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Role of Middle-Class Leading in India's Prosperity

Middle-Class will be a key driver of growth in the next two decades in India's journey towards a Viksit Bharat by 2047, 22 years, and this journey will get fuel from the much more effective empowerment of this category of population during the last decade.

A Britisher, James Bradshaw, in all likelihood can be credited with using the term 'Middle-Class' for the first time in a 1745 pamphlet 'Scheme' to prevent Irish wools from being sent to France. Hardly would he have thought that centuries later, this nomenclature would become so relevant in economic policy management, particularly in India. Today, India's growth story is incomplete without discussing the policy roadmap and welfare measures related to the middle-class.

While much attention has been paid to the economic dimensions of the middle-class, it is equally important to recognise their contribution to the vibrancy and success of India's democratic polity. This was rightly

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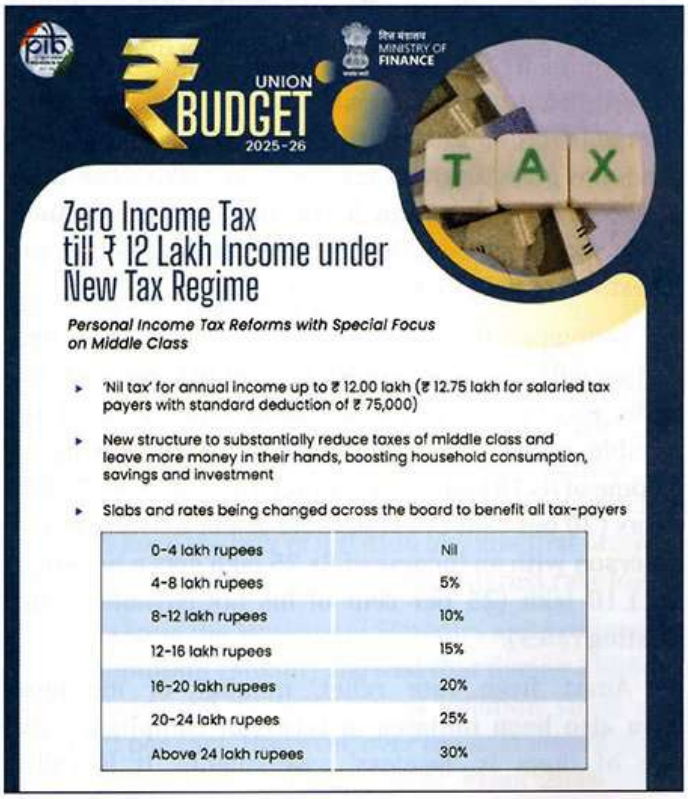
highlighted by well-known political economist, Late Prof Emeritus Lester Thurow, a former dean of the Massachusetts Institute of Technology (MIT, US), and who was known for his research on income inequality.

"According to American conventional wisdom, a healthy middle-class is necessary to have a healthy political democracy. A society made up of rich and poor has no mediating group either politically or economically," he wrote in an article, titled 'The Disappearance of the Middle-class', and published on 05 February 1984 in the New York Times.

In a successful democracy and fastest-growing economy, it is important to assess the role of middle class and the initiatives taken in over a past decade. Before we go ahead, we need to find answers to two important questions—who is middle-class and what are their numbers? As of the date, there is no official definition of the middle-class. However, there is a definition by the National Council of Applied Economic Research (NCAER) and the People Research on India's Consumer Economy (PRICE), and it terms household earnings between Rs 5 lakh and Rs 30 lakh (at Fiscal Year 2020-21 prices) per year as the middle-class.

This definition is widely used for public discourse. PRICE estimated that, based on the defined income range (Rs 5 lakh – Rs 30 lakh per year), the daily income per person would be approximately $4.11 – $23.56 (at the exchange rate of Rs 74.28 prevailing in 2020-21),



which is in line with the Globally range. Now the next question is, what is the size of the middle-class in India? PRICE estimates the number at 43.2 crore (31 per cent of the total population) in 2020-21, which is likely to reach over 101 crore (61 per cent of the population) by 2046-47, when India aims to attain the status of 'Developed Nation'.

Hence, it is clear that the middle-class will be a key driver of growth in the next two decades in India's journey towards a *Viksit Bharat* by 2047, 22 years, and this journey will get fuel from the much more effective empowerment of this category of population during the last decade. It's important to note here that the middle-class contributes significantly to the government revenue through both direct and indirect taxes. That is why throughout the last 11 years, the government focused on not just more money in the hands of the people but also on the affordability of goods and services. After all, a rise in consumption leads to a virtuous cycle, an essential process to accelerate growth.

Let us examine various measures for the middle-class during the last decade:

Direct Taxes: Lower Tax, Ease of Compliance

The last decade saw major changes in the Income Tax to benefit the middle-class. In its first tenure (2014-19), the present central government increased the basic exemption limit from Rs 2 lakh to Rs 2.5 lakh and gave a tax rebate so that no tax was payable by persons having income up to Rs 3 lakh. It also reduced the tax rate from 10 per cent to 5 per cent for the tax slab of Rs 2.5 lakh to Rs 5 lakh and introduced a standard deduction of Rs 40,000 for the salaried class. Deduction of savings under section 80C was increased from Rs 1 lakh to Rs 1.5 lakh. Deduction of interest for self-occupied house property was raised from Rs 1.5 lakh to Rs 2 lakh.

Then, in the interim budget of 2019-20, individual taxpayers having taxable annual income up to Rs 5 lakhs got a full tax rebate and therefore were not required to pay any income tax. As a result, even persons having gross income up to Rs 6.50 lakhs may not be required to pay any income tax if they make investments in provident funds, specified savings, insurance, etc. In fact, with additional deductions such as interest on home loans up to Rs 2 lakh, interest on education loans, National Pension Scheme contributions, medical insurance, medical expenditures on senior citizens etc.

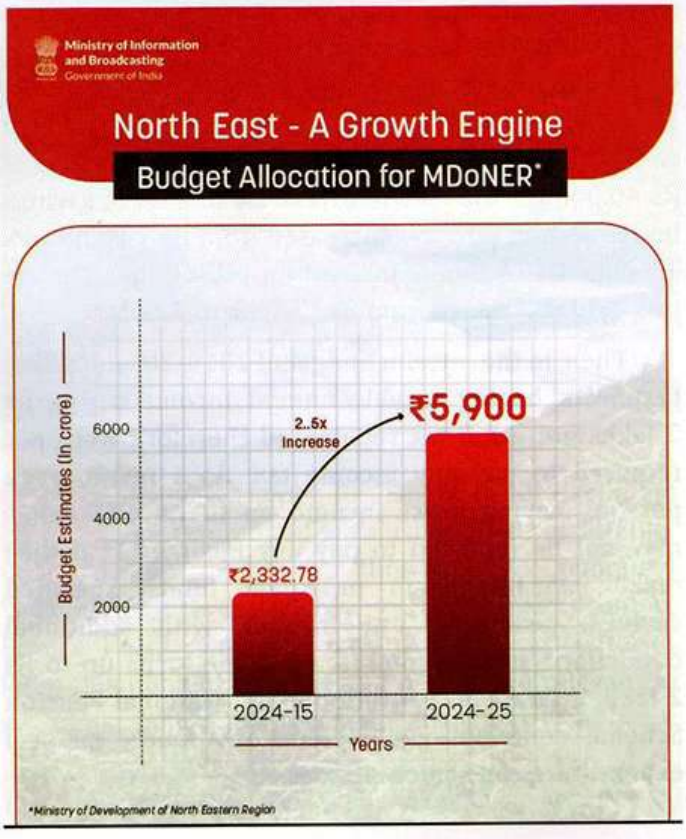
Table Number 1 : Estimated Households, Population and Growth by Income Class

Income Class	Population (Millon, 2026)	Households (Million 2026)	Household size	Annual Growth (per cent)	
				Population	Household
Destitutes	117	31	3.78	(-) 2.12	(-) 3.95
Aspirers	664	153	4.34	(-) 1.39	(-) 0.18
Middle-class	604	127	4.76	4.82	5.93
Rich	109	20	5.46	10.35	11.3
Total	**1494**	**331**	**4.51**	**1.2**	**1.67**

Source: PRICE

It was estimated that such a move would provide a tax benefit of Rs 18,500 crore to an estimated 3 crore middle-class taxpayers comprising self-employed, small business, small traders, salary earners, pensioners and senior citizens. At the same time, for salaried persons, the standard deduction was raised to Rs 50,000 from Rs 40,000, besides exempting levy of income tax on notional rent on a second self-occupied house. Also, the TDS threshold on interest earned on bank/post office deposits was raised from Rs 10,000 to Rs 40,000.

Fiscal Year 2020-21 saw another major change in the Income Tax with the introduction of a new and simplified personal income tax regime wherein income tax rates were reduced but with a condition that individual taxpayers will have to forgo certain deductions and exemptions. It was said that substantial tax benefits will accrue to a taxpayer depending upon exemptions and deductions claimed by him. For example, a person earning Rs 15 lakh in a year and not availing any deductions, etc., will pay only Rs 1.95 lakhs as compared to Rs 2.73 lakhs in the old regime. Thus, his tax burden will be reduced by Rs 78,000 in the new regime. He would still be the gainer in the new regime even if he was taking a deduction of Rs 1.5 lakh under various sections of Chapter VI-A of the Income Tax Act under the old regime.



In 2023, the NIL tax slab was raised to Rs 7 lakh from Rs 5 lakh, but a much bigger surprise came in the Union Budget of Fiscal Year 2025-26. Finance Minister Nirmala Sitharaman announced that there will be no income tax payable up to an income of Rs 12 lakh (i.e. average income of Rs 1 lakh per month other than special rate income such as capital gains) under the new regime. This limit will be Rs 12.75 lakh for salaried taxpayers, due to the standard deduction of Rs 75,000.

At the same time, slabs and rates are being changed across the board to benefit all taxpayers. "The new structure will substantially reduce the taxes of the middle-class and leave more money in their hands, boosting household consumption, savings and investment," the Finance Minister said.

Following this change, a taxpayer in the new regime with an income of Rs 12 lakh will get a benefit of Rs 80,000 in tax (which is 100 per cent of tax payable as per existing rates). A person having an income of Rs 18 lakh crore will get a benefit of Rs 70,000 in tax (30 per cent of tax payable as per existing rates). A person with an income of Rs 25 lakh gets a benefit of Rs 1.10 lakh (25 per cent of his tax payable as per existing rates).

Apart from rate relief, number of measures have also been initiated in terms of compliance and one of them is 'faceless' assessments. It is called

'faceless' simply because the assessee will not get to see the face of his/her assessing officer. Such a process completely eliminates the physical interface between the assessee and the assessing authority and instead involves the electronic interface right from the selection of the cases for the scrutiny purpose with the help of an 'automated allocation system' involving an algorithm for randomised allocation of cases, by using suitable technological tools, including artificial intelligence and machine learning, with a view to optimising the use of resources and the conduct of assessments exclusively in electronic mode via the 'e-Proceedings.'

Coupled with 'Faceless Assessment', 'Jurisdiction-less' is another important measure to ease compliance. Under this, assessment is conducted by a team/group of expert income tax officers at multiple-level units, viz. National Faceless Assessment Centre (NaFAC), Assessment Unit, Verification Unit, Technical Unit and Review Unit, and is not conducted by an individual jurisdictional assessing officer. The cases shall be assigned by NaFAC to an assessment unit based on an 'automated allocation system' involving an algorithm for the randomised allocation of cases by using suitable technological tools, including artificial intelligence and machine learning.

Restructuring of rates along with ease of compliance is reflected in the rise of individual ITR filings, which increased to over 9 crore in FY 2024-25 from 3.91 crore in FY 2013–14. Needless to say, a large number of taxpayers are from the middle-class, and this growth shows that more people find it simpler and worthwhile to comply with tax laws. Also, it's important to note here that all the taxpayers, including those from the middle-class continue to have the option of the old income tax regime, where they can take advantage of tax exemptions on various instruments.

Boosting the Consumption

If rate restructuring and ease of compliance gave more revenue to the government, it also provided more money in the hands of the middle-class in particular. In order to bring this additional money to the market, it is important that the price level should be low, which in turn will keep the rate of inflation low and that prompts the monetary authority to keep the interest rate lower.

Data from the Ministry of Statistics and Programme Implementation (MoSPI) showed that during 2004–05 to 2013–14, the average annual inflation stood at a steep 8.2 per cent. However, over the next eleven years, inflation came under firm control. From 2015–16 to

2024–25, the average rate fell to just 5 per cent. Latest data, as released on 12 June 2025, highlighted that the retail inflation rate based on the Consumer Price Index dipped to 75 months low to 2.82 per cent in June.

The difference is visible not only in the numbers but in daily life. Stable prices gave families breathing room. Essentials became more affordable, and planning monthly expenses became easier. This shift was the result of sound policy, strong coordination with the Reserve Bank of India (RBI), and better supply-side management. The middle-class, long hit by rising prices, finally found relief and regained confidence in the economy.

Lower inflation rates helped the RBI and later the RBI's Monetary Policy Committee (MPC) to cut the policy interest rate (technically known as Policy Repo Rate, the rate at which the central bank lends to commercial banks) from 8 per cent on 03 June 2014 to 5.5 per cent on 06 June 2025. Though there are some doubts about the full transmission of the rate cut, still there has been significant transmission. This helped in boosting the consumption sentiments.

Better Option for Government Pensioners

Recognising the importance of social security, the central government first enhanced employers' share under the National Pension System (earlier known as the New Pension Scheme) to 14 per cent from 10 per cent for its employees while keeping their share at 10 per cent.

KEY MEASURES TO EASE INCOME TAX COMPLIANCE FOR MIDDLE-CLASS

1. **New Form 26AS:** This new form contains all information of deduction or collection of tax at source, specified financial transaction (SFT), payment of taxes, demand and refund, etc. Further, details of SFT data in the Form 26AS makes taxpayers aware of their transactions beforehand and encourage them to disclose their true income.
2. **Pre-filing of Income-tax Returns:** In order to make tax compliance easier, pre-filled Income Tax Returns (ITR) have been provided to individual taxpayers. The scope of information for pre-filling includes information such as salary income, bank interest, dividends, etc.
3. **Updated Return:** Section 139(8A) of the Income-tax Act, 1961 (the Act) facilitates the taxpayer to update his return anytime within two years from the end of the relevant assessment year so that he can file an updated return by voluntarily admitting omissions or mistakes and paying an additional tax as applicable. Further, an e-verification scheme was launched to allow taxpayers to disclose their unreported or underreported income in the updated ITR.
4. **Reduction in the Corporate Tax Rate:** Starting from the Finance Act, 2016, the corporate tax rates have been gradually reduced while phasing out the exemptions and incentives available to the corporate so as to increase the tax base.
5. **Simplification of the Personal Income-tax:** Finance Act, 2020 and Finance Act, 2024, has provided an option to individual taxpayers for paying income tax at lower slab rates if they do not avail specified exemptions and incentives.
6. **Expansion of scope of TDS/TCS:** To bring new taxpayers into the income tax net, the scope of TDS/TCS was expanded by including huge cash withdrawals, foreign remittances, purchases of luxury cars and other goods, e-commerce participants, sales of goods, acquisitions of immovable property, purchases of overseas tour program packages, payments on transfers of virtual digital assets, online gaming, payments to partners of a firm, etc.

Source : Income Tax Department

Then as an option, it brought in the Unified Pension Scheme (UPS), implemented from 01 April 2025. The scheme ensures an assured pension of 50 per cent of the average basic pay drawn during the last 12 months before retirement, applicable to employees with at least 25 years of service.

For those with shorter service tenures, the pension will be calculated proportionately, with a minimum qualifying period of 10 years. A minimum assured pension of Rs 10,000 per month will be provided upon retirement after completing 10 years of service. In case of the employee's death, their family will receive a pension equal to 60 per cent of the assured pension. The scheme is expected to benefit around 23 lakh Central Government employees. Several State Governments have also adopted this model, extending its coverage to over 90 lakh individuals currently under the National Pension System.

Housing

Launched in 2015, the Pradhan Mantri Awas Yojana (Urban) stands for a cost-effective hope of having a house for millions of middle-class and low-income families. It has steadily moved toward the goal of a safe and dignified home for every Indian. The Centre has committed Rs 1.97 lakh crore in assistance, out of which Rs 1.69 lakh crore has already been released. From 2014 to 2025, as of May 19, over 1.16 crore houses were sanctioned. Construction has begun on more than 1.12 crore homes. Over 92.72 lakh houses have been completed or handed over. These are not just figures; they represent tangible stories of progress.

Powering the Middle-Class Houses at Cheaper Cost

To enhance participation, particularly for the middle-class who cannot afford high installation costs, as well as rural and economically weaker sections, have low electricity consumption and low contract demand, the *PM Surya Ghar : Muft Bijli Yojana* has a provision of a higher subsidy of up to 60 per cent for the first 2 kW capacity of a rooftop solar plant. Further, the scheme has a provision of higher subsidy for special category states/UTs. Also, the Ministry of New and Renewable Energy (MNRE) has issued the operational guidelines

for implementation of the Payment Security Mechanism component and Central Financial Assistance (CFA).

It intends to enable DISCOMs/State Governments/ State Designated Entities to support rooftop solar development under RESCO (Renewable Energy Service Company) and ULA (Utility-Led Aggregation) models primarily for low-income households. In addition, a collateral-free loan at a concessional interest rate of the repo rate plus 50 bps, i.e., 6.75 per cent for the present, with a tenure of 10 years, is also available from nationalised banks for a loan amount up to Rs. 2 lakh. The loan facility can be accessed seamlessly through the *Jan Samarth* portal under the Department of Financial Services, integrated with the National Portal of the *PM Surya Ghar : Muft Bijli Yojana*.

Connectivity Within the Cities and from Cities at Lower Cost

Commuting within cities became easier thanks to Metro Rail, which is now either running or being built in 29 cities. By May 2025, India had 1,013 km of metro lines in operation, up from just 248 km in 2014. That is an addition of 763 km in just eleven years. India now ranks third globally in terms of its total metro rail network. Daily ridership, which stood at 28 lakh in 2013 to 14, has now crossed 1.12 crore. The pace of commissioning new lines has grown nine times. On average, 6 km of metro lines are now operationalised every month, compared to just 0.68 km per month before 2014. The annual budget for metro rail has also increased more than six times, rising from Rs 5,798 crore in 2013-14 to Rs 34,807 crore in 2025-26.

At the same time, effort was made to fulfil the aspiration of middle-class to take air travel. The *Ude Desh Ka Aam Nagrik* (UDAN) scheme, launched on 21 October 2016, made air travel affordable and accessible for the common citizen. In its sixth year, UDAN has connected 88 airports, including 2 water aerodromes and 13 heliports, through 625 routes. The first UDAN flight took off from Shimla to Delhi on 27 April 2017. Since then, over 1.49 crore passengers have benefited from low-cost regional air travel.

India's airport network has grown from 74 airports in 2014 to 160 in 2025. Rs 4,023.37 crore has been disbursed as viability gap funding to support air connectivity in underserved regions. The scheme has boosted tourism, improved access to healthcare, and spurred trade in tier 2 and tier 3 cities, driving inclusive regional development.

This is just an indicative list of initiatives taken to improve the lives of the middle-class. Additional measures are currently in progress, with more being planned for the future.. The government fully recognises that the realisation of Viksit Bharat by 2047 hinges significantly on the increasingly effective and seamless participation of the middle class in shaping the nation's progress. ❑

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