Indian Economy · GS - III

Explain the concept of progressive taxation and bracket creep. Examine how inflation-linked adjustments in tax brackets and standard deductions can influence household disposable income and fiscal policy.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 06/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Progressive taxation, marginal tax rates, tax slabs, standard deduction, bracket creep, inflation indexation, real income, disposable income, tax burden, fiscal revenue, income redistribution and tax policy stability.

Model Answer

Introduction

Progressive taxation is a system in which higher income groups face higher marginal tax rates. It is widely used to promote equity and generate government revenue.

Understanding Bracket Creep

Bracket creep occurs when inflation increases nominal incomes, pushing taxpayers into higher tax brackets even though their real purchasing power has not improved. Inflation-linked adjustments to tax thresholds help reduce this effect.

Role of Standard Deductions

Standard deductions reduce taxable income and provide relief to eligible taxpayers. Increasing deductions can improve disposable income, particularly when household expenses rise due to inflation.

Implications for Fiscal Policy

Tax bracket indexation can protect taxpayers from unintended increases in effective tax burdens. However, adjustments may also influence government revenue and fiscal space. Policymakers must balance household relief with expenditure requirements and revenue sustainability.

Conclusion

A predictable and equitable taxation system should account for inflation, protect real household incomes and maintain adequate government revenue. Transparent tax adjustments strengthen fairness and economic stability.

BECOME IAS
AI POWERED UPSC PREP