



Red Taxation and Inequality: Who Bears the Burden? – its Impact on Business Growth in India

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The term "Red Tax" in India describes onerous tax laws and onerous administrative processes that make it difficult for both individuals and enterprises to do business. The phrase "Red Tax" is used to draw attention to areas that require additional reforms, even though the government has achieved great progress in lowering tax rates and streamlining the tax code. In an effort to stimulate economic growth and attract foreign investment, the government has attempted to lower corporation tax rates. To make it more competitive, for example, the corporate tax rate was lowered to 22% for new manufacturing firms and 25% for smaller ones.

To lessen the regulatory burden, the government has been attempting to streamline GST procedures, lower compliance costs, and provide a single-window clearing system for commercial transactions. Over the past few years, India has worked to make conducting business easier by lowering red tape, streamlining registration procedures, and simplifying tax payments. This Paper is one such focusing on the detailed part of Red Taxation on economy. How is this tax levied and what makes these taxes important for the economy.

Keywords: *Red Taxation, imposition, Need, Advantages and Disadvantages.*



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1. INTRODUCTION

A hypothetical taxation structure known as the "Red Tax" was created to solve important societal challenges such as social inequality, public health difficulties, and environmental degradation. It entails levying targeted taxes on particular products, services, or activities that negatively affect the environment or society in order to deter unwanted behavior and provide money for public welfare programs.

Red Tax is a fiscal policy tool that levies taxes on products, services, or behaviors that negatively impact the environment, public health, or societal well-being in order to promote social justice and sustainable development. The money collected is then used to fund specific reforms and welfare initiatives. In order to match financial incentives with societal priorities and promote a more sustainable and just future, the Red Tax is a practical policy tool.

2. Objectives of the Study:

- To understand the need for red taxation in India.
- To investigate the conceptual framework of Red Taxation towards Fiscal policy in India.

3. Research Methodology:

- The study is conceptual in nature.

4. Source of Information:

- The data and relevant information are collected for the journals, books, news articles, Upsc preparation notes and official websites of Income Tax Department and Central Board of Direct Taxes, Ministry of Finance.

5. Key Features of Red Taxation:

- Emphasis on Societal Impact: Addresses actions that lead to pollution, ill living habits, or inequalities in society.
- Behavioral Influence: Uses financial disincentives to promote ethical and sustainable behavior.
- Revenue Allocation: Projects that tackle the underlying causes of the targeted problems, such as social welfare, healthcare, or renewable energy, receive the funds that are generated.
- Progressive in nature: Designed to impose a greater burden on those who are more responsible for the issue (such as purchasers of luxury products or high-polluting businesses).

6. Examples of Similar Taxes:

- Taxes on carbon emissions, the use of fossil fuels, or excessive water use are known as the "environmental red tax."
- Red charge on Public Health: A charge on alcohol, tobacco, and sugar-filled drinks to deter unhealthy use.
- Luxury taxes on upscale products and services that fund social welfare initiatives are known as the "Social Equity Red Tax."

The "Red Tax" as a tax that targets important problems or industries that present serious hazards or difficulties to society, then there may be situations where it is necessary. Some potential explanations and arguments for enacting a "Red Tax" in India are listed below:

7. Sustainability of the Environment

- Red Tax, which represents the "red flag" of environmental degradation, could be linked to tackling pressing environmental issues.
- Carbon Emissions: To combat climate change, a tax on businesses or sectors of the economy that emit a lot of carbon dioxide. promotes spending on greener technology and renewable energy.
- Resource Depletion: A tax on excessive use of natural resources, such as minerals, sand, or water. Encourages conservation and sustainable resource management. Taxes imposed on businesses that pollute the air, water, or land are known as pollution penalties. Revenue can be used to finance green initiatives or cleanup work.

8. Issues with Public Health

- A Red Tax might target industries that are harmful to public health. Sin Tax: Tobacco, alcohol, sugar-filled beverages, and junk food are all subject to higher taxes in an effort to deter bad consumption habits.
- Campaigns for awareness and healthcare infrastructure can be funded with revenue. Industries that produce hazardous waste or chemicals are subject to taxes. promotes adherence to health rules and safer practices.

9. Redistribution of Wealth and Social Equity

- A red tax might be intended to improve social welfare or alleviate economic inequality.
- Luxury Tax: Higher taxes on upscale products and services that are only available to the rich. Welfare projects for underserved communities can be funded using revenue.
- Progressive Taxation: To more fairly redistribute wealth, progressive income tax systems should be strengthened. The money raised can be used to enhance public services, healthcare, and education.

10. Financial Benefits

- Revenue generation gives the government more money to spend on important areas

like infrastructure, technology, and education.

- Encouragement of Innovation: In order to lower tax burdens, industries may innovate, which could result in the development of green and sustainable technologies.

11. Crisis or Emergency Management

- Red Tax could be used to address issues that need immediate attention, like:
- Disaster Response: A short-term tax imposed in times of crisis, such as pandemics or natural catastrophes. Revenue helps with pandemic preparedness, infrastructure reconstruction, and disaster assistance.
- A levy imposed during times of increased threat to finance defense or counterterrorism efforts is known as the "war" or "national security" tax.

12. Conformity to the Global Goals

- Climate Commitments: Provides funds for climate change mitigation initiatives in support of India's obligations under the Paris Agreement.
- Sustainable Development: Complies with the SDGs, especially the ones that address health, clean energy, and inequality reduction.

13. Behavioural and Cultural shift

- Changes in Behavior and Culture Encourage Responsible Consumption: Higher tariffs on luxury or damaging goods encourage sustainable practices and thoughtful consumption.
- Corporate Accountability: By implementing sustainable business models, industries take greater responsibility for their effects on the environment and society.

14. Advantages of Putting in Place a "Red Tax"

- Behavioral Change: Promotes the adoption of ethical and sustainable behaviors by businesses and individuals.
- Revenue generation: Finances vital industries including disaster relief, healthcare, and the environment.

- Social Impact: Encourages fairness by imposing taxes on excessive or detrimental consumption habits.
- Global Alignment: Complies with international climate accords and global objectives such as the Sustainable Development Goals (SDGs).

15. Obstacles and Things to Think About

- Economic Impact: If not executed carefully, it may raise expenses for consumers and businesses.
- Regulatory Complexity: Necessitates strong systems to keep an eye on and enforce adherence.
- Public Backlash: If viewed as unjust or onerous, there may be opposition. Costs associated with implementation: administrative charges for efficiently monitoring, collecting, and using the tax.
- Tax Design: To prevent burdening lower-income groups, make sure the tax is progressive rather than regressive.
- Transparency: To foster public trust, there should be clear guidelines on how tax monies are spent.
- Enforcement: Strict procedures to avoid tax evasion and guarantee adherence

16. Imposition of Red Tax

- As a targeted tax that addresses important societal issues like social justice, public health, or environmental degradation, the "Red Tax" would need to be carefully planned and implemented. An outline of how such a tax might be implemented in India is provided below:
- Determining the Tax Goal: Determine the precise problem that the tax is intended to solve, such as lowering carbon emissions, deterring hazardous consumption, or providing financing for social initiatives.
- Sector of Interest: Determine whether products, services, or businesses—such as luxury goods, high-polluting industries, or unhealthy commodities—are causing the problem.

17. Lawmaking Structure

- Modify Current Laws: To include the new tax, amend existing legislation such as the

Income Tax Act, the Goods and Services Tax Act, or the Customs Act.

- Pass a New Law: If the Red Tax targets a particular area that isn't addressed by current frameworks, create a specific statute for it.

18. Tax Structure

- Establish clearly what is taxable (e.g., emissions, luxury items, unhealthy products) as the foundation for tax design.
- Tax Rates: Establish rates according to the intended effect, such as variable rates for environmental taxes, flat rates for sin taxes, or progressive rates for luxury goods.
- Range: Depending on the scope of the problem, determine if the tax is applicable locally, regionally, or nationally.

19. Collection Authority

- Implementation Mechanism Collection Authority: Indicate if state or local governments or the federal government (such as the GST Council) is in charge of collecting the tax.
- Connecting to Current Systems: To expedite compliance and prevent the development of a new system, integrate the Red Tax into already-existing tax systems such as the GST Network (GSTN).
- Location of Collection: Indicate if taxes are collected during the stages of manufacture, sale, or consumption.

20. Utilization of Revenues

- Funds Earmarking: By designating income for particular uses, such as healthcare, disaster relief, or environmental programs, you can maintain openness.
- Responsibility: To foster public trust, put in place procedures for auditing and reporting on the use of funds.

21. Mechanisms for Monitoring and Compliance Audits

- Consistent audits and inspections to make sure people and companies abide by tax laws.
- Technology Integration: Track taxable activities, such as luxury purchases or carbon emissions, using digital platforms.

- Penalties for Evasion: Apply severe sanctions for evasion or noncompliance.

22. Public Awareness and Acceptance Consultation

- Throughout the tax design process, consult with stakeholders such as public health specialists, environmental specialists, and industry representatives.
- Campaigns for Awareness: To overcome opposition and win support, educate the public about the benefits and justification of the tax.
- Rewards: To counteract the financial impact, provide tax credits or subsidies for implementing sustainable activities.

23. How the Red Tax Might Be Implemented

- Environmental Tax: Charged to businesses that emit more carbon dioxide than is allowed. Rate that is correlated with the amount of emissions, promoting decreases.
- Sin Tax: Higher GST rates on goods like alcohol and tobacco (28% plus cess). collected at the point of sale, increasing the cost of these products.
- Luxury Tax: Levies extra taxes on expensive goods including jewelry, luxury cars, and first-rate services. Funds are utilized for equity and welfare initiatives.
- Crisis Tax: A short-term increase in revenue or business profits in the event of a pandemic or natural calamity. A sunset clause that is well-defined to guarantee that it is temporary.

24. Disadvantages in Red Taxation:

The "Red Tax" has the potential to be very beneficial, but it also has drawbacks and difficulties, especially when considering India's socioeconomic situation. These disadvantages emphasize the necessity of meticulous preparation and execution.

25. Impact on the Economy

- Higher Expenses for Companies: Excessive taxes on goods or industries may increase production costs and reduce the competitiveness of Indian commodities on international markets.
- Consumer Burden: Price increases from higher taxes on products and services

could disproportionately impact households with lower and moderate incomes.

26. Regressive Effects

- Regressive Effects on Vulnerable Groups: Taxes on necessities (such as energy or gasoline) may have a more negative impact on the poor than on the rich.
- Widening Inequality: If the tax is badly crafted, it may make inequality worse rather than better.

27. Stakeholder opposition

- Industry Opposition: Companies operating in impacted industries (such as luxury products and fossil fuels) may oppose the tax through lobbying or resistance.
- Public Backlash: If increased taxes are seen as unjust, particularly if there are no obvious benefits or clear guidelines for how the money is being used, people may resist them.

28. Administrative Difficulties

- Complexity of Implementation: Keeping an eye on and enforcing a new tax may put a burden on the administrative framework that currently exists.
- Risk of Evasion: Raising taxes could encourage tax evasion, which would reduce revenue and defeat the goal of the tax.
- Cost of Compliance: Higher administrative and compliance expenses may be incurred by the government and enterprises alike.

29. A slowdown in the economy

- Decreased Consumer Spending: Tax increases have the potential to lower disposable income, which would impede economic expansion and consumption.
- Possible Job Losses: Businesses hit by the additional levies may decide to reduce staff in order to save money, which would result in joblessness.

30. Unexpected Repercussions

- Market Distortions: When some industries are overtaxed, it may cause changes in producer or consumer behavior that are detrimental to other areas of the economy.

- Black Market Growth: Smuggling and illegal trade may be aided by higher tariffs on goods like alcohol and tobacco.

31. Abuse of Income

- Lack of Accountability: Tax revenue may not be used for its intended purposes if appropriate checks are not in place.
- Inefficiency: Trust in government may be damaged if funds are not clearly enhancing environmental or public welfare.

32. Sector-Specific Difficulties

- Agriculture and Small enterprises: Small-scale farms and enterprises, who do not have the resources to implement sustainable practices, may be disproportionately impacted by taxes on areas like emissions or water usage.
- Limitations on Luxury Taxes: Industries that depend on luxury markets may suffer if there is an excessive emphasis on taxing luxury goods.

33. International Relations and Trade

- Decreased Competitiveness: Higher input prices brought on by production or environmental taxes may make Indian exports less alluring.
- Global Supply Chain Problems: Supply chains may be disrupted by high taxation on specific industries, which could have an impact on trade relations internationally.

34. Risk of Policy Misalignment

- Overlap with Current Taxes: Redundancy and inefficiency may result if the Red Tax crosses over with existing taxes (such as the GST or carbon tax).
- Lack of Coordination: Administrative disputes and uneven execution may arise from a lack of coordination between federal and state policies.

35. Suggestions for Reducing Drawbacks

- Make sure the tax is progressive so that major firms and the wealthiest people are held to a higher standard.
- Rewards for Adherence: Offer tax breaks or subsidies to encourage the use of sustainable technologies or practices.

- Campaigns for Public Awareness: To lessen opposition, inform interested parties of the tax's goals and advantages.
- Transparent Revenue Use: Clearly state how the tax money will be utilized to solve social, environmental, or public health concerns.
- Pilot Initiatives: Before implementing the tax widely, test it in particular industries or geographical areas to find any problems.

36. Way Forward:

A systematic approach that minimizes negative effects while balancing economic, environmental, and social goals is necessary to guarantee the successful implementation of a "Red Tax" in India. Stakeholder involvement, careful planning, and strong enforcement procedures should be the main focuses of the future.

37. Explicit Policy Goals

- Describe the Red Tax's precise objectives, such as lowering pollution and environmental damage. Discouraging bad habits of consumption.
- supporting welfare programs and advancing social justice.
- Align the tax policy with India's pledges made in the Paris Climate Agreement and the Sustainable Development Goals (SDGs).

38. Design of Progressive Taxes

- Equitable Structure: To prevent regressive effects, make sure the tax burden is proportionate to industrial output or income levels.
- Application Specific to a Sector: Focus on products or industries that have the biggest effects on society or the environment, like: High-polluting industries (coal, cement, steel, etc.). upscale products and services.goods that are harmful, such as alcohol, smoke, or sugary drinks.
- Rewards for Adherence:Provide tax credits or rebates for implementing sustainable practices or green technologies.

39. Clear Allocation of Revenue

- Earmark Funds: Distribute Red Tax proceeds to designated initiatives, such renewable energy projects. Enhancements

to the healthcare infrastructure. Disaster relief and environmental preservation.

- Responsibility Mechanisms:To maintain openness and foster public confidence, publish reports on the utilization of tax funds on a regular basis.

40. Stakeholder Engagement

- Industry Participation and Stakeholder Engagement: Collaborate with companies to find workable ways to lower their tax liability through sustainable practices.
- Campaigns for Public Awareness: Inform the public about the tax's objectives and advantages. Emphasize how money will be utilized to solve important societal issues.
- Policy Discussions: Work with economists, environmentalists, and legislators to create fair and sensible tax laws.

41. Boosting Enforcement and Governance

- Digital Monitoring Systems: Make use of technology to keep an eye on taxable activities like luxury purchases or carbon emissions.
- Anti-Evasion Measures: Strictly punish fraud and tax evasion.
- Integrated Administration: To cut down on complexity and administrative expenses, match Red Tax collection with current systems, such as GST.

42. Pilot Program Implementation

- Regional or Sectoral Pilots: Prior to a national rollout, test the Red Tax in a few chosen sectors or geographical areas. To find problems and improve the tax structure, use pilot programs.
- Mechanisms of Feedback: Get input from interested parties to resolve issues and enhance execution.

43. Global Best Practices

- Examine Worldwide Models: Analyze effective examples of comparable levies, such as carbon taxes in European nations. Southeast Asian countries impose sin taxes on tobacco and sugar-filled beverages. Taxes on luxury in industrialized nations.
- Adjust to the Local Situation: Adapt international procedures to the particular

economic, social, and environmental circumstances of India.

44. Policy Integration

- Complementary Measures for Policy Integration: Combine the Red Tax with grants or incentives for environmentally friendly behaviors, such as the usage of electric vehicles or renewable energy.
- Conformity to Current Policies: To get the most impact, work with India's current social welfare, healthcare, and environmental programs.

45. Maintaining Economic Growth

- Assisting Affected Sectors: Offer monetary or technical assistance to sectors making the shift to sustainable practices.
- Consumer protection: Put policies in place to guarantee that low-income populations can continue to afford necessities.

46. Constant Evaluation and Adjustment

- Frequent Evaluations: Track how taxes affect society, the environment, and the economy.
- Modifications to the Policy: Adjust tax rates, exemptions, or allocation plans in light of stakeholder input and performance.

47. CONCLUSION

India's social inequalities, public health emergencies, and environmental degradation are some of the urgent issues that the "Red Tax" could help with. But careful planning, open governance, and ongoing stakeholder involvement are essential to its success. India can make great progress toward inclusive and sustainable growth by coordinating the tax with more general developmental objectives and making sure it is applied fairly.

A revolutionary fiscal strategy for tackling India's pressing social and environmental issues is the idea of "red taxation." The Red Tax seeks to promote responsible conduct and provide money for specific development projects by systematically charging goods, services, or industries that fuel environmental deterioration, unhealthy lifestyles, or social injustices. Stakeholder cooperation, transparent governance, and balanced implementation are necessary for such a tax to be successful. Although it has a great

deal of potential to bring about positive change, important factors to take into account include minimizing its regressive effects, making sure that money is distributed fairly, and encouraging confidence between businesses and citizens.

Red taxation has the potential to promote sustainable and equitable development in India. This taxation approach can help create a future that is not only economically dynamic but also ecologically robust and socially inclusive by carefully balancing the economic, social, and environmental aspects. Red taxation has the ability to solve India's most urgent problems and open the door to a more sustainable, healthy, and just society if it is well-thought-out, widely supported, and implemented.

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