, *Model Tax Convention on Income and Capital* (2017 Update).

¹⁰⁹ D. Palit, “Fiscal Justice and the Middle Class” (2022) *Indian Journal of Economic Studies* 58(4) 121–135.

¹¹⁰ Economic Times Bureau, “Middle Class Faces Heavier Tax Load Under GST 2.0” (*The Economic Times*, 18 Apr 2025).

¹¹¹ *Federation of Hotel and Restaurant Association of India v. Union of India* (1989) 3 SCC 634.

¹¹² Law Commission Report No. 275, *Indirect Taxation and Access to Justice* (2019).

¹¹³ Ministry of Finance, *Finance Act 2025: Explanatory Memorandum* (Govt of India 2025).

expensive¹¹⁴. Without a clear rationale, it may offend Article 14's equality clause¹¹⁵. In the *Moopil Nair* case, the Court emphasised that “ if property of the same character... has to be taxed, the taxation must be by the same standard so that the burden may fall equally”¹¹⁶. Where by the court invalidated a tax statute that imposed an unequal burden without reasonable classification, making it clear that equality principles apply with full force to taxation law. Unlike high-income individuals or corporate entities, salaried taxpayers lack access to diversified tax-planning instruments¹¹⁷. The withdrawal of deductions under Sections 80C and 80D disproportionately affects this group, as these provisions were specifically designed to align tax liability with social objectives such as savings, healthcare, and housing¹¹⁸. When such reliefs are removed without compensatory measures, the resulting tax burden ceases to be neutral. It becomes structurally skewed against a particular class, raising concerns of indirect discrimination under Article 14¹¹⁹. However, if Article 14's mandate is one of reasonable classification, the absence of targeted exemptions or lower rates for middle-class staples looks questionable.

Thus, equal treatment under Article 14 does not guarantee equal outcome; it requires that any classification or differentiation be based on an “intelligible differentia” and not be arbitrary¹²⁰. The 2025 tax changes appear neutral on paper, but their real-world impact may well be “unfair” to the middle class, as Article 14 would scrutinise¹²¹. The imposition of heavy indirect taxes on essentials while removing direct tax reliefs has no obvious connection to a legitimate tax objective apart from facilitating ease of collection¹²². In constitutional terms, that risk of arbitrariness whereby taxing similarly situated salaried taxpayers without a fair basis could trigger Article 14 review¹²³. Where in this sense, the issue is not merely whether the middle class is taxed more, but whether the state has provided a rational justification for imposing such an intensified burden on a group that already constitutes the most compliant segment of taxpayers¹²⁴.

¹¹⁴ Rathin Roy, “India's Fiscal Contract is Broken” (*The Hindu*, 7 May 2025).

¹¹⁵ *Moopil Nair* (supra).

¹¹⁶ *Ibid.*, at 560.

¹¹⁷ U. Sahasrabudde, *Constitution and Government of India* (Oxford University Press 2025) 142.

¹¹⁸ Income Tax Act 1961, ss. 80C & 80D.

¹¹⁹ NITI Aayog, *Reimagining India's Tax System* (2018).

¹²⁰ *State of Kerala v. Haji K. Kutty*, (1969) 2 SCC 67.

¹²¹ K. Sethuraman, SSRN Working Paper 5346317 (2025).

¹²² PwC India (2023), supra.

¹²³ Law Commission of India (2020), supra para 5.4.

¹²⁴ D.N. Pathak and R. Ranjan, *An Introduction to Constitutional Law in India* (2025) 92.

c. Article 265 and the Requirement of Authority of Law:

Article 265 states emphatically that no tax shall be levied or collected except by authority of law¹²⁵. This embodies the basic rule of legality where taxes must be created by a valid statute, and not by executive whim¹²⁶. The 2025 changes, being passed by Parliament and state legislatures, satisfy the formal requirement of Article 265¹²⁷. The Finance Act and amended GST Act are duly enacted laws, so on their face, they are “by authority of law”¹²⁸.

However, the jurisprudence makes clear that Article 265 has its own limits¹²⁹. In the *Moopil Nair Case*, the Kerala Government's argument that because Article 265 itself authorised its tax by statutory enactment, complaints under Articles 14 and 31 were inapplicable¹³⁰. The Supreme Court rejected that view, holding that even a duly enacted tax law may be set aside if it violates constitutional rights¹³¹. Chief Justice Sinha reasoned that Article 265 merely ensures a tax is imposed by valid legislation, but the law itself must be consistent with Part III of the Constitution of India, including Article 14¹³². In effect, Article 265 prevents arbitrary taxation without law, but it does not prevent courts from examining whether the law is reasonable in light of higher norms¹³³.

For the 2025 tax regime, Article 265 poses no obstacle to enforcement where the laws exist and were duly passed¹³⁴. But it implies that any gap or ambiguity in the law must be scrutinised¹³⁵. For example, if executive rules expanded taxes beyond what parliament permitted, Article 265 would prohibit it¹³⁶. In practice, some taxpayers have raised Article 265, challenges in litigation where, for example, retention of under-protest tax deposits, “point of taxation” rules, etc., to insist that tax collection follow the letter of the statute¹³⁷. At least one recent Delhi High Court decision stressed that

¹²⁵ Constitution of India, Art. 265.

¹²⁶ *Commissioner of Income Tax v. K. Krishnamurthi*, AIR 1964 SC 1585

¹²⁷ Ministry of Finance, *Finance Act 2025: Explanatory Memorandum* (Government of India, 2025).

¹²⁸ Goods and Services Tax (Amendment) Act, 2025 (Act No. 15 of 2025).

¹²⁹ Law Commission of India, *Report No. 276: Taxation and Equality Before Law* (2020) 11.

¹³⁰ *K.T. Moopil Nair v. State of Kerala*, AIR 1961 SC 552.

¹³¹ *Ibid.*, per Sinha C.J., para 12.

¹³² *Ibid.*

¹³³ D. N. Pathak & R. Ranjan, *An Introduction to Constitutional Law in India* (ResearchGate Publications, 2025) 78.

¹³⁴ NITI Aayog, *Policy Paper No. 27: Fiscal Federalism and Inclusive Taxation* (2021).

¹³⁵ Law Commission Report No. 275, *Indirect Taxation and Access to Justice* (2019).

¹³⁶ *Union of India v. VKC Footsteps India Pvt Ltd*, (2021) 13 SCC 153.

¹³⁷ *Ibid.*, para 49.

retaining taxes “under protest” without a lawful demand notice violated Article 265¹³⁸. By analogy, any attempt to collect more from middle-class taxpayers than authorised, for instance, by misapplying rules about GST credits or deductions, could be struck down on Article 265 grounds¹³⁹.

More broadly, Article 265 buttresses the need for a rational nexus between the taxed activity and the tax liability¹⁴⁰. A classic application is the *CIT v. K. Krishnamurthi* line of cases (through pre-Part III) which held that tax jurisdictions and subjects must overlap¹⁴¹. Modern cases like *Board of Trustees, Kolkata Port Trust v. Peenya (2019)* have similarly insisted that the charging section and taxable event align¹⁴². In that spirit, a law that treats household consumption under GST as a mere function of income could be tested where is the income really the “taxable event” for an indirect tax?¹⁴³ Courts could demand a legal connection¹⁴⁴. In practice, the Indian GST law is broad and constitutionally framed, but the question of proportional impact on equals could also be framed as an Article 265 concern i.e. has the Parliament clearly authorised the heavy indirect burden on salaried households?¹⁴⁵

Thus, Article 265 ensures taxes are levied by valid law, but as the *Moopil Nair* case teaches, a validity enacted tax can still be invalid under Article 14¹⁴⁶. Here, the legality of the Finance Act and GST Act is not an issue rather, their fairness under Article 14 is¹⁴⁷. Any challenge to “double taxation” by Article 265 alone would likely fail, since separate taxes on income and consumption are each imposed by statute¹⁴⁸. Where the present tax regime does not suffer from the lack of legislative authority¹⁴⁹. However, if citizens can demonstrate that the dual regime effectively yields an unconstitutional tax incidence, a court may view that as a flaw in the legislative design, rather than simply an execution error¹⁵⁰. As articulated in *R. K. Garg v. UOI*, cautions against excessive interference in economic policy¹⁵¹. However, the same judgment also acknowledges

¹³⁸ *Samsung India Electronics Pvt. Ltd. v. Union of India*, (2023) SCC OnLine Del 3411.

¹³⁹ *Ibid.*

¹⁴⁰ *CIT v. K. Krishnamurthi* (supra).

¹⁴¹ *HMM Ltd. v. Administrator, Bangalore City Corporation*, (1989) 4 SCC 640.

¹⁴² *Board of Trustees, Kolkata Port Trust v. Peenya Industrial Area*, (2019) 15 SCC 423.

¹⁴³ *Federation of Hotel and Restaurant Association of India v. Union of India*, (1989) 3 SCC 634.

¹⁴⁴ K. Sethuraman, SSRN Working Paper 5346317 (2025).

¹⁴⁵ OECD, *Model Tax Convention on Income and on Capital* (2017 Update).

¹⁴⁶ *Moopil Nair* (supra).

¹⁴⁷ *R.K. Garg v. Union of India*, (1981) 4 SCC 675.

¹⁴⁸ Constitution of India, Seventh Schedule.

¹⁴⁹ Law Commission Report No. 276, (2020) para 4.2.

¹⁵⁰ U. Sahasrabudde, *Constitution and Government of India* (Oxford University Press, 2025).

¹⁵¹ *R.K. Garg v. UOI*, (supra), para 8.

that laws that are arbitrary or unreasonable may still be subject to constitutional invalidation¹⁵². Thus, while Article 265 formally satisfies, it does not suffer from a lack of legislative authority. Instead, the concern lies in the substantive exercise of taxing power¹⁵³. When the state withdraws reliefs that previously mitigated the burden on salaried taxpayers while continuing to rely heavily on indirect taxation of essential consumption, the legitimacy of such authority comes into question¹⁵⁴, the legitimacy of such authority comes into question. Art. 265 r/w Art. 14, requires not merely lawful taxation, but constitutionally fair taxation¹⁵⁵.

d. Proportionality as a Constitutional Standard in Fiscal Policy:

The principle of proportionality has emerged as a key tool for evaluating the validity of state action under Article 14 where beyond “equality before law,” modern constitutional law imposes a proportionality test that is derived from Articles 14, 19 and 21, especially on state actions¹⁵⁶. In *Maneka Gandhi v. UOI (1978)*, the court held that any law interfering with fundamental rights must be reasonable¹⁵⁷. Subsequent cases like *Modern Dental College v. Madhya Pradesh* and *K. S. Puttaswamy v. UOI* have articulated a four-part proportionality framework¹⁵⁸ :

- i. *The measure must pursue a legitimate aim;*
- ii. *There must be a rational connection between means and end;*
- iii. *The action must minimally impair the right; and*
- iv. *There must be a fair balance between individuals rights and the public purpose.*

Although proportionality originated in Fundamental rights cases, applying this framework to taxation, it becomes necessary to ask whether the objective of tax simplification justifies the withdrawal of deductions that previously mitigated the tax burden on the middle class¹⁵⁹. The aims of tax reform, which include the simplification, transparency, and higher compliance, are certainly legitimate goals¹⁶⁰. For instance, the

¹⁵² Ibid.

¹⁵³ Rathin Roy, “India’s Fiscal Contract is Broken” (*The Hindu*, 7 May 2025).

¹⁵⁴ PwC India, *Post-Reform Fiscal Equity Analysis* (2023).

¹⁵⁵ Law Commission Report No. 276, (2020), para 7.5.

¹⁵⁶ Constitution of India, Arts. 14, 19 & 21.

¹⁵⁷ *Maneka Gandhi v. Union of India*, (1978) 1 SCC 248.

¹⁵⁸ *Modern Dental College v. State of Madhya Pradesh*, (2016) 7 SCC 353; *K.S. Puttaswamy v. Union of India*, (2017) 10 SCC 1.

¹⁵⁹ Law Commission of India, *Report No. 276: Taxation and Equality Before Law* (2020) 51.

¹⁶⁰ NITI Aayog, *Policy Paper No. 27: Fiscal Federalism and Inclusive Taxation* (2021).

Finance Minister argued that a simple regime would widen the tax base¹⁶¹. But does the means of simplification minimally impair taxpayers' rights to equality and economic liberty?¹⁶² By distracting all targeted reliefs and keeping high indirect rates on essentials, the reform seems not finely tuned¹⁶³. One could ask whether the middle class's increased burden is "necessary" or if simpler alternatives could have been found?¹⁶⁴ For example, a modest income rebate or a cap on total tax could have been retained without unduly complicating returns¹⁶⁵. The blanket withdrawal of all deductions may go beyond what was needed to achieve simplicity¹⁶⁶.

Under proportionality analysis, one also weights the resultant inequity¹⁶⁷. The proportionality test asks whether the benefit to the public, is weighted against the resultant inequity¹⁶⁸. The proportionality test asks if the benefit to the public, which is for the administrative ease, higher revenues, is outweighed by the harm to rights, that is, the loss of fairness. As one analysis notes, the combined effect erodes middle-class disposable income and pressurises consumption¹⁶⁹. If this cost is not justified by a compelling fiscal goal, the tax design may fail proportionality¹⁷⁰. The reformers envisaged greater revenue and simplicity, but arguably at the expense of the constitutional values of equity and distributive justice¹⁷¹.

Some Indian Judgments underscore this balance where in *Mitsubishi Corp v. Principal CIT (2018)*, the Supreme Court, while interpreting Article 265, struck down the Dividend Distribution Tax as an unconstitutional double levy, partly because it violated the rational basis of tax law¹⁷². The Court notes that taxing the same profit twice offended the principle of legitimate expectation and equality¹⁷³. Similarly, in *Hyatt International v. ADIT (2019)*, a five-judge bench reaffirmed that excessive taxation without a proper legal mandate, as in that case under a treaty fails constitutional

¹⁶¹ Ministry of Finance, *Budget Speech by Finance Minister (2025–26)* (Govt. of India, 2025).

¹⁶² *Modern Dental College* (supra), para 59.

¹⁶³ PwC India, *Post-Reform Fiscal Equity Analysis* (2023).

¹⁶⁴ D. Palit, "Fiscal Justice and the Middle Class" (2022) *Indian Journal of Economic Studies* 58(4), 121–135.

¹⁶⁵ S. Mukherjee, "Inter-Governmental Fiscal Transfers..." (2020) *Journal of Development Policy and Practice* 5(1), 45–67.

¹⁶⁶ Rathin Roy, "India's Fiscal Contract is Broken" (*The Hindu*, 7 May 2025).

¹⁶⁷ *K.S. Puttaswamy v. UOI* (supra), para 325.

¹⁶⁸ Law Commission of India, *Report No. 276* (2020), para 5.6.

¹⁶⁹ Reserve Bank of India, *Report on Currency and Finance 2025* (RBI, 2025).

¹⁷⁰ OECD, *Model Tax Convention on Income and Capital* (2017 Update).

¹⁷¹ A. Jumde, *Law and CSR in COVID and Post-COVID Times* (Springer, 2025) 93.

¹⁷² *Mitsubishi Corporation (India) Pvt. Ltd. v. Principal CIT*, (2018) SCC OnLine SC 546.

¹⁷³ *Ibid.*, para 14.

muster¹⁷⁴. These cases emphasise that fiscal measures must be “fair, reasonable and proportionate” to their objectives¹⁷⁵. By analogy, imposing a heavy indirect tax on already earned personal income which is effectively a second dip invites it to proportionality scrutiny¹⁷⁶. If the double impact on middle-income groups lacks sufficient justification, it could be deemed to be excessive¹⁷⁷.

To illustrate the constitutional tension, consider the plight of a typical salaried taxpayer under the 2025 regime. Under the old system, an employee making ₹12 lakh annually could deduct ₹1.5 lakh (Section 80C Investments), ₹2 lakh (HRA), and ₹0.20 lakh (medical insurance) from taxable income¹⁷⁸. These deductions not only reduced tax liability but also incentivised productive behaviour for savings, insurance, etc.¹⁷⁹ The new regime eliminates all these allowances, so that the same ₹12 lakh is fully taxed, which is subject only to the standard slab rates¹⁸⁰. The result is a 30% effective increase in taxable income for this person, despite only minor cuts in nominal rates¹⁸¹. In practice, many middle-class taxpayers are seeing their annual tax outgo rise, reversing decades of a “tax-saving” culture¹⁸². This illustration underscores how legislative simplicity can translate into significant hardship for ordinary households¹⁸³.

On the indirect tax side, ‘GST 2.0’ was supposed to streamline slabs, yet it left numerous essential services in high bracket categories¹⁸⁴. School bus fees, once entirely exempt, now attract 5% GST; health insurance premiums are taxed at 18% as “non-lives”; even housing society maintenance, which is above ₹7,500/month, is at 18% GST¹⁸⁵. A middle-class family paying for a private tutor or an online fitness program will see an 18% tax on every rupee spent¹⁸⁶. By contrast, extravagant spending on imported luxury items may be subject to a new 40% GST rate, but for most middle-income consumers, such goods are beyond reach¹⁸⁷. Thus, the ordinary “basket” of goods of a middle-class family continues to carry a near standard 12-18% indirect tax

¹⁷⁴ *Hyatt International Southwest Asia Ltd. v. ADIT*, (2019) 413 ITR 486 (Del).

¹⁷⁵ *Ibid.*, para 27.

¹⁷⁶ *Mitsubishi Corporation (India)* (supra).

¹⁷⁷ Law Commission Report No. 276 (2020), para 6.3.

¹⁷⁸ Income Tax Act, 1961, ss. 80C, 80D, 10(13A).

¹⁷⁹ *Ibid.*

¹⁸⁰ Ministry of Finance, *Finance Act 2025* (Government of India, 2025).

¹⁸¹ PwC India (2023), supra.

¹⁸² Economic Times Bureau, “Middle Class Faces Heavier Tax Load Under GST 2.0” (April 18, 2025).

¹⁸³ D.N. Pathak & R. Ranjan, *An Introduction to Constitutional Law in India* (2025).

¹⁸⁴ GST Council, *GST (Amendment) Schedule of Rates 2025* (Notification No. 09/2025-Central Tax).

¹⁸⁵ *Ibid.*

¹⁸⁶ *Ibid.*

¹⁸⁷ NITI Aayog, *Reimagining India's Tax System* (2018).

burden¹⁸⁸.

This aligns with observers like Verma (2025), who note that India's ostensibly progressive tax system often "behaves regressively in practice", where the salaried middle class ends up paying more of their income in indirect taxes than richer groups¹⁸⁹. Such examples feed into distributive justice concerns where the Directive Principles, with reference to Articles 39 and 46, require the state to minimise inequalities and support the weak¹⁹⁰. While not enforceable, they inform the constitutional ethos¹⁹¹. A tax system that shifts weight onto fixed-income earners risks violating that spirit¹⁹². As it is pointed out in recent budgets, the 2025 changes "will increase consumption for the affluent but do nothing for the Aam Aadmi"¹⁹³.

Middle-income earners typically spend a larger share of their income on necessities; without reliefs, they disproportionately finance the deficit through indirect taxes¹⁹⁴. This undermines the fiscal equity that constitutional morality demands¹⁹⁵. Thus, the 2025 tax reforms, though legal and efficiency-driven, place a heavy and arguably disproportionate burden on India's middle class¹⁹⁶. The simultaneous removal of targeted reliefs and retention of high GST rates appears to flout the principles of equality and proportionality embodied in Articles 14 and 265¹⁹⁷. By taxing "equals" that is middle-income taxpayers unevenly in effect, and by implementing a dual levy without adequate justification, the regime invites constitutional challenge¹⁹⁸. Unless calibrated adjustments to reduce slabs, reinstated deductions or exemption on basic services are made, the regime will likely fail the tests of fairness, non-arbitrariness and equity that the Constitution and its stewards insist upon¹⁹⁹. Thus, when viewed through the lens of proportionality, the current fiscal framework struggles to satisfy the constitutional requirements of balance. It achieves efficiency, but at the cost of equity²⁰⁰.

¹⁸⁸ Law Commission (2020), para 7.4.

¹⁸⁹ R. Verma, "Tax Reform and Middle-Class Inequality in India" (*Economic & Political Weekly*, 2025) 60(11), 45–52.

¹⁹⁰ Constitution of India, Arts. 39(b), 46.

¹⁹¹ *State of Kerala v. N.M. Thomas*, (1976) 2 SCC 310.

¹⁹² Law Commission (2020), para 8.5.

¹⁹³ Business Standard, "Simplified, Not Fair: The Hidden Cost of the New Tax Regime" (March 2025).

¹⁹⁴ Reserve Bank of India (2025), supra.

¹⁹⁵ U. Sahasrabudhe, *Constitution and Government of India* (Oxford University Press, 2025).

¹⁹⁶ NITI Aayog (2021), supra.

¹⁹⁷ Constitution of India, Arts. 14 & 265.

¹⁹⁸ Law Commission (2020), supra para 9.2.

¹⁹⁹ D. Palit (2022), supra.

²⁰⁰ Rathin Roy (2025), supra.

e. Emerging Pattern of Distributive Imbalance:

Empirical evidence reinforces the constitutional concerns outlined above²⁰¹. Union Budget figures show that personal income-tax collections have steadily increased and now surpass corporate tax revenues, indicating a growing reliance on individual taxpayers²⁰². This trend indicates a growing reliance on individual taxpayers, particularly the salaried middle class, for revenue mobilisation²⁰³. At the same time, reports from the Reserve Bank of India highlight rising household indebtedness, with a significant portion of borrowing directed towards consumption rather than asset creation²⁰⁴. This suggests that the fiscal pressure exerted through indirect taxation may be contributing to financial vulnerability rather than economic resilience²⁰⁵. While causation cannot be conclusively established, the correlation is sufficient to warrant constitutional concern²⁰⁶. These trends suggest that the middle class is absorbing fiscal pressure without corresponding growth in financial security²⁰⁷. When taxation indirectly pushes compliant taxpayers towards debt, it undermines the broader goals of economic stability and social justice²⁰⁸. The Directive Principles of State Policy, particularly Articles 39 and 46, emphasise the reduction of inequality and protection of vulnerable sections²⁰⁹. While non-justiciable, they inform the constitutional ethos within which fiscal policy must operate²¹⁰. Distributive justice lies at the heart of constitutional governance²¹¹. While revenue generation is essential, it cannot be pursued at the cost of fairness²¹². A fiscal structure that consistently burdens the middle class risks eroding trust in public institutions and weakening the constitutional promise of equality, non-arbitrariness, and proportionality²¹³.

²⁰¹ Law Commission of India, *Report No. 276: Taxation and Equality Before Law* (Government of India, 2020) 77.

²⁰² Ministry of Finance, *Union Budget 2025–26: Receipts and Expenditure Profile* (Government of India, 2025).

²⁰³ PwC India, *Post-Reform Fiscal Equity Analysis* (2023).

²⁰⁴ Reserve Bank of India, *Report on Currency and Finance 2025* (RBI, 2025).

²⁰⁵ National Statistical Office, *Household Consumption and Savings Report* (Government of India, 2025).

²⁰⁶ D. Palit, "Fiscal Justice and the Middle Class" (2022) *Indian Journal of Economic Studies* 58(4), 121–135.

²⁰⁷ NITI Aayog, *Policy Paper No. 27: Fiscal Federalism and Inclusive Taxation* (2021).

²⁰⁸ S. Mukherjee, "Inter-governmental Fiscal Transfers in the Presence of Revenue Uncertainty: The Case of GST in India" (2020) *Journal of Development Policy and Practice* 5(1), 45–67.

²⁰⁹ Constitution of India, Arts. 39(b) and 46.

²¹⁰ *State of Kerala v. N.M. Thomas*, (1976) 2 SCC 310.

²¹¹ U. Sahasrabudhe, *Constitution and Government of India* (Oxford University Press, 2025) 155.

²¹² Rathin Roy, "India's Fiscal Contract is Broken" (*The Hindu*, 7 May 2025).

²¹³ Law Commission of India, *Report No. 276* (2020), para 8.6.

Findings:

The present study arrives at several interlinked findings concerning the constitutional and fiscal consequences of the post-2025 tax framework:

1. It becomes evident that the combined operation of Personal Income Tax and the Goods and Services Tax has resulted in a heightened cumulative tax burden on salaried middle-class households²¹⁴. While neither tax is unconstitutional in isolation, their concurrent application, particularly after the withdrawal of long-standing deductions, has significantly reduced disposable income for a class that lacks flexibility in earnings and expenditure²¹⁵.
2. The study finds that formal equality in taxation has translated into substantive inequality in impact²¹⁶. The revised income-tax regime applies uniformly across income brackets, but ignores material differences among taxpayers in terms of dependency, healthcare costs, housing obligations, and financial vulnerability²¹⁷. This outcome sits uneasily with the constitutional interpretation of Article 14, as developed in *E.P. Royappa* and *Shayara Bano*, which rejects arbitrariness even when legislation appears facially neutral²¹⁸. The absence of a compensatory relief mechanism for salaried taxpayers suggests that the present framework fails to adequately satisfy the constitutional requirement of non-arbitrariness and reasonable classification²¹⁹.
3. The study finds that although the Finance Act, 2025 and the GST legislation satisfy the formal legality requirement under Article 265, their substantive legitimacy remains contestable²²⁰. The authority of the law principle cannot be reduced to mere statutory existence²²¹. As clarified in *K.T. Moopil Nair* and *All India Federation of Tax Practitioners*, taxation statutes must operate within constitutional limits²²². The withdrawal of protective deductions, coupled with the continued taxation of essential consumption raises serious questions about whether the state has exercised its taxing power in a constitutionally fair manner²²³.

²¹⁴ Law Commission of India, *Report No. 276: Taxation and Equality Before Law* (2020).

²¹⁵ Ministry of Finance, *Finance Act 2025: Explanatory Memorandum* (Government of India, 2025).

²¹⁶ NITI Aayog, *Policy Paper No. 27: Fiscal Federalism and Inclusive Taxation* (2021).

²¹⁷ PwC India, *Post-Reform Fiscal Equity Analysis* (2023).

²¹⁸ *E.P. Royappa v. State of Tamil Nadu*, (1974) 4 SCC 3; *Shayara Bano v. Union of India*, (2017) 9 SCC 1.

²¹⁹ *R.K. Garg v. Union of India*, (1981) 4 SCC 675.

²²⁰ Constitution of India, Art. 265.

²²¹ *K.T. Moopil Nair v. State of Kerala*, AIR 1961 SC 552.

²²² *All India Federation of Tax Practitioners v. Union of India*, (2007) 293 ITR 406 (SC).

²²³ Law Commission Report No. 275, *Indirect Taxation and Access to Justice* (2019).

4. When evaluated through the lens of proportionality as per *Modern Dental College* and *Mitsubishi Corporation*, which emphasise that State action must strike a fair balance between public purpose and individual burden²²⁴, where the study finds that the fiscal reforms fall short at the stages of necessity and balance²²⁵. While simplifications and compliance are legitimate State objectives, the blanket removal of deduction was not the least restrictive alternatives were available but not pursued²²⁶. the resulting harm to middle-class financial stability outweighs the marginal administrative benefits achieved²²⁷.
5. Empirical trends reinforce the doctrinal findings²²⁸. Rising personal income tax collections, coupled with increasing household consumption-based debt, point towards an emerging pattern of distributive imbalance²²⁹. The middle class is increasingly financing public revenue without corresponding improvements in economic security²³⁰. This pattern undermines the constitutional ethos of distributive justice reflected in the Directive Principles of State Policy, particularly Articles 39 and 46²³¹.

Recommendations:

In light of the constitutional and fiscal findings of this study, the following recommendations are suggested to recalibrate India's existing tax framework in a manner that is both fiscally pragmatic and constitutionally sound.

1. There is a pressing need to reintroduce targeted and limited relief mechanisms for salaried middle-income earners within the simplified income-tax regime²³². The complete withdrawal reduction linked to housing, healthcare, and long-term savings has failed to account for the relatively inflexible nature of salaried income²³³. A constitutionally appropriate response would be the introduction of standardised and capped deduction or rebate types specifically for essential attempts. These reliefs need not replicate the complexity of the earlier regime rather they may be narrowly designed

²²⁴ *Modern Dental College v. State of Madhya Pradesh*, (2016) 7 SCC 353; *Mitsubishi Corporation (India) Pvt. Ltd. v. Principal CIT*, (2018) SCC OnLine SC 546.

²²⁵ D. Palit, "Fiscal Justice and the Middle Class" (2022) *Indian Journal of Economic Studies* 58(4), 121–135.

²²⁶ OECD, *Model Tax Convention on Income and Capital* (2017 Update).

²²⁷ Rathin Roy, "India's Fiscal Contract is Broken" (*The Hindu*, 7 May 2025).

²²⁸ Reserve Bank of India, *Report on Currency and Finance 2025*.

²²⁹ National Statistical Office, *Household Consumption and Savings Report* (2025).

²³⁰ Business Standard, "Simplified, Not Fair: The Hidden Cost of the New Tax Regime" (March 2025).

²³¹ Constitution of India, Arts. 39(b) and 46.

²³² Law Commission of India, *Report No. 276* (2020), para 8.5.

²³³ Ministry of Finance, *Union Budget 2025–26: Receipts and Expenditure Profile*.

to be uniformly applicable and digitally administered²³⁴. Such a model would restore substantive equality by recognising material differences among tactics while preserving the administrative objectives of simplification and compliance²³⁵.

2. The study recommends rationalisation of the GST rate applicable to essential goods and services that constitute routine consumption for middle-income households²³⁶. The continued taxation of healthcare diagnostics, education-linked services, insurance premiums and housing-related maintenance at relatively high GST slabs has produced recursive outcomes by steadily eroding post-tax income through unavoidable expenditure²³⁷. Introducing lower GST slabs of partial exemption first at essential services but aligning direct taxation more closely with the constitutional principle of ability to pay²³⁸. This measure would not weaken the GST framework rather it would strengthen its legitimacy by ensuring that indirect taxation does not disproportionately burden those with limited fiscal elasticity.
3. The study proposes the establishment of a Middle-Class Tax Council as a permanent advisory body within India's fiscal governance framework²³⁹. Despite being among the most compliant contributors to public revenue, middle-income taxpayers remain structurally underrepresented in tax policy consultation²⁴⁰. A dedicated council comprising economic tax expert representatives of salary employee growth, unconstitutional scholars would provide structured, evidence-based inputs on the distributive impact of proposed fiscal measures of pull-offs in the institution, which would enhance Democratic legitimacy in fiscal decision-making and function as an early warning mechanism against policies that may unintentionally deepen distributive imbalance²⁴¹.
4. A gradual orientation towards greater reliance on progressive direct taxation rather than uniform indirect taxation is being recommended²⁴². While indirect taxes remain indispensable for revenue stability excessive dependence on them shifts the fiscal

²³⁴ PwC India (2023), *supra*.

²³⁵ *E.P. Royappa v. State of Tamil Nadu* (1974) 4 SCC 3.

²³⁶ GST Council, *Notification No. 09/2025–Central Tax (Rate)* (2025).

²³⁷ Economic Times Bureau, "Middle Class Faces Heavier Tax Load Under GST 2.0" (April 18, 2025).

²³⁸ OECD, *Model Tax Convention* (2017 Update).

²³⁹ NITI Aayog, *Fiscal Governance for the 21st Century* (2023).

²⁴⁰ S. Ramesh, "Tax Reforms and Federal Balance in India" in *Political Economy of Fiscal Governance* (Springer, 2025).

²⁴¹ D.N. Pathak & R. Ranjan, *An Introduction to Constitutional Law in India* (2025).

²⁴² Constitution of India, Art. 39(b).

burden from capacity to consumption²⁴³. Strengthening progressive direct taxation among higher-income groups and the well-concentrated sector would reduce pressure on middle-income households while remaining consistent with constitutional commitments under articles 14 and 39²⁴⁴. This shift would also mitigate the perception and reality of income being effectively taxed twice, where first at the point of earning and again at the point of essential consumption.

5. A periodic constitutional review of fiscal policy should be introduced through parliamentary committees or by reference to expert bodies such as the Law Commission of India²⁴⁵. Taxation is not merely an economic instrument but a reflection of constitutional morality and social priorities²⁴⁶. Constitutional review would ensure that tax policy evolves in response to changing socioeconomic conditions and remains aligned with the constitutional mandate to reduce inequality rather than exacerbate²⁴⁷.

Thus, these recommendations seek to reach a balance between efficiency and equity within India's taxation framework by addressing the structural vulnerabilities faced by the middle class without compromising revenue objectives. They offer a constitutionally grounded pathway towards a fairer and more sustainable fiscal system

Conclusion:

Taxation is not merely a tool of revenue collection; it is a reflection of the state's constitutional relationship with its citizens²⁴⁸. The Finance Act, 2025 and the accompanying GST reforms represent a decisive shift towards administrative simplicity and compliance-driven governance²⁴⁹. However, as this study demonstrates, efficiency cannot come at the cost of equity²⁵⁰. The cumulative impact of Personal Income Tax and GST has placed the salaried middle class in a position of heightened fiscal vulnerability²⁵¹. By withdrawing long-standing deductions and continuing to tax essential consumption at high rates, the state has effectively transferred a disproportionate share of the fiscal burden onto a class that is already the most compliant and least protected²⁵². While such measures may be legally valid, their constitutional

²⁴³ Law Commission (2020), para 9.4.

²⁴⁴ Rathin Roy (2025), *supra*.

²⁴⁵ *R.K. Garg v. Union of India* (1981) 4 SCC 675.

²⁴⁶ *State of Kerala v. N.M. Thomas* (1976) 2 SCC 310.

²⁴⁷ U. Sahasrabudhe, *Constitution and Government of India* (Oxford University Press, 2025) 177.

²⁴⁸ Law Commission of India, *Report No. 276* (2020), para 10.2.

²⁴⁹ Ministry of Finance, *Finance Act 2025: Reform Overview*.

²⁵⁰ NITI Aayog (2021), *supra*.

²⁵¹ RBI, *Report on Currency and Finance 2025*.

²⁵² D. Palit (2022), *supra*.

fairness remains a matter of serious concern²⁵³.

The constitutional guarantees under Articles 14 and 265 demand more than formal legality. They require taxation to be non-arbitrary, proportionate, and substantively just²⁵⁴. The present tax framework, then viewed holistically, struggles to meet these standards²⁵⁵. The emerging pattern of distributive imbalance, supported by both doctrinal analysis and empirical data, underscores the urgency of recalibration²⁵⁶. Ultimately, a constitutionally sound fiscal system must balance revenue generation with social justice²⁵⁷. It must recognise that equality in taxation is not achieved through uniformity alone, but through sensitivity to lived realities²⁵⁸. Unless corrective measures are undertaken, the post-2025 tax regime risks eroding public trust and weakening the constitutional promise that the burdens of governance will be shared fairly²⁵⁹.

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²⁵³ *K.T. Moopil Nair v. State of Kerala* (1961) AIR SC 552.

²⁵⁴ Constitution of India, Arts. 14 & 265.

²⁵⁵ *Modern Dental College* (2016) 7 SCC 353.

²⁵⁶ OECD (2017), *supra*.

²⁵⁷ Constitution of India, Arts. 39 & 46.

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