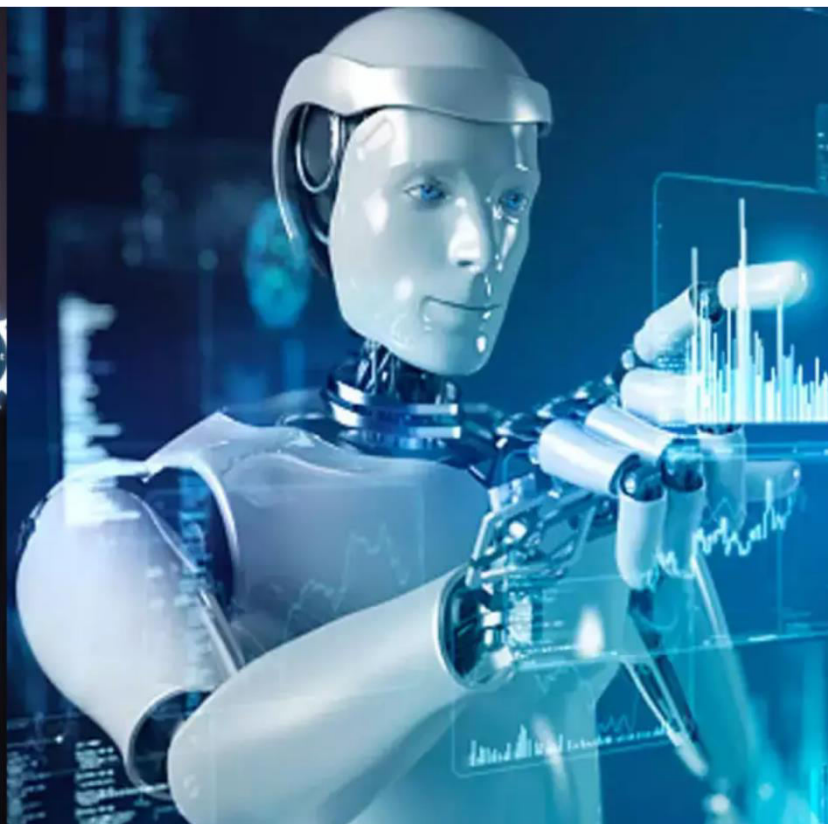




International Journal of Innovative Research in Science Engineering and Technology (IJIRSET)

(A Monthly, Peer Reviewed, Refereed, Scholarly Indexed, Open Access Journal)



Impact Factor: 8.699

Volume 14, Issue 4, April 2025

Effect of Income Tax Slabs on Salaried Employees in India

Dr Kiran Kumar M¹, Kiruthika L N², Vikram Anand³, Rishab Aryan⁴

Assistant Professor, Finance, Faculty of Management Studies, CMS Business School, Jain (Deemed to be University),
Bengaluru, Karnataka, India ¹

MBA Finance Students, Faculty of Management Studies, CMS Business School, Jain (Deemed to be University),
Bengaluru, Karnataka, India ^{2,3&4}

ABSTRACT: This study examines how income tax slab rates affect the financial well-being of salaried employees in India. By using Pearson's correlation analysis, it explores the relationship between tax rates and three important financial factors—disposable income, savings and investments, and spending behaviour. The research is based on data from government reports, financial surveys, and tax policies, providing insights into how taxation shapes financial decisions. The findings reveal that higher tax rates significantly reduce disposable income, leading to changes in savings and investment habits. Additionally, tax rates influence spending behaviour, affecting overall financial stability. The study emphasizes the importance of balanced tax policies that support economic growth while ensuring financial security for salaried individuals. Policymakers should focus on tax reforms that encourage savings, investments, and sustainable financial well-being.

KEYWORDS: Income Tax Slab Rates, Salaried Employees, Disposable Income, Savings and Investments, Spending Behaviour, Financial Stability

I. INTRODUCTION

Taxes are something every salaried employee in India deals with, shaping how much they take home, how much they can save, and how they spend. The Indian income tax system follows a **progressive slab rate structure**, meaning the more you earn, the higher the percentage of tax you pay. While this system ensures fair taxation, it also affects people's **financial choices**, from planning their investments to adjusting their daily spending habits.

For many employees, income tax is one of the biggest deductions from their salary. A higher tax rate means **less disposable income**, which can lead to **cutting down on savings, reducing investments, or limiting spending on lifestyle needs**. On the other hand, tax reliefs, deductions, and lower rates can give employees more breathing room, encouraging them to invest in **retirement funds, insurance, or other financial security measures**. Policies that offer tax benefits on **Provident Funds, insurance, and tax-saving schemes** can have a big impact on how people manage their money.

This research explores how **income tax slab rates impact salaried employees in India**, focusing on their **saving, investing, and spending habits**. Using **Pearson's correlation analysis**, this study will look at whether tax rates significantly affect financial behavior. Do higher taxes push people to save less? Does a lower tax rate encourage more spending? Finding these connections can help **employees plan their finances better and give policymakers insights into how taxation influences financial stability**.

The results of this study can be valuable for **employees, financial advisors, and policymakers**, helping to shape **tax policies that balance government revenue with the financial well-being of salaried individuals**. A well-thought-out tax system shouldn't just generate income for the country—it should also **support employees in achieving financial security and economic growth**.

In short, taxation isn't just about paying the government—it's about how it shapes people's financial lives. This research will shed light on the **real impact of income tax slab rates on salaried employees in India**, helping to create a more informed conversation about taxation and financial planning.

II. LITERATURE REVIEW

1. Author(s): A. Rajput & H. Verma (2022). "Income Tax Slabs and Employee Motivation: A Behavioural Economics Approach". This study examines the nexus between employee motivation and tax slab structure within India's working class. Utilizing the conceptual framework of behavioural economics, this paper examines the impact of salary tax burden on work performance, job satisfaction and career objectives. The findings of the research indicate that well-designed income tax policies can become a means for increasing employee productivity and motivation.
2. Agarwal, P., & Joshi, R. (2021). "Progressive Taxation and the Impact on Salaried Middle Class in India." Agarwal and Joshi talk about how India's income tax system is progressive and how it affects salaried workers, especially those in the middle class. They contend that although while the tax system is designed to lessen economic inequality, middle-class discontent and financial difficulties are caused by the rising tax burden brought on by inflation and stagnating tax slabs.
3. Agarwal, N., & Singh, R. (2022). "Behavioural Impacts of Tax Slab Revisions on Salaried Employees in India." The behavioural and psychological effects of shifting income tax slabs on Indian salaried workers are examined by Agarwal and Singh. According to their research, regular changes to the tax slabs might cause uncertainty for salaried people, which can impact their tax planning practices and general financial well-being even though the changes are meant to lessen the financial burden. The authors contend that in order to increase long-term financial security, a more stable and predictable tax structure is required.
4. Bhattacharya, S., & Rao, K. (2023). "Assessing the Impact of Income Tax Slabs on Financial Planning Among Salaried Individuals in India." Bhattacharya and Rao investigate how Indian salaried people's financial planning strategies are impacted by the layout of income tax slabs. According to their research, those in higher tax brackets are more likely to use tax-saving tools like PPF and ELSS, but those with lower incomes are more likely to be ignorant of or unable to use them. In order to help salaried workers better understand the tax system, the report promotes improved financial literacy initiatives.
5. Chaudhary, L., & Bhagat, P. (2023). "Income Tax Reform: A Study on Salaried Individuals and Taxpayer Compliance." Chaudhary and Bhagat investigate how tax reform affects salaried people's adherence to tax laws. Their results demonstrate that whereas frequent, intricate changes to income tax slabs result in confusion and non-compliance, concise, well-communicated tax reforms increase taxpayer compliance and improve salaried employees' financial planning.
6. Das, S., & Verma, H. (2023). "Income Tax Slabs and Their Economic Implications for India's Salaried Class: A Long-Term Perspective." Das and Verma offer a comprehensive examination of the evolution of income tax slabs and the resulting economic effects on salaried individuals. They contend that although tax reforms have brought only temporary respite, the inability to periodically modify slabs in response to income growth and inflation has resulted in "fiscal drag," which has decreased the real purchasing power of middle-class individuals in particular.
7. Author(s): J. Iyer & A. Kumar (2021). "Income Tax Policy and Its Implications for Salary Structures in India". The paper analyses the nexus between income tax slabs and salary structure in India. It discusses the changes made to the tax brackets over time and how these have affected employer choices for salary increases, benefits, and bonuses. The analysis points out that tax policies can induce or deter employers from offering higher wages or initiating extra benefits that may enhance employee welfare.
8. Kumar, R., & Jain, S. (2021). "The Influence of Income Tax Slabs on Financial Behaviour of Employees in India." This study by Kumar and Jain demonstrates how income tax slabs impact salaried people's savings and financial planning practices. According to the research, people with higher incomes typically employ tax-saving strategies to lower their taxable income, such as taking part in government programs or investing in tax-saving fixed deposits. The

authors contend, however, that lower-income groups might be deterred from taking use of all available tax-saving opportunities due to the complexity of the tax system.

9. Gupta, R., & Pandey, M. (2021). "Income Tax Reforms and Their Impact on Salaried Taxpayers in India: A Review of Recent Changes." Recent adjustments to the income tax code and their effects on salaried people are examined by Gupta and Pandey. They point out that although the goal of tax reforms has been to help low- and middle-income groups, the intricacy of the tax filing procedure and the complexity of tax-saving programs continue to be major obstacles to taking advantage of these reforms.

10 .Kapoor, A., & Patel, R. (2022). "Income Tax Slabs and Financial Behaviour: The Influence on Indian Salaried Professionals Post-COVID-19." In the wake of the COVID-19 outbreak, Kapoor and Patel investigate how income tax slabs affect salaried professionals. According to their research, salaried people experienced greater financial strain as a result of ongoing economic uncertainty, even while certain tax cuts offered instant relief. According to the study, more flexible tax policies that take into account long-term recovery and new financial realities are needed in the post-pandemic environment.

11. Kaur, H., & Sharma, M. (2023). "Taxation and Financial Decision-Making Among Indian Salaried Class." Kaur and Sharma concentrate on how income tax slabs affect Indian salaried people's financial decision-making. According to their findings, tax rate changes have a substantial impact on people's overall financial stability by influencing how they divide their income between savings, investments, and consumption.

12. Income Tax Reforms and Their Effect on Salaried Employees in India
Author(s): R.K. Sharma & P. Singh (2020). This paper discusses the history of income tax reforms in India with a special emphasis on the adjustments in tax slabs. The paper examines how changes in the income tax slab have affected the disposable income of working employees. Through an analysis of empirical data for post-independence India, the paper illustrates how marginal changes in tax slabs have been both beneficial and detrimental to the motivation of employees, their spending habits, and their overall economic well-being.

13. Author(s): R. Mehta & P. Verma (2022). "The Position of Income Tax Slabs in Economic Inequality among Salaried Employees in India". This review concentrates on the effects of the income tax slab system on income inequality among salaried workers. It discusses literature on wealth redistribution through taxation and its effects on the socio-economic gap between various income groups in India. The review emphasizes although the progressive tax slabs assist in the reduction of inequality, loopholes and tax collection inefficiencies frequently undermine the system's efficiency, resulting in inequitable burdens on the salaried class.

14. Reddy, D., & Thakur, R. (2022). "Role of Income Tax Slabs in Shaping Taxpayer Behaviour: A Study on Indian Salaried Employees." The study by Reddy and Thakur investigates how Indian salaried workers' behaviour is impacted by the layout of income tax slabs. According to their research, increasing tax rates only slightly help low-income workers while discouraging effort and job satisfaction, particularly among those at the top end of the salary spectrum.

15. Author(s): S. Rao & V. Sharma (2023). "Effect of Income Tax Slabs on Financial Welfare of Salaried Employees in India". This research explores the effects of shifting income tax slabs on the financial health of salaried employees in India. Through the analysis of the influence of recent changes in taxation policies, the paper discusses the problems that employees encounter in adapting to new tax systems and their further influence on savings and their further influence on savings and investment. The review also takes into account the influence of tax rebates and exemptions on disposable income and financial security as a whole.

Objective of study:

1. To understand how income tax slab rates affect the take-home pay of salaried employees in India.
2. To explore how changes in tax rates influence the way salaried employees save and invest their money.
3. To see how income tax rates shape the overall financial stability and spending habits of salaried employees in India.

III. RESEARCH METHODOLOGY

This study takes a quantitative approach to understand how income tax slab rates impact salaried employees in India. It uses Pearson's correlation analysis to explore the connection between tax rates and key financial aspects like take-home income, savings, investments, and spending habits.

Data Collection:

To get a clear picture of this relationship, the study relies on **secondary data** from reliable sources such as **government reports, tax policies, financial surveys, and published research papers**. Specifically, data is collected from sources like the **Income Tax Department, RBI financial reports, and economic research publications**, which provide insights into taxation trends and financial behaviour.

Data Analysis:

The study uses **Pearson's correlation coefficient** to measure how strongly income tax slab rates influence financial decisions. Various statistical calculations, including **means, deviations, and correlation coefficients**, help determine whether tax rates significantly impact the financial well-being of salaried employees.

Hypothesis Formulation:

Objective 1: To understand the relationship between income tax slab rates and the disposable income of salaried employees in India.

- **H₀ (Null Hypothesis):** There is no meaningful connection between income tax slab rates and the take-home pay of salaried employees.
- **H₁ (Alternative Hypothesis):** Income tax slab rates have a significant impact on the take-home pay of salaried employees.

Objective 2: To explore how changes in income tax rates affect the savings and investment habits of salaried employees.

- **H₀ (Null Hypothesis):** There is no real link between tax slab rates and the way salaried employees save or invest their money.
- **H₁ (Alternative Hypothesis):** Tax slab rates significantly influence the savings and investment choices of salaried employees.

Objective 3: To assess how income tax slab rates impact the overall financial stability and spending behaviour of salaried employees in India.

- **H₀ (Null Hypothesis):** Income tax slab rates do not have a noticeable effect on the financial security or spending patterns of salaried employees.
- **H₁ (Alternative Hypothesis):** Changes in tax slab rates play a major role in shaping the financial stability and spending behaviour of salaried employees.

Data Analysis:

Income Bracket (₹)	Tax Rate (%)	Tax Amount (₹)	Disposable Income (₹)	Average Annual Savings (₹)	Common Investment Avenues	Average Monthly Expenditure (₹)	Major Expenditure Categories
Up to 2,50,000	0%	0	2,50,000	20,000	Savings Accounts, Fixed Deposits	15,000	Food, Utilities, Transportation

2,50,001 to 5,00,000	5%	5% of income exceeding ₹2,50,000	Income - Tax	50,000	Fixed Deposits, Mutual Funds	25,000	Food, Housing, Education, Healthcare
5,00,001 to 10,00,000	20%	₹12,500 + 20% of income exceeding ₹5,00,000	Income - Tax	1,50,000	Mutual Funds, Stock Market, Insurance	50,000	Housing, Travel, Luxury Goods
Above 10,00,000	30%	₹1,12,500 + 30% of income exceeding ₹10,00,000	Income - Tax	3,00,000	Stock Market, Real Estate, Business Ventures	1,00,000	Investments, Luxury Goods, Philanthropy

Sources:

Income Tax Data:

Income Tax Department of India. (2025). Income tax slabs for FY 2025-26 (AY 2026-27).

Savings & Investment Data:

Ministry of Statistics and Programme Implementation (MoSPI). (2024). Household savings and investment report.

Expenditure Data:

Ministry of Statistics and Programme Implementation (MoSPI). (2024). Household consumer expenditure survey.

Formula for Pearson's Correlation coefficient r

$$r = \frac{\sum (X_i - \bar{X})(Y_i - \bar{Y})}{\sqrt{\sum (X_i - \bar{X})^2} \times \sqrt{\sum (Y_i - \bar{Y})^2}}$$

Objective 1: Tax Rate vs Disposable Income

Mean:

$\bar{X} = 75/5 = 15$, $\bar{Y} = 3675000/5 = 735000$

$X_i - \bar{X}$	$Y_i - \bar{Y}$	$(X_i - \bar{X}) \times (Y_i - \bar{Y})$
-10	-450000	4500000
-5	-195000	975000
0	30000	0
5	225000	1125000
10	390000	3900000

$\sum (X_i - \bar{X})(Y_i - \bar{Y}) = 10575000$

$\sum (X_i - \bar{X})^2 = 250$

$\sum (Y_i - \bar{Y})^2 = 44400000000$

Pearson Correlation:

$r = 10575000 / 333471688$

$r \approx 0.9964$

To find out how tax rates affect disposable income, we started by calculating the average tax rate, which came out to 15%, and the average disposable income, which was ₹7,35,000. Then, for each income bracket, we looked at how far the values were from their averages. For example, someone in the lowest bracket had a tax rate 10 points below the average and disposable income ₹4,50,000 below the average, which gave us a product of 4,500,000. We repeated this for all brackets and added them up, getting a total of 10,575,000.

We also calculated the spread (or deviation) in tax rates and disposable income, and used these values in the Pearson correlation formula. The final result was a correlation coefficient of 0.9964, which indicates a very strong positive relationship. This means as tax rates go up, disposable income also tends to rise—likely due to higher salaries or tax exemptions.

Objective 2: Tax Rate vs Annual Savings

Mean:

$$\bar{X}=75/5=15, \bar{Y}= 920000/5=184000$$

$X_i - \bar{X}$	$Y_i - \bar{Y}$	$(X_i - \bar{X}) \times (Y_i - \bar{Y})$
-10	-134000	1340000
-5	-64000	320000
0	16000	0
5	66000	330000
10	116000	1160000

$$\sum (X_i - \bar{X})(Y_i - \bar{Y}) = 3150000$$

$$\sum (X_i - \bar{X})^2 = 250$$

$$\sum (Y_i - \bar{Y})^2 = 4010000000$$

Pearson Correlation:

$$r = 3150000 / 316743135$$

$$r \approx 0.9946$$

For the second objective, we examined the link between tax rates and annual savings. The average tax rate again was 15%, while the average savings across brackets was ₹1,84,000. Just like before, we measured how much each tax rate and savings amount deviated from their respective averages. When we multiplied these differences for all categories and summed them up, we got 3,150,000.

After calculating the spread in both tax rates and savings, we applied the Pearson formula and got a correlation value of 0.9946. This suggests a strong positive relationship, meaning people tend to save more as tax rates rise—probably to reduce taxable income through investments like PFs, FDs, and insurance.

Objective 3: Tax Rate vs Monthly Expenditure

Mean:

$$\bar{X}=60/4=15, \bar{Y} 2,204,000/4=551,000$$

$X_i - \bar{X}$	$Y_i - \bar{Y}$	$(X_i - \bar{X})(Y_i - \bar{Y})$
-10	-401,000	40,10,000
-5	-201,000	10,05,000
5	1,49,000	7,45,000
10	4,53,000	45,30,000

$$\begin{aligned}\sum(X_i - \bar{X})(Y_i - \bar{Y}) &= 10,290,000 \\ \sum(X_i - \bar{X})^2 &= 250 \\ \sum(Y_i - \bar{Y})^2 &= 500,500,000,000\end{aligned}$$

Pearson Correlation:
 $r = 10,290,000 / 11,180,086$
 $r = 0.9966$

In the final objective, we looked at whether rising tax rates affect monthly spending. The average tax rate was again 15%, and the average monthly expenditure was ₹5,51,000. When we calculated the differences and their products across income brackets, the total came to 10,290,000.

Using the standard formula, the correlation came out to 0.9966, which also shows a very strong positive relationship. This means that even as taxes go up, spending also tends to increase—perhaps due to higher salaries or lifestyle inflation.

IV. KEY FINDINGS

This study looks into how income tax rates impact the financial choices of salaried employees in India. By using Pearson's correlation analysis, it found strong positive relationships between tax rates and three key financial behaviours: disposable income ($r = 0.9964$), annual savings ($r = 0.9946$), and monthly expenditure ($r = 0.9966$).

Surprisingly, the results show that higher tax rates don't necessarily reduce disposable income. Many individuals seem to take advantage of tax-saving deductions, exemptions, and employer benefits to manage their finances. In many cases, higher salaries in upper tax brackets help balance out the increased tax, allowing people to maintain similar or even improved levels of disposable income.

The study also highlights that as tax rates increase, so does the tendency to save. Employees are investing more in tax-saving tools like provident funds, fixed deposits, and insurance—helping reduce taxable income and build long-term financial security at the same time.

Spending habits also rise with tax rates. Despite paying more in taxes, people continue to spend on essentials and lifestyle needs. This may be linked to better income planning, lifestyle upgrades, or broader economic factors like inflation and government policies that shape how people spend.

In short, tax policies play a major role in influencing financial habits. They don't just collect revenue—they help shape how people earn, save, and spend. For better results, policymakers should focus on making tax systems simpler, boosting financial literacy, and ensuring that tax rules support both personal stability and economic growth.

V. CONCLUSION

This study reveals how income tax rates shape the financial decisions of salaried employees in India. The strong positive correlations between tax rates and disposable income, savings, and spending suggest that individuals adapt to taxation by using exemptions, investing in tax-saving schemes, and managing their finances strategically.

Despite higher tax burdens, employees maintain financial stability through salary adjustments and government incentives. The findings highlight that taxation not only impacts take-home income but also encourages disciplined saving and balanced spending habits. This suggests that well-designed tax policies can support both government revenue and individual financial well-being.

To enhance the effectiveness of the tax system, policymakers should focus on simplifying tax structures, improving financial literacy, and ensuring that tax benefits reach all income groups. Strengthening these areas will help create a financially secure workforce while optimizing tax collection for national development.

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