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Twenty-Five Years of Direct Tax Reforms in India (2001-2025)

Dr. Parul Jain

ABSTRACT

Tax receipts are needed to meet the basic functions of the State. During the last twenty-five years a number of reforms have been introduced in the arena of direct taxes. Direct taxes are grouped under two heads-corporation tax and taxes on income other than corporation tax. Direct tax reforms in India mainly comprise of reforms in corporation tax and reforms relating to exemption limit/threshold limit, rate structure, standard deduction, expanding tax base, improving tax collections and administrative reforms. Companies which comprise of domestic and foreign companies are subjected to flat rate. Reforms in this area have mainly comprised of reduction in tax rates. An attempt has been made in India to make the concept of income as broad as possible and tax is levied on 'slab system basis'. During the last twenty five years, the general trend has been to increase the exemption limit /threshold limit, revise the tax slabs tax rates in different income slabs, revise the period of holding and rates in respect of capital gains tax and has made tax administration more transparent, efficient and tax-payer friendly . As a result tax base has expanded and direct tax collections have gone up considerably. However, certain areas of concern still remain which include nearly constant tax-GDP ratio, lower tax buoyancy, continued tax avoidance and evasion and problems of arrears of assessment and collections, as also pendency of appeals.

Keywords: direct tax reforms, exemption limit/threshold limit, taxable slabs and tax rates, tax administration, tax-gdp ratio, tax buoyancy, tax administration.

Classification: JEL Code: H20, H24, H26

Language: English

Great Britain Journals Press

LJP Copyright ID: 146471
Print ISSN: 2633-2299
Online ISSN: 2633-2302

London Journal of Research in Management & Business

Volume 25 | Issue 7 | Compilation 1.0

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Twenty-Five Years of Direct Tax Reforms in India (2001-2025)

Dr. Parul Jain

ABSTRACT

Tax receipts are needed to meet the basic functions of the State. During the last twenty-five years a number of reforms have been introduced in the arena of direct taxes. Direct taxes are grouped under two heads-corporation tax and taxes on income other than corporation tax. Direct tax reforms in India mainly comprise of reforms in corporation tax and reforms relating to exemption limit/threshold limit, rate structure, standard deduction, expanding tax base, improving tax collections and administrative reforms. Companies which comprise of domestic and foreign companies are subjected to flat rate. Reforms in this area have mainly comprised of reduction in tax rates. An attempt has been made in India to make the concept of income as broad as possible and tax is levied on 'slab system basis'. During the last twenty five years, the general trend has been to increase the exemption limit /threshold limit, revise the tax slabs tax rates in different income slabs, revise the period of holding and rates in respect of capital gains tax and has made tax administration more transparent, efficient and tax-payer friendly . As a result tax base has expanded and direct tax collections have gone up considerably. However, certain areas of concern still remain which include nearly constant tax-GDP ratio, lower tax buoyancy, continued tax avoidance and evasion and problems of arrears of assessment and collections, as also pendency of appeals.

Broadening of tax base is necessary to ensure growth of revenue . there should be sustained expansion of coverage and judicious use of differential rates. There should be complete integration of agricultural and non-agricultural incomes for tax purposes. The fight against tax evasion and corruption should be continuous and sustained and family should be the unit of assessment.

Keywords: direct tax reforms, exemption limit/threshold limit, taxable slabs and tax rates, tax administration, tax-gdp ratio, tax buoyancy, tax administration.

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I. INTRODUCTION

We often wonder why we should pay taxes. Justice Wendell Homes once said, "With taxes, I buy Civilisation". Tax receipts are needed to meet the basic functions of the State. Taxation, by definition, is a compulsory payment under the law and there is no one-to-one link between the tax that one pays and the services one receives. There are certain taxes which are clearly visible because a person on whom the tax is legally imposed directly pays it and its impact and incidence is borne by the same person. Such taxes are termed as direct taxes. On the other hand, there are certain taxes which are embedded in the price of goods and services that one purchases. In such cases, impact and incidence of tax are different on different persons. Such taxes are termed as indirect taxes. Since the advent of Economic Reforms in 1991, a number of reforms have been introduced in the arena of direct taxes which is the subject matter of the present paper. Direct taxes can be grouped into two categories (i) taxes on income and expenditure which includes corporation tax, taxes on income other than corporation tax(except agricultural income) and expenditure tax, (ii) taxes on property and capital transactions which have included estate duty, gift tax, wealth tax, etc. Expenditure tax was introduced in India in 1958, abolished in 1962, re-introduced in 1964 and again abolished in

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1966. Estate duty was introduced in 1953 but it was abolished in 1985. Similarly, gift tax was introduced in 1958 but it was finally abolished in 1998. Wealth tax was introduced in India in 1957 but this tax was also finally abolished by Finance Act, 2015. Banking Cash Transaction Tax was introduced from June 1, 2005 but was withdrawn from April 1, 2008. Direct taxes also include taxation of fringe benefits, presumptive taxation, minimum alternative tax. The Direct taxes in India presently comprise of Corporation tax which is levied at specific rates on profits that enterprise make from their business by public and privately registered companies and income which is imposed on net income on profit other than companies from their earnings or gains. Another prevailing direct tax is Security Transaction Tax (STT) which is levied on the value of taxable securities purchased and sold through a recognised stock exchange in India. Since the yield from STT is small the present paper discusses reforms since 2001 only in respect of corporation tax and taxes on income other than corporation taxes. The important areas discussed comprise of changes in tax structure of direct tax, reforms in corporation tax, reforms relating to exemption limit/threshold limit, rate structure, standard deduction, expanding tax base and improving tax collections, administrative reforms, etc.

II. REFORMS IN CORPORATION TAX

Corporation tax is levied on income of companies and corporations. It is justified on the ground that corporation /company is a separate entity and, therefore, has a separate liability to pay, apart from the ability of its shareholders. Separate taxation of corporate income arises primarily out of financial needs of the governments and has become a regular, universal and indispensable feature of the tax system. At present, companies are classified for income tax purposes into (i) domestic company (which has made prescribed arrangements for the declaration and payment of dividend in India), and (ii) foreign company. Companies have always been subjected to a flat rate of tax, although rates have varied according to the nature of company. The incidence of tax has always been lowest in the case of companies in which public are substantially interested. The rate of tax for such companies was 35 per cent for the assessment year (assessment year in one year ahead of the financial year) 1998-99 to 2005-06. This rate was reduced to 30 per cent up to 2017-18. The Union Budget for 2018-19 reduced the tax rate to 25 per cent for those domestic companies whose total turnover or gross receipts did not exceed Rs.250 crore –thus benefiting 96 per cent companies and the entire class of Micro Small and Medium Enterprises (MSMEs). Foreign companies have, however, been subjected to a higher rate of tax which was 48 per cent for the assessment year 1998-99 to 2002-03 and was reduced to 40 percent for the assessment year 2003-04 onwards. The tax rate was lowered to 29 per cent for companies with turnover up to Rs.5 crore and manufacturing companies incorporated on or after 1.3.2016 were given an option to be taxes at 25 per cent without claiming any deductions. During 2017-18, tax rate on domestic companies with turnover or gross receipts less than or equal to Rs.50 crore in financial year 2015-16 was reduced from 30 per cent to 25 per cent. The Budget for 2018-19 affirmed Government's intention on fiscal consolidation and the rate of income tax for companies with a turnover up to Rs. 250 crore in financial year 2016-17 was reduced to 25 per cent. On September 20,2019, corporation tax rates were slashed from 30 per cent to 22 per cent and from 25 per cent to 15 per cent for new manufacturers. As a result, the effective corporate tax rate went down from 26.89 per cent in 2016-17 to 22.54 per cent in 2019-20 and further to 22.2 per cent in 2020-21. In 2020-21, the effective tax rate was 16.98 per cent for public limited companies and 23.37 per cent for private limited companies. In this year, effective tax rate was 25.68 per cent for manufacturing companies and 20.75 per cent for non-manufacturing companies. The Union Budget of 2024-25 maintained status quo in respect of corporation taxes on domestic companies. However, tax rates for foreign companies were reduced from 40 per cent to 35.40 per cent on income excluding income subject to special rates.

III. REFORMS IN TAXES ON INCOME OTHER THAN CORPORATION TAX

Income is a flow concept . An attempt has been made under the Income Tax Act to make the concept of income as broad as possible. The Income Tax Act enumerates the source of income under various heads which comprise of (i) salaries, (ii) income from house property, (iii) profit and gains of business and profession, (iv) capital gains, and (v) income from other sources. The aggregate income under these heads is termed as 'gross total income'. Further, separation of agricultural and non-agricultural incomes for taxation purposes is perhaps unique in India because under the Indian Constitution, only the State Government are empowered to tax agricultural incomes. However, since 1973-74 partial integration of agricultural and non-agricultural has been done in the sense that agricultural income is added to non-agricultural income tax rate purposes on non-agricultural income but it is still not taxes. Income tax in India is levied on income of the 'previous year' which is the financial year and 'assessment year' is one year ahead of the 'previous year'. On the basis of residence, tax payers are classified as (a) resident in India and, (b) non-resident. Taxable entities comprise of (i) individuals, (ii) Hindu Undivided Families, (iii) Association of Persons, (iv) Firms (registered and unregistered), (v) Companies (Domestic and Foreign), (vi) Co-operative Societies, (vii) Religious and Charitable Trusts and (viii) Local Authorities. For tax Rate purposes, these different taxable entities are treated differently . Income tax in India has a long and chequered history. In its modern form it was first introduced in 1860 but it became a permanent feature since 1886. Since 1886, the structure of taxation of income has undergone a series of changes. Since 1939, the rate structure has been built on 'slab system' under which rates increase progressively with an increase in each slab of income. At present, taxation of income is governed by the Income Tax Act, 1961.

Reforms in the area of taxes on income other than corporation tax during the last twenty-five years have been undertaken broadly in the following areas:

(i) Reforms in Exemption Limit/Threshold limit
(ii) Reforms in the taxable slabs and rates of Income tax
(iii) Reforms in Capital Gains tax
(iv) Reforms in Tax Administration
(v) Expanding the Tax Base and improving Tax Collections

3.1 Reforms in Exemption Limit/Threshold Limit

The basic exemption limit also called the 'Threshold Limit' refers to the limit of the total taxable income up to which an individual or other taxable entities would not have to pay any tax. The payment of tax begins only after the taxable income crosses this limit. The theoretical rationale for prescribing a minimum exemption limit is that it is not administratively feasible to assess small income earners because in their cases the cost of collection is likely to be much higher than the revenue yield. Further, the endeavour of Indian Government has always been to keep the incidence of tax at relatively low level for small income groups. Hence, there has been a gradual increase in basic exemption limit for taxpayers. The exemption limit was gradually increased from Rs.22000 in 1990-91 to Rs.50000 in 1998-99, to Rs.100000 in 2006-07, to Rs. 150000 in 2008-09 and to Rs.250000 in 2014-15. For senior citizens (60 years and above), the exemption limit was fixed at Rs. 300000 and for very senior citizens (80 years and above) it was fixed at Rs.500000. The Union Budget of 2023-24, increased the basic exemption limit from Rs.250000 to Rs.300000. The tax regime was classified into two tax regime-the old tax regime and the new tax regime (henceforth termed as default regime). While the exemption limit under the old tax regime was Rs.250000 (with different deductions allowed), the exemption limit was raised to Rs.300000 under the new tax regime (with only certain specified deduction). Further, the tax payer will henceforth have the choice either to opt for old tax regime or new tax regime. The minimum threshold at which taxes will not have to be paid was also increased from Rs 5 lakh to Rs.7 lakhs under the new tax regime but the limit was continued at Rs.5 lakh under old tax regime. The Union Budget 2025-26 has made the new tax regime more attractive by increasing the

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exemption limit to Rs.4 lakh and increasing the threshold limit from Rs.7 lakh to Rs.12 lakh. This means that the person with taxable income up to Rs.12 lakh will henceforth not have to pay income tax. In addition, standard deduction (for salaried individuals and pensioners) of Rs.75000 is allowed which means that salaried tax payer will not have to pay any income tax if his/her salary is up to Rs.12.75 lakh. Further, provision of marginal relief has also been made. This means that a person having income up to Rs.12.10 lakh will pay only Rs.10000. Tax payer with taxable income of Rs.1270000 will pay Rs.70000 instead of Rs.70500 without marginal relief.

3.2 Reforms in the Taxable Slabs and Rates of Income Tax

Progressivity is an essential feature of a modern income tax system. Towards this end, income taxation in India has been made progressive. Direct taxes in India are collected by the way of tax deduction at source, advance tax, self-assessment tax and regular assessment. There was a tendency to increase the statutory marginal rates up to 1973-74-when the marginal rate was 97.75 per cent (including surcharge) for income above Rs.200000. Since these high rates were confiscatory and encouraged tax evasion, the maximum rate of income tax was brought down to 50 per cent in 1990-91. The limit was brought down to 40 per cent in 1992-93 and further to 30 per cent in 1997-98. This rate continues to this day. The highest rate of 30 per cent was applicable on income above Rs.2.5 lakh in 2005-06, Rs.5 lakh in 2008-09, Rs.8 lakh in 2010-11, Rs. 10 lakh in 2013-14. For the financial year 2023-24, 30 per cent slab is applicable on taxable income above Rs.15 lakh. The Finance Act 2025 has made 30 per cent tax applicable on taxable income above Rs.24 lakh.

Reforms have also been introduced in respect of tax slabs. In 1973-74, there were over 11 tax slabs but it was realised that greater is the number of slabs, larger is the distortion due to 'bracket creep'. Hence, in later years, government has reduced the number of slabs and rearranged the slabs. In 2004-05, the tax slabs were 10 per cent between Rs.50000 to Rs.60000, 20 per cent between Rs.60000 to Rs.150000 and 30 per cent above Rs. 150000. In the Union Budget for 2005-06, there was restructuring of income tax slabs. Henceforth, tax was levied at the rate of 10 per cent on incomes between Rs.1 lakh to Rs.1.5 lakh, 20 per cent between Rs.1.5 lakh to Rs.2.5 lakh and 30 per cent on incomes exceeding Rs.2.5 lakh. As already pointed out, a new income tax regime (termed as default regime) was introduced from April1, 2023 but the old tax regime was also continued. Under the old tax regime, there were 4 slabs of 5% (Rs.2.5 lakh to Rs.5.lakh), 15% (Rs.5 lakh-Rs.7.5lakh), 20% (Rs.7.5lakh to Rs.10 lakh) and 30% (above Rs.10 lakh). But under the new tax regime, 5 slabs were introduced. No tax would be levied on income up to Rs.3 lakh, income from Rs.3 lakh to Rs.6 lakh would be taxed at 5%, Rs.6 lakh to Rs.9 lakh at 10%, Rs.9lakh to Rs.12 lakh at 15%, Rs.12 lakh to 15 lakh at 20% and above Rs.15 lakh at 30 per cent. For salaried individuals and pensioners , the benefit of standard deduction of Rs.50000 was extended in the new tax regime also. For the financial year 2024-25, there was a revision in the tax slab. Henceforth, tax rate of 5 per cent would be applicable to incomes between Rs.3 lakh to Rs.7 lakh, 10 per cent in the income slab of Rs.7 lakh to 10 lakh, 15 per cent for income slab of Rs.10 lakh to 12 lakh, 20 per cent for income slab of Rs.12 lakh to 15 lakh and 30 per cent for taxable income above Rs.15 lakh. The standard deduction was also increased from Rs.50000 to Rs.75000 for salaried taxpayers and pensioners. In the Union Budget for 2025-26, income tax slabs have again been restructured . Beyond the exemption limit of Rs.4 lakh, the tax rate would henceforth be 5 per cent between Rs.4 lakh-Rs.8lakh, 10 per cent Rs.8 lakh-Rs.12,15 per cent between Rs.12 lakh-Rs.16 lakh, 20 per cent between Rs.16 lakh-Rs.20 lakh, 25 per cent between Rs.20 lakh-Rs.24 lakh and 30 percent on taxable income above Rs.24 lakh. As a result , tax will be lower by 25 per cent on taxable incomes up to Rs.15 lakh and by 30.8 per cent on income of Rs.19 lakh (resulting in saving of Rs.80000. In addition, tax payer has to pay 4 per cent health and education cess on the amount of tax. The slabs and rates under the old tax regime, however, remain unchanged .All these changes have made new income tax regime more attractive by offering

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higher tax free limits, lower tax rates and simplified compliance. Consequently, the tax compliance has improved. The total number of income tax payers has increased from 18 million in 1998-99 to 29.8 million in 2005-06, 34.1 million in 2009-10 39.1 million in 2014-15, 63.9 million in 2020-21 and 79.7 million in 20023-24.

3.3 Reforms In Capital Gains Tax

By including realised capital gains in income, India has come closer to the economic definition of income as 'the net accretion in spending power between two points of time'. Profits and gains arising from the transfer of capital asset made in the previous year are termed as 'capital gains'. Under Indian Income Tax Act, 1961, assets are classified as long term capital assets and short term capital assets. A long-term capital asset has been one which is held by the taxpayer for more than 36 months immediately prior to its date of transfer. However, in case of equities and securities listed in a recognised stock exchange, etc., the period of holding was 12 months . While short-term capital gains were earlier included in income, they can be taxed at 15 per cent. In case of listed shares/securities, the tax payer has the option either to pay 10 per cent tax without cost of inflation indexation or 20 per cent with cost of inflation index (with the base year of 1981). In the case of long-term capital gains, tax was payable at 20 per cent, after allowing for indexed cost of acquisition and improvements are deducted. Cost of inflation index has been gradually increased with the passage of time. In the Union Budget for 2017-18, period of holding for computation of long term capital gains in case of immovable property was reduced from 36 months to 24 months to give filip to the housing sector and base year was shifted from 1981 to 2001. The Union Budget for 2018-19 introduced Long Term Capital Gain(LTCG) by imposing 10 per cent LTCG from April 1,2018 exceeding Rs.1 lakh. For calculating such capital gains, the highest quoted price as on 31^{st} January, 2018 or cost of purchase, whichever is higher, would be taken as cost of purchase. The Union Budget for 2024-25 made holding period for LTCG or STCG uniform at 12 months but increased the rate from 10 per cent to 12.5 per cent (without indexation), with exemption limit of Rs.1.25 lakh.

3.4 Reforms in Tax Administration

Tax policy and tax administration are inextricably linked. Tax administration must, therefore, evolve as internal dynamic process to promote an effective application of tax policy. With increased revenue from existing sources, there is need for constant search for new sources of revenue. This calls for building up a professional cadre of administrators who may implement the tax system more equitably and efficiently . In the long run, it has to be ensured that tax administration instruments facilitate the implementation of tax policy goals. The Central Board of Direct Taxes (CBDT) under the Department of Revenue in the Ministry of Finance provides essential inputs for policy and planning of direct taxes in India. Tax administration process in the Income Tax Department involves allotment of Permanent Account Number (PAN) filling of Income Tax Returns (ITRs), processing of ITR, appeal process, etc. In the Year 2020-21, government adopted reform measures in order to provide long term more transparent, efficient and tax-payer friendly tax administration. 'Honouring the Honest' platform was launched in August 2020. The key feature of the platform are:

Usage of technology, data analytics and Artificial Intelligence, and Recognising tax payer as partners in nation building.

Today, this platform stands on three pillars of tax administration reforms namely faceless assessment, faceless appeal and tax payer charter.

3.5 Expanding the Tax Base and Improving Tax Collections

Broadening the tax base is necessary to ensure growth of revenue. With increasing reliance on voluntary compliance, it becomes important for the Tax Department to put in place an effective mechanism for collecting information from various sources to identify persons who are liable to pay tax but have avoided payments so as to bring them into the tax net –thereby broadening the tax base. The government has taken a number

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of measures to increase taxpayers base. Some of the measures include introduction of (i) Presumptive scheme of computation of income for persons engaged in retail trade, (ii) Estimated Income Method of assessment for certain categories of tax payers, (iii) Minimum Alternate Tax(MAT) or Alternate Minimum Tax (AMT) on Companies and Non-Companies Assesses from 2012-13, enlarging the scope of deduction of tax at source, (iv) Obligatory filing of Income Tax Return based on certain economic indicators, (vi) Providing for penalty of wrong return of income, (vii) Compulsory mention of bank account umber in income tax return. In addition, the government has also made it compulsory to quote Permanent Account Number (PAN) in high value transactions and has undertaken several measures to check avoidance and evasion of income tax. As a result, despite increase in exemption limit, threshold limit, rationalisation of tax rates and reliefs granted in various areas, voluntary compliance has improved.

Consequently, tax receipts from direct taxes has considerably gone up in respect of income tax, corporation tax and total direct tax, as shown in Table 1. Total direct tax collection increased from Rs.68306 crore in 2000-01 to Rs.445995 crore in 2010-11, to Rs. 950000 crore in 2020-21 and is projected to be Rs.2520000 crore in 2025-26 (BE 36.9 times in 25 years). Within direct taxes, yield from corporation tax increased from Rs.35696 crore in 2000-01 to Rs.298688 crore in 2010-11 , to Rs.460000 crore in 2020-21 and is estimated to be Rs.1080000 crore in 2025-26 (BE-30.2 times in 25 years). Increase in receipts from corporation tax, despite reduction in corporation tax rates over the years has been possible on account of increasing importance of company form of organisation, increased profitability due to various economic reforms and consequent increase in the number of tax payers. Similarly, gross tax receipts from income tax have increased from Rs.31764 crore in 2000-01 to Rs.139102 crore in 2010-11, to Rs.490000 crore in 2020-21 and is expected to be Rs.1440000 crore in 2025-26 (BE-45.3 times in 25 years). Composition of direct tax receipts has also changed. A significant feature of change in direct tax receipts is that up to 2019-20, yield from corporation tax was higher than income tax but in 2020-21, receipts from income tax were higher than receipts from corporation tax , more so during the last two years. Another notable feature is that share of direct tax collection in gross tax revenue has gone up with the passage of time . This share was only 38.42 per cent in 2002-03 but increased to 60.46 per cent in 2009-10 and in 2025-26 it is estimated to be 59.0 per cent. During last 25 year, the share of direct taxes in gross tax revenue has been more than 50 per cent in 18 out of 25 years. The increased contribution of direct taxes to gross tax revenue over the years has been in line with the government's efforts to enhance progressivity in taxation. The efficiency of tax collection has also increased over time. Table 2 and 3 throw light on the rates of growth and tax GDP ratios during last 25 years in respect of corporation tax, income tax and total direct taxes. While rate of growth in respect of total direct taxes has been positive in 23 out of 25 years, it has varied in different years. The highest rate of growth was in the year 2006-07 when it was 39.33 percent, followed by 35.63 per cent growth in 2007-08. Similarly, the rate of growth in respect of corporation tax was 42.50 per cent in 2006-07 and 33.67 per cent in 2007-08. Almost similar trend is witnessed in respect of income tax when rate of growth in income tax collection was 34.13 per cent in 2006-07 and 36.71 per cent in 2007-08. While growth rate in corporation tax collections was negative in 2019-20 and 2020-21, it has been higher than growth rate of collection in income tax during the last five years.

IV. AREAS OF CONCERN

India has witnessed increased collections in absolute terms from taxes. Gross tax revenue has increased from Rs.188603 crore in 2000-01 to Rs.793307 crore in 2010-11, to Rs.2027102 crore in 2020-21 and is expected to be Rs.4270000 crore in 2025-26(BE). Thus, during a span of 25 years, gross tax revenue has become 22.6 times. But there are certain areas of concern which need to be addressed. These are: (i) Tax-GDP ratio, (ii) Tax-Buoyancy, (iii) Tax avoidance and tax evasion and (iv) Tax Administration.

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4.1 Tax-Gdp Ratio

Despite increased collections in absolute terms from taxes, a cause of concern has been that the tax-GDP ratio has not shown much improvement. Gross tax revenue has become 18.4 times from Rs.188604 crore in 2000-01 to Rs.3470000 crore in 2023-24. But India's GDP is nominal terms has also become 13.9 times during the same period from Rs.2089499 crore in 2000-01 to Rs.29104354 crore in 2023-24. Hence, the tax-GDP ratio has only shown moderate improvement. During the last 25 years between 2000-01 to 2023-24. total tax/GDP ratio which was 8.7 in 2000-01 increased moderately. The ratio was highest at 12.6 in 20007-08 but again declined in later years. The ratio was 11.7 in 2023-24,11.9 in 2024-25 (RE) and is expected to be 12.0 in 2025-26(BE). If we analyse the tax-GDP ratio of direct taxes, the situation is better. This ratio was 3.3 in 2000-01, 5.7 in 2010-11,6.0 in 2021-22 and 6.2 in 2023-24. The breakup of direct tax to GDP ratio into corporation tax and income tax reveals that ratio of corporation tax to GDP was 1.7 in 2000-01, it was highest at 4.15 in 2012-13 and was 3.2 in 2023-24. Against this, income tax/GDP ratio was 1.5 in 2000-01, 2.1 in 2007-08, 2.5 in 2020-21 and was highest at 3.1 in 2023-24.

4.2 Tax Buoyancy

Changes in the tax receipts of government takes place with changes in Gross Domestic Product (GDP). The overall responsiveness of the tax revenue to changes in GDP is called tax buoyancy.

Buoyancy is calculated by applying the formula-

$$B=\frac{\Delta T/T}{\Delta Y/Y}$$

Where ΔT= percentage change in tax revenue and ΔY is the percentage change in national income. If the buoyancy factor is greater than 1, it implies that tax receipts grow more than the growth rate in GDP. The direct tax, buoyancy factor was 2.27 in 2000-01.It was highest at 2.53 in 2002-03 but declined in later years to a low of 0.8 in 2015-16 but again improved to 1.8 in 2023-24. Buoyancy factor has fluctuated more in respect of corporation tax and income tax. In certain years it has also been less than one. It was 0.6 in 2016-17 for corporation tax and 1.9 in respect of income tax. Higher buoyancy factor in recent years in respect on taxes other than corporation tax has been possible due to rapid increase in receipts from income tax. But we think that buoyancy factor needs to be improved in respect of direct taxes by deploying several steps.

4.3 Tax Avoidance And Tax Evasion

Any planning of tax which, although done strictly according to legal requirements but defeat the basic intention of legislature behind the statue, is termed as tax avoidance. On the other hand, tax evasion denotes downright defrauding of revenue through illegal acts and deliberate suppression of the facts relating to one's true tax liability. But the consequences of tax avoidance and tax evasion are to reduce revenue for the government and need to be checked to the greatest extent possible.

The avoidance and evasion are worldwide phenomenon, including India, although its intensity and scale varies. The problem of tax avoidance and tax evasion is more serious in the case of direct taxes because the incidence of direct taxes is borne by the person who pays them in the first instance. There is no reliable estimate of black money generation but it is well accepted that tax evasion in India is increasing with passage of time. There is a parallel black money economy which is playing havoc in India. Although, Government of India has undertaken several measures to combat black economy but the fact is that the malady of tax evasion continues and that too on an increasing scale. We think that fight against tax evasion and black money has be at ethical, socio-economic and administrative level.

V. TAX ADMINISTRATION

Tax policy and tax administration are inextricably linked. There is need for building up a professional cadre of administrators who may implement the tax system more equitably and efficiently. The tax administration machinery should vendor quality tax payers' services to encourage voluntary compliance of tax laws and

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to detect and penalise non-compliance. Efficient tax administration would necessitate minimising arrears of assessment and collection reduce pendency of appeals and improve tax payers compliance. However, data reveal that uncollected demand in respect of direct taxes increased from Rs. 56431 crore in 2000-01 to Rs, 201276 crore in 2008-09, to Rs.291629 crore in March, 2011, Rs.1114182 crore in March, 2018 and further to Rs.1927347 crore in 2022-23. Uncollected demand was Rs.995446 crore in respect of corporation tax and Rs.931901 crore in respect of income tax in 2022-23. Similarly, the number of pending scrutiny assessments in respect of direct taxes was 3829250 cases in 2003-04, 441035 cases in 2009-10, 405487 cases in 2011-12 and 3.66 lakh cases in 2015-16. Further, the appeals pending with the Commissioners (Appeals) was 62795 on 31st March, 2005. The number of such pending appeals increased to 1.81 lakh cases on 31st March, 2010, 2.32 lakh cases on 31st March, 2015, 3.04 lakh cases on 31st March, 2018 and 4.58 lakh cases on 31st March, 2020. Number of appeals pending with High Courts increased from 32678 cases on 31st March, 2005 to 39016 cases on 31st March, 2018 and 38539 cases on 31st March, 2019. With the Supreme Court the number of pending appeals, however, declined from 6375 cases on 31st March, 2017 to 4526 cases on 31st March, 2020.

VI. THE WAY OUT

Broadening the tax base is necessary to ensure growth of revenue. With increasing reliance on voluntary compliance , it becomes important for the Tax Department to put in place an effective mechanism for collecting information from various sources to identify persons who are liable to pay tax but has avoided payments so as to bring them into the tax net. There are increasing concerns in India that even medium and large businesses ,which are capable to maintain accounts, prefer not to file returns. Cash economy has been a major handicap. Similarly, agriculture income of non-agriculturalists is being used as a conduct to avoid tax. A method to improve collection would be to ask firms and companies to pay tax in equal instalment, as in case of salaried tax payers so that money flows regularly in government account .In order to improve the tax-GDP ratio and buoyancy, it is desirable that there should be sustained expansion in coverage and judicious use of differentiated rate. The present scheme of partial integration of agricultural and non-agricultural income is inadequate because agricultural income of non-agriculturalists is being increasingly used as a conduct to avoid tax. The remedy lies on taxing both non-agricultural and agricultural income under the central income tax. There is need to develop a better understanding of the underground/ black economy both in terms of its size as also economic and behavioural factors that motivate players in the economy. Another desirable step in this direction would be to adopt 'family' as the basis for taxation as against the prevailing 'individual' basis of assessment which generally reduces the marginal rate of tax, leading to the substitution effect in favour of work effort. To check tax evasion, there is a need for stricter imposition of penalties and follow a vigorous prosecution policy. Corruption must generate a substantial loss of social status and fight against corruption must be continuous and sustained and success in this regard would depend upon comprehensiveness of measures and commitment of political leadership.

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Table 1: Broad Parameters of Direct Tax Collection (Rs.Crore)

Year	Corporation Tax	Income Tax	Total Direct Tax	Gross Tax Revenue	Direct Tax as percentage of Gross Tax Revenue
2000-01	35696	31764	68306	188603	49.98
2001-02	36609	32004	69197	187060	51.82
2002-03	46172	36866	83085	216266	38.42
2003-04	63562	41387	105090	254348	41.32
2004-05	82680	49268	132948	304958	43.54
2005-06	101277	55985	165216	366152	45.12
2006-07	144318	75093	230195	473512	48.61
2007-08	192911	102659	312217	593147	52.64
2008-09	213395	106075	333857	605298	55.16
2009-10	244725	122417	377594	624527	60.46
2010-11	298688	139102	445995	793307	56.22
2011-12	322816	164525	493987	889118	55.56
2012-13	356326	196843	558989	1036460	53.93
2013-14	394678	237870	638596	1138996	56.10
2014-15	428925	258374	695792	1245135	55.90
2015-16	453228	280390	742012	1455891	51.00
2016-17	484924	340592	849801	1715968	49.50
2017-18	571202	408202	1002738	1919183	52.20
2018-19	663572	461652	1137718	2080465	54.70
2019-20	556876	480348	1050686	2010060	52.30
2020-21	460000	490000	950000	2027102	46.90
2021-22	710000	700000	1410000	2709315	52.00
2022-23	830000	830000	1660000	3054192	54.30
2023-24	922675	900575	1823250	3470000	52.50
2024-25(RE)	1020000	1187000	2207000	3850000	57.30
2025-26(BE)	1080000	1440000	2520000	4270000	59.00

Source: 1. Reports of the Comptroller and Auditor General of India, Direct Taxes , different Years
2. Budget Papers

Table 2: Rates of Growth

Year	Corporation Tax	Income Tax	Total Direct Taxes
2000-01	16.30	23.81	17.85
2001-02	2.56	0.76	1.31
2002-03	21.12	15.19	20.07
2003-04	26.12	12.26	26.48
2004-05	30.08	19.04	26.34
2005-06	22.49	13.63	24.44
2006-07	42.50	34.13	39.33
2007-08	33.67	36.71	35.63
2008-09	10.62	3.33	6.93
2009-10	14.68	15.41	13.10
2010-11	22.05	13.63	18.12
2011-12	8.08	18.28	10.80
2012-13	10.38	19.64	13.20
2013-14	10.80	20.80	14.20

2014-15	8.70	8.60	9.00
2015-16	5.70	8.50	6.60
2016-17	7.00	21.50	14.50
2017-18	17.8	19.90	18.00
2018-19	16.2	13.10	13.50
2019-20	-16.1	14.00	-7.60
2020-21	-17.4	1.00	-9.60
2021-22	15.4	1.40	14.80
2022-23	11.7	1.20	11.80
2023-24	11.1	1.1	11.00
2024-25(RE)	11.0	1.3	12.10
2025-26(BE)	10.6	1.2	11.80

Source: 1. Reports of the Comptroller and Auditor General of India, Direct Taxes , different Years
2. Budget Papers

Table 3: Tax Parameters As Percentage Of GDP

Year	Corporation Tax	Income Tax	Total Direct Taxes	Share of Tax Receipts
2000-01	1.71	1.52	3.27	8.7
2001-02	1.60	1.40	3.03	7.9
2002-03	1.82	1.46	3.28	8.8
2003-04	2.24	1.46	3.70	9.2
2004-05	2.55	1.52	4.10	9.8
2005-06	2.74	1.52	4.47	10.2
2006-07	3.36	1.75	5.36	11.4
2007-08	3.87	2.06	6.26	12.6
2008-09	3.79	1.88	5.93	10.7
2009-10	3.78	1.89	5.83	9.6
2010-11	3.83	1.77	5.72	10.2
2011-12	3.60	1.83	5.50	9.8
2012-13	4.15	1.99	5.53	10.4
2013-14	3.37	2.20	5.60	10.0
2014-15	3.34	2.32	5.50	10.0
2015-16	3.34	2.06	5.50	10.6
2016-17	3.19	2.24	5.60	11.1
2017-18	3.40	2.43	6.00	11.2
2018-19	3.49	2.43	6.00	11.0
2019-20	2.74	2.36	5.20	10.0
2020-21	2.36	2.51	4.80	10.2
2021-22	3.04	3.00	6.00	11.5
2022-23	3.12	3.12	5.50	11.3
2023-24	3.17	3.09	6.20	11.7
2024-25(RE)	-	-	-	11.9
2025-26(BE)	-	-	-	12.0

Source: Reports of the Comptroller and Auditor General of India, Direct Taxes , different Years
2. Budget Papers

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