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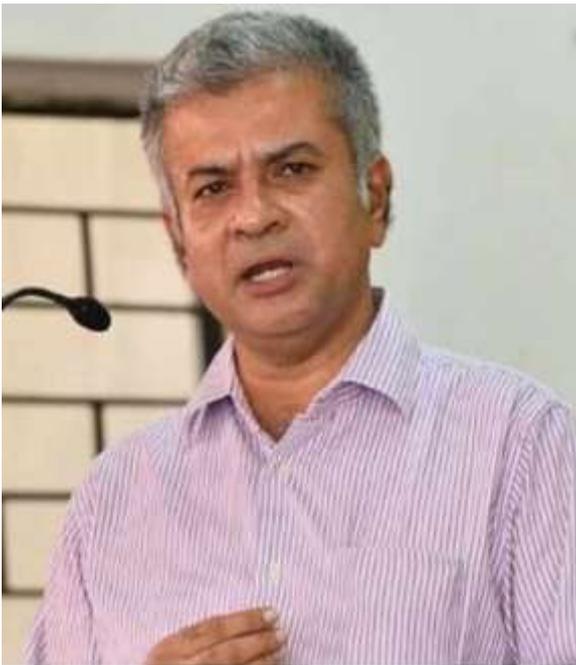
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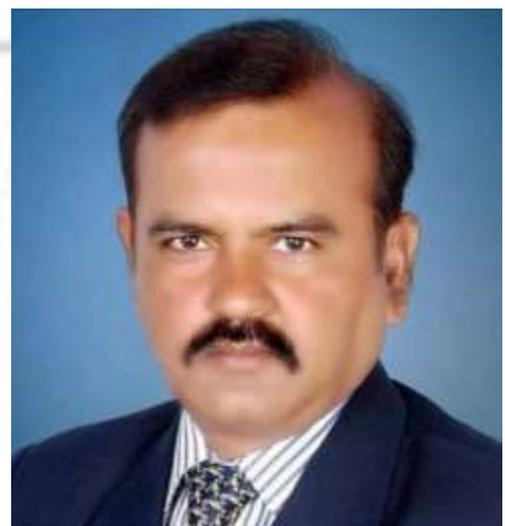


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WHITE BLACK LEGAL is an open access, peer-reviewed and refereed journal provided dedicated to express views on topical legal issues, thereby generating a cross current of ideas on emerging matters. This platform shall also ignite the initiative and desire of young law students to contribute in the field of law. The erudite response of legal luminaries shall be solicited to enable readers to explore challenges that lie before law makers, lawyers and the society at large, in the event of the ever changing social, economic and technological scenario.

With this thought, we hereby present to you

THE INEFFICIENT TAXATION SYSTEM UNDERMINING SOCIAL WELFARE IN INDIA

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ABSTRACT

India's potential for effective implementation of its vital social welfare programs, which are designed for the purpose of combating the socio-economic disparities, is intrinsically linked with the efficiency of its taxation system. This paper studies the connection between India's one of the revenue generation mechanisms—taxation—and its funding towards welfare initiatives such as Ayushman Bharat, MGNREGA, NFSA, PM-POSHAN, etc. Despite its importance for inclusive growth of the society, inefficiencies within the Indian tax system, particularly tax evasion and avoidance, significantly affect the success of welfare programs by diminishing the financial capacity of the government. The paper also identifies the instances of underfunding of the welfare schemes by exploring how the practices of tax aversion result in diminishing the supply of necessary financial resources by the government. It is further examined how the inefficiencies within the system of taxation pose detrimental consequences such as reduced government revenue, ineffective delivery of public services, and a rise in inequalities in the society.

KEYWORDS: *Taxation, Social Welfare Schemes, Tax Evasion, Tax Avoidance, Tax Reform.*

I. INTRODUCTION

With the constant burgeoning population and socio-economic disparities, India is largely dependent upon the social welfare schemes which address issues such as hunger, poverty, education, healthcare, and other areas of human development. These welfare programs are designed with the aim of supporting vulnerable groups, by ensuring basic standard of living for all as well as promoting inclusive growth in the nation. Notable welfare schemes include the Antyodaya Anna Yojana (AAY), Ayushman Bharat, Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), Pradhan Mantri Jan Dhan Yojana (PMJDY), Jal Jeevan Mission, and so on.

However, the efficacy of these programs is fundamentally connected with the ability of government to generate adequate revenue. It is because with sufficient revenue sources, the government can contribute towards these welfare schemes appropriately. The taxation system of India is the primary tool which performs the primary function of contributing funds towards social welfare programs. It is due to the fact that the revenue that is required for funding the public services, which although works effectively due to the welfare programs, various types of taxes are imposed on citizens and organisations by the competent authority.¹ However, this revenue generation mechanism is flawed then the effective implementation of these welfare programs is compromised. This paper studies how the inefficiencies in the Indian taxation system arises, as a result of which social welfare programs are undermined, therefore hindering the country's progress towards an equitable and just society.

II. INDIAN TAXATION SYSTEM

India currently has a comprehensive three-tier federal tax framework with well-defined powers between the Union Government, various State Governments, as well as municipal entities². Article 246 of the Constitution of India stipulates the division of power of imposing tax by these three levels of the government. Further, direct taxes and indirect taxes are the two broadly classified categories of tax. Under direct taxes, the assessee is solely liable to pay taxes, as such obligation can neither pass on to another individual, nor can the tax payable be recovered from any third person. Income tax, Capital Gains Tax and Wealth Tax are a few common examples of this type of tax. On the other hand, indirect taxes are levied on goods and services, and the end consumer is obliged to pay such tax, whereas the producer or service provider merely acts as a medium to collect and deposit such tax amount with the government authorities. Goods and Services Tax (GST), Securities Transactions Tax (SAT), and Custom Duty are a few prominent indirect taxes in India.

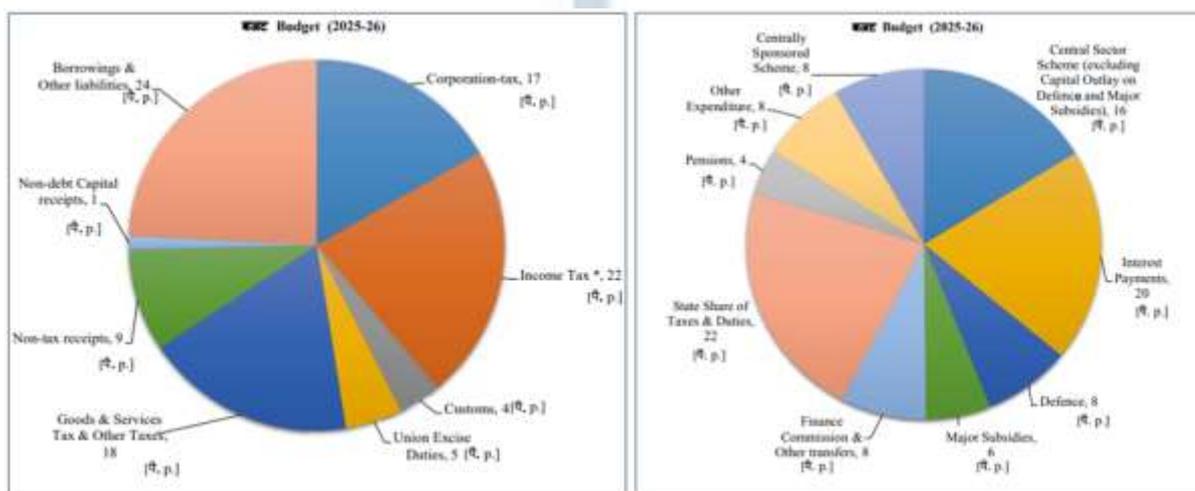
Taxes are the biggest source of revenue for the government and the backbone of any nation's development³. As per the Union Budget of FY 2025-26, both direct and indirect taxes encompass around 68% of India's revenue. Wherein, Income Tax and GST make major contributions of 22% and 18% respectively, with other indirect taxes (Corporation Tax, Union

¹ Dr. Amit Hedau, *Taxation of Family Income under Indian Taxation Laws a New Perspective*, 8 Int. J. of Adv. Res. 975, 975 (2020), <https://dx.doi.org/10.21474/IJAR01/12244>.

² Anjali Tyagi, *An Analysis of Indian Tax Structure*, SRNN (Nov 12, 2021), <https://ssrn.com/abstract=3980513>.

³ EMBASSY OF INDIA FRANCE & PRINCIPALITY OF MOROCCO, <https://www.eoiparis.gov.in/content/A-Key-Pillar-of-Nation-Building.pdf> (last visited Apr. 25, 2025).

Excise Duty and Customs) of 28%.⁴ Further, this tax money is spent by the government towards funding critical projects, including infrastructure, public education, military advancements, law enforcement, and many more⁵ public-work projects with the purpose of improving the country's economic footprint⁶. Every year, the Central Government present its Union Budget highlighting its expenditure towards various sectors of the economy. For instance, the Union Budget of FY 2025-26 elucidates the Centre's spending on social welfare schemes, payment of interests, defence sector, pensions, etc.



(Source: Budget at Glance 2025-26⁷)

III. SOCIAL WELFARE PROGRAMS

The Central Governments and various State Governments sponsor hundreds of social security and social welfare schemes⁸, which are designed for the purpose of uplifting various segments of the society, including the disadvantages groups. The Union Budget of FY 2025-26 highlighted that a major portion of 24% of Central Government's expenditure was towards funding the welfare schemes, out of which 8% and 16% were spent towards Centrally Sponsored Schemes and Central Sector Schemes (excluding capital outlay on defence and major subsidies) respectively⁹. However, it is pertinent to note that although it has been claimed that crores of rupees are spent by the government on these welfare schemes, still the reality

⁴ INDIA BUDGET GOI, https://www.indiabudget.gov.in/doc/Budget_at_Glance/budget_at_a_glance.pdf (last visited Apr. 25, 2025).

⁵ EMBASSY, *supra* note 3, at 2.

⁶ Khushi Bansal and Tanya Goyal, *Rethinking Taxation System in India-Challenges and Solutions*, TAXGURU (Mar. 13, 2014), <https://taxguru.in/income-tax/rethinking-taxation-system-india-challenges-solutions.html>.

⁷ INDIA BUDGET, *supra* note 4.

⁸ TATA AIA LIFE INSURANCE, <https://www.tataaia.com/blogs/tax-savings/how-does-the-government-spend-my-tax-contribution.html> (last visited Apr. 25, 2025).

⁹ INDIA BUDGET, *supra* note 4.

paints a different picture. Presently, there are numerous welfare schemes which are not receiving sufficient financial resources from the government, thereby undermining the scope of their wide applicability. Few such schemes are as follows:

A. MAHATMA GANDHI NATIONAL RURAL EMPLOYMENT GUARANTEE ACT (MGNREGA)

Since 2005, **MGNREGA** has been working towards improving the livelihood of rural India by offering guaranteed wage employment for not less than one hundred days in a financial year to the adult members of the rural household by engaging them in manual unskilled work. This scheme has notably aided in alleviating rural poverty and distress migration, as well as empowered marginalized groups, including women, scheduled castes, and scheduled tribes. However, irregularities in funding, delayed payments, and administrative inefficiencies posed hindrances in the efficient applicability of this scheme. Further, between FY 2019-20 and FY 2025-25, there has been **an average decrease of 5.69%** in the budget allocation for MNREGA by the Central Government.

(Rs. in crore)			
Financial Year	Budget Estimate	Revised Estimate	Release
2019-20	60,000.00	71,001.81	71,687.71
2020-21	61,500.00	1,11,500.00	1,11,170.86
2021-22	73,000.00	98,000.00	98,467.84
2022-23	73,000.00	89,400.00	90,810.99
2023-24	60,000.00	86,000.00	89,268.30
2024-25	86,000.00	--	82,421.05

(As on 28.01.2025)

(Source: Budgetary allocations for the Mahatma Gandhi National Rural Employment Guarantee Scheme, Ministry of Rural Development, Government of India¹⁰)

¹⁰ RURAL.GOV, <https://rural.gov.in/en/press-release/budgetary-allocations-mahatma-gandhi-national-rural-employment-guarantee-scheme> (last visited Apr. 25, 2025).

B. PM-POSHAN (POSHAN SHAKTI NIRMAN) SCHEME

Earlier known as the 'National Programme for Mid-Day Meal in Schools' or, popularly the 'Mid-Day Meal Scheme', this welfare program aims at providing one hot-cooked nutritious meal to all the children studying in Classes I-VIII in the government as well as government-aided schools. It shall now also extend to pre-primary or *Balvatikas* of government and government-aided schools. This scheme had been approved by the Cabinet Committee on Economic Affairs (CCEA) to continue for the next five years, i.e. in financial years 2021-22 to 2025-26, covering around 11.80 crore children studying in over 11.20 lakh schools across India. For the proper implementation of this program, sufficient funds must be allocated by the Central as well as State Governments. However, as per the following data, it is to be noted that during financial years. From 2019-20 to 2024-25, the **average annual percentage increase** in the release of Unitary Budget Allocation for this scheme is **mere 0.56%**.

Union Budgetary Allocation

Year Wise Outlay under PM POSHAN Scheme (₹ in Crore)			
Financial Year	BE	RE	Releases
2024-25	₹ 12467.39	₹ 10000.00	₹9897.59
2023-24	₹ 11600.00	₹10000.00	₹ 8457.74
2022-23	₹10233.75	₹12800.00	₹12681.03
2021-22	₹11500.00	₹10233.75	₹ 10233.75
2020-21	₹ 11000.00	₹ 12900.00	₹ 12882.11
2019-20	₹ 11000.00	₹ 9912.21	₹ 9629.35

(Source: PMPOSHAN, Ministry of Education, Government of India¹¹)

C. AYUSHMAN BHARAT

The Central Government launched this flagship initiative in 2018 with the purpose of achieving the vision of Universal Health Coverage (UHC) and meeting the Sustainable Development Goals (SDGs). **One component of this scheme is the Pradhan Mantri Jan Arogya Yojana (PM-JAY)**, which provides yearly health insurance of Rs. 5 lakhs per family for secondary and tertiary care hospitalization to over 12 crore

¹¹ PMPOSHAN, <https://pmposhan.education.gov.in/> (last visited Apr. 25, 2025).

poor and vulnerable families that forms the bottom 40% of the Indian population¹². This scheme also aims at the establishment of Health and Wellness Centres (HWCs) in rural and urban areas. Undeniably, this scheme had improved the healthcare access for the vulnerable sections of India, but its success is financial aid from the government. The Ministry of Health and Family Welfare itself, while answering the Unstarred Question No. 3056 by Shri P.V. Midhun Reddy in the Lok Sabha, accepted that “*Commensurate allocation of financial resources by the government for creation of all the above mentioned services and facilities*¹³” is one of the key challenges for the implementation of Ayushman Bharat-HWC scheme.

D. NATIONAL FOOD SECURITY ACT (NFSA)

Under the National Food Security Act (NFSA) of 2013, subsidized food grains were distributed to roughly 2/3rd of India's population. The beneficiary families registered as priority households are eligible to receive upto 5 kg of food grains per member at subsidised prices per month. Similarly, under Antyodaya Anna Yojana (AAY), the households are entitled to receive a maximum of 35 kg of food grains per month. Even though crucial for millions, recently this scheme has been affected by underfunding; as in FY 2025-26, the Department of Consumer Affairs was allocated Rs. 4,361 crore, **41% lower as compared to the revised estimate** of Rs. 7,345 crore in FY 2024-25.¹⁴

IV. THE INEFFICIENT TAXATION SYSTEM OF INDIA

By paying taxes, citizens play a crucial role in the progress and welfare of the country. This vital contribution is integral in funding infrastructural developments and essential public services, including healthcare, education, and public safety. Moreover, the revenue from taxation also enables the government to invest in other aspects, such as environmental protection and social welfare programs, thereby leading towards an equitable and more prosperous nation. Although it is the legal obligation of individuals to extend their hand in the contribution of nation's growth by paying taxes, few avoid their duty by engaging in tax aversion practices. These actions not only deprive the country of its crucial resources, which

¹² PRADHAN MANTRI JAN AROGYA YOJANA (PM-JAY), <https://pmjay.gov.in/about/pmjay> (last visited Apr. 25, 2025).

¹³ DIGITAL SANSAD, <https://sansad.in/getFile/loksabhaquestions/annex/172/AU3056.pdf?source=pqals> (last visited Apr. 25, 2025).

¹⁴ Tushar Chakrabarty, *Demand for Grants 2025-26 Analysis Food and Public Distribution*, PRS INDIA (Feb. 7, 2025), https://prsindia.org/files/budget/budget_parliament/2025/DFG_Analysis_2025-26_Food_and_Public_Distribution.pdf.

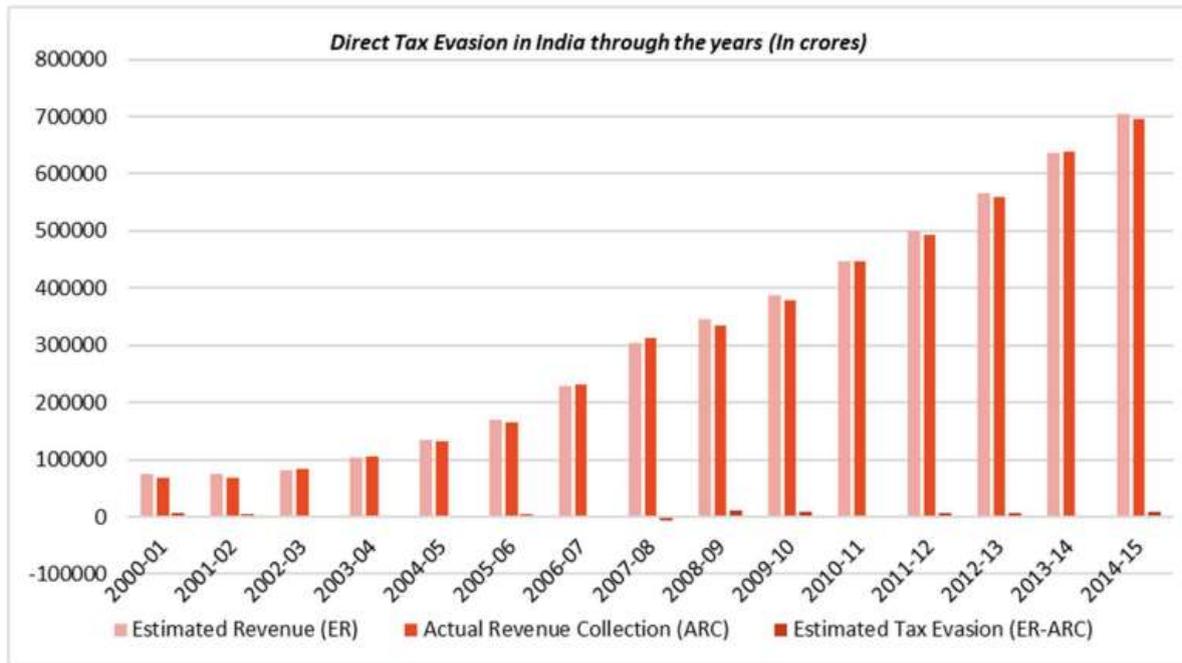
are required for public services but also significantly wear down the principles of fairness and social responsibility. Further, Bagchi (2005) stated that due to the presence of various exemptions and loopholes in the Indian taxation system there have been significant revenue leakages¹⁵. This lost revenue directly results in reduction of the funds which were supposed to be contributed for social welfare schemes. Because of this reason, the scope of applicability and effectiveness of such welfare programs gets restricted. Tax evasion and tax avoidance are the major loopholes making the Indian system of taxation inefficient.

The term tax evasion refers to non-payment of taxes by deliberately misinterpreting the facts in order to reduce one's tax liability. It can be done by underreporting of income, making large sums of transactions in cash, engaging in offshore tax havens, creating shell companies and nominees, etc. Few estimates have highlighted the extent of tax evasion in India. For instance, it has been estimated by Dr. Arun Kumar that annually India loses ₹14 trillion to tax evasion.¹⁶ On February 10th, 2025, the Minister of State for Finance, Mr. Pankaj Chaudhary, in the Lok Sabha, informed that "*GST evasion of over Rs. 1.88 lakh crore was detected by CGST officers during April-December 2024*". He also mentioned that the CGST officials had detected GST evasions of Rs. 2.30 lakh crore, Rs. 1.32 lakh crore, and Rs. 73,238 crore in financial years 2023-24, 2022-23, and 2021-22. Similarly, in 2020, The Economic Times reported that "*India is losing over USD 10.3 billion (about Rs. 75,000 crore) in taxes every year owing to global tax abuse by MNCs and evasion by private individuals*"¹⁷. Additionally, the Annual Report Department of Economic Affairs of 2016-17 indicated towards a growing challenge for the tax authorities in collecting expected direct taxes, as between financial years 2000-01 and 2014-15, there was an **approximate rise of 6900%** in the estimated **direct tax evasion in India**. The gap between the Estimated Revenue (ER) and the Actual Revenue (AC) collected, which represented the estimated tax evasion, has increased considerably.

¹⁵ NIPFP, <https://www.nipfp.org.in/media/medialibrary/2013/04/bioBagchi.pdf> (last visited Apr. 25, 2025).

¹⁶ VIDHI LEGAL POLICY, https://vidhilegalpolicy.in/wp-content/uploads/2023/03/Impact-and-Incidence-of-Tax-evasion_VCLP.pdf (last visited Apr. 25, 2025).

¹⁷ THE ECONOMIC TIMES, <https://economictimes.indiatimes.com/news/economy/finance/indias-losing-10-3-billion-in-taxes-per-year-due-to-tax-abuse-by-mncs-individual-evasion/articleshow/79326660.cms?from=mdr> (last visited Apr. 25, 2025).



(Source: Annual Report Department of Economic Affairs, Ministry of Finance, Government of India, 2016-17¹⁸)

Moreover, tax avoidance is a mechanism of legally exploiting the ambiguities and loopholes within the legal framework with the purpose of minimising or completely eliminating tax liabilities of the assessee. In contrast to tax evasion, which involves illegal and unethical practices of deliberately under reporting or misreporting one’s income, concealing assets, etc, tax avoidance works within the legal bounds. Additionally, the Royal Commission on Taxation for Canada elucidates, “the expression ‘tax avoidance’ shall be used to describe every attempt by legal means to prevent or reduce tax liabilities which would otherwise be incurred, by taking advantage of some provisions or lack of provisions in the law”. It does not include fraud, concealment, or any other illegal measures.¹⁹ In present times, due to globalisation there is a tremendous growth of international trade and commerce, making tax avoidance much easier. Further, the existence of various tax exemptions and deductions, can sometimes be utilised disproportionately by the individuals and corporations who have better access to financial planning and legal expertise. This may result in a lower effective tax rate for high-income earners, thereby contributing to inequality in the society and also reducing the tax revenue that is available for social programs benefiting lower-income groups. Moreover, it is pertinent to

¹⁸ Department of economic affairs, <https://dea.gov.in/budgetdivision/annual-reports> (last visited Apr. 25, 2025).
¹⁹ Mr. Manju B. and Mr. Sunil Naik S, "Impact of Tax Evasion & Avoidance: Indian Context", 8 JETIR a79, a80, (2021) www.jetir.org/papers/JETIR2108012.pdf.

note that excessive tax avoidance strategies and tax evasions ultimately reduce the government's substantial revenue, hence weakening its capacity to fund the social welfare schemes.

V. IMPACT OF TAX AVERSION ON SOCIAL WELFARE SCHEMES

A. REDUCED GOVERNMENT REVENUE

One of the immediate consequences of tax evasion and avoidance strategies is reduction in the government's tax revenue. This shortfall directly results in limiting the funds that are supposed to be contributed for social welfare programs. For instance, as opposed to the World Health Organisation's (WHO) recommendation of 5% contribution towards the health sector, India's health budget for FY 2023-24 amounted to mere 2.1% of GDP. Further, when a substantial part of this tax revenue is averted by the assessee, the government is forced to reduce the scope of applicability and quality of these welfare programs, increase its borrowing, or burdening the compliant taxpayers by imposing higher tax rates.

B. STRAIN ON PUBLIC SERVICES

Social welfare schemes contribute towards improving the public services such as healthcare and education. For the effective working of these public services, adequate funding is necessary, which however is undermined due to tax aversion practices. Therefore, this results in underfunded and poorly maintained infrastructure of hospitals, schools, and other community spaces. This ultimately affects the quality and accessibility of essential services, which are particularly availed by the marginalized individuals.

C. INCREASED INEQUALITY

The purpose of introducing social welfare schemes is to reduce income inequalities, thereby providing a safety net for the vulnerable sections of the society. The wealthy or influential individuals and large corporations are solely benefited by avoiding paying taxes. Also, since the wealthy individuals contribute less tax, the burden of funding welfare programs falls heavily upon the middle and lower-income groups, therefore resulting in exacerbating the gap between the rich and poor.

D. EROSION OF TRUST AND SOCIAL COHESION

When the compliant taxpayers believe that wealthy individuals and corporations are not adequately contributing their share of taxes, their trust in the government and the fairness of the taxation system gets eroded significantly. This may discourage the honest taxpayers from complying with the tax laws, and they may also start adopting excessive tax avoidance mechanisms. As a result, the sense of shared responsibility for funding welfare policies diminishes, thereby also weakening the social development of the country.

E. HINDRANCE IN LONG-TERM DEVELOPMENTAL GOALS

India is determined to achieve numerous targets such as the universal healthcare, poverty reduction, and so on. These goals would be achieved only if the related schemes get implemented effectively. And for their effective implementation, sufficient financial resources are required to fund them. However, tax aversions pose major hindrances in the achievement of these goals, as the government is restricted in investing necessary funds. For instance, due to underfunded welfare, India ranked 134th in the UN Human Development Index (2024), placing it in the '*medium human development category*'²⁰.

VI. SUGGESTIONS

In order to address the adverse impacts of inefficient system of taxation on the social welfare schemes in India, the government should adopt a comprehensive approach by taking following into consideration:

1. Emphasis should be made towards simplifying taxation laws, streamlining complex procedures, and minimising the discretionary powers of tax administration authorities.
2. The tax base should be extended so that it includes more economic activities under the ambit of taxation.
3. Further, by leveraging digitalisation, the government should invest in and create such an administration of taxation which is driven by technology. Additionally, the integration of Artificial Intelligence (AI) can also be considered for enhancing the benefits of taxpayers.

²⁰ UNITED NATIONS DEVELOPMENT PROGRAMME (UNDP), <https://www.undp.org/india/press-releases/india-shows-progress-human-development-index-ranks-134-out-193-countries> (last visited Apr. 25, 2025).

4. Additionally, for the purpose of greater equity certain reforms must be made in the policies of taxation. It can be done by reviewing and reforming such policies by adjusting tax brackets, restructuring exemptions and evaluating the impact of indirect taxes on low-income individuals.
5. In order to enhance transparency and accountability of the tax administration authorities, it is crucial for general public to access the relevant data regarding tax collection and its expenditure. Thus, the government should strengthen the oversight mechanisms concerning tax administration authorities.
6. Steps must be taken by the government as well as non-governmental organisations towards implementing awareness campaigns by educating citizens about their tax obligations and the social welfare schemes which can be availed by them. This may result in more compliance with the taxation laws and rise in public participation towards better governance.
7. Moreover, clear and efficient mechanisms should be established for the distribution of tax revenues among the Central and State Governments. This would ensure that adequate financial resources would be available for State-run social welfare programs.
8. In order to effectively address the drain of illicit financial resources in the tax havens, a comprehensive strategy is essential. It may include the measures to strengthen domestic legislations to enhance transparency, actively engaging in international cooperation through information exchange agreements and joint investigations, as well as implementing the measures to identify and penalize use of offshore tax havens for tax evasion.

VII. CONCLUSION

In its pursuit of inclusive growth, India places considerable emphasis on numerous social welfare programs which are designed to uplift its vulnerable populations and to ensure its social and economic security. These initiatives, spanning across crucial sectors such as healthcare, food security, education, and employment, plays a crucial role in mitigating poverty and inequality in India. However, **the potential of these welfare programs is significantly hampered by the systemic inefficiencies within the country's taxation framework.** It is due to the fact that a well-functioning taxation system is the cornerstone of any county, as through which governments mobilises necessary financial resources to fund public welfare services. Conversely, a taxation system which is surrounded by inefficiencies directly undermines the

government's financial capacity and, consequently, its ability to adequately invest towards social welfare initiatives. Primarily, tax evasion and avoidance are the major inefficiencies in the Indian taxation system which erodes government's revenue, strain public services, increases inequality, and hamper long-term developmental goals. As a result of which, the underfunding of crucial social welfare programs directly impacts the lives of millions of vulnerable Indians. These inefficiencies not merely restrict the scope and efficiency of welfare programs but also erode public trust and social cohesion. The Government of India should address these challenges by taking stringent steps. The reforms in the taxation system, further, should also focus on enhancing the tax equity as well as strengthening international cooperation to combat tax evasion related activities. By implementing reformatory measures, India can create a robust and equitable taxation system, resulting in adequate funding for social welfare schemes, thereby, fostering a just and inclusive society.

