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IMPACT OF DIRECT AND INDIRECT TAXES ON ECONOMIC GROWTH IN INDIA: AN EMPIRICAL ANALYSIS

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ABSTRACT

The taxation system of a country's tax system significantly influences fiscal sustainability, income distribution, and overall economic growth. With the beginning of economic reforms from 1991, the Indian tax system has undergone substantial transformation. The period from 2000–01 to 2024–25 has witnessed major developments such as fiscal consolidation measures, implementation of the Goods and Services Tax (GST), digitization of tax administration, the Global Financial Crisis, and the COVID-19 pandemic. In this context, the present study examines the growth, composition, and shifting dynamics of direct and indirect tax revenues in India during the period 2000–01 to 2024–25. The study is based entirely on secondary data collected from official government publications, budget documents, Economic Surveys, and reports of the Reserve Bank of India and other published sources. The study reveals that the period under study witnessed a remarkable expansion in India's tax revenue and a significant structural transformation in the tax system. It has led to the strengthening of country's fiscal capacity and a roadmap for long-term economic development, public investment, and social welfare objectives.

Keywords: Taxation, Direct Taxes, Indirect Taxes, Tax–GDP Ratio, Fiscal Capacity, GST, Revenue Growth, India.

INTRODUCTION

Apart from its traditional functions (defence, and maintenance of law and order), a modern government undertakes welfare and developmental activities and makes provision for public goods to satisfy collective needs of people. It has also to pay for its own administration. It needs financial resources for these purposes and taxation is one method of transferring money from private to public hands. Taxation is necessary because what the government gives it must first take away.

Taxation is the crucial part of a nation's fiscal framework and serves as the principle instrument through which governments mobilize resources for financing public expenditure, promoting economic development, and achieving broader socio-economic objectives. Various government welfare programs largely depend upon the capacity of government to generate adequate and sustainable tax revenues. Consequently, the taxation system of a country has significant implications for economic growth, equity, and fiscal sustainability.

Adam Smith (1776) observed that “The subjects of every state ought to contribute towards the support of the government” (Smith, 1776, p. 777). This principle continues to guide modern tax systems thus emphasizing basic canons of taxation. Emphasizing the role of taxation, Musgrave and Musgrave (1989) argued that taxation remains the most important instrument available to governments for resource mobilization and the achievement of fiscal policy objectives.

India is a federal country in which taxation powers are constitutionally divided between the Union and State Governments. The Seventh Schedule of the Constitution allocates specific taxation powers to different levels of government, thereby ensuring fiscal autonomy while maintaining coordination within the federal structure. The Central Government is empowered to levy and collect taxes such as corporation tax, income tax (excluding agricultural income), customs duties, and certain indirect taxes. State Governments are authorized to levy taxes on agricultural income, state excise duties, stamp duties, motor vehicles, electricity consumption, land revenue, and other taxes assigned to them under the constitutional framework. The adoption of the Goods and Services Tax (GST) in 2017 introduced a unique model of cooperative fiscal federalism, wherein both the Centre and the States jointly administer a harmonized system of indirect taxation. The GST reform has been regarded as one of the most significant tax reforms undertaken in independent India, creating a unified national market and reducing cascading effects of taxes.

The Indian taxation system is broadly categorized into direct taxes and indirect taxes**.** Direct taxes are imposed directly on the income or profits of individuals and business entities, and their burden lies on the taxpayer only. Major direct taxes include personal income tax, corporate income tax, capital gains tax, securities transaction tax, and taxes on business profits. Direct taxes are generally considered progressive in nature because they are linked to the taxpayer's ability to pay and are levied on equitable basis.

Indirect taxes, in contrast, are levied on the production, sale, and consumption of goods and services. These taxes are levied on a person or category of person with the expectation that taxpayer will indemnify himself at the expense of other. Prior to the introduction of GST, India's indirect tax structure consisted of numerous central and state taxes, including central excise duty, service tax, customs duty, value added tax (VAT), central sales tax, entry tax, luxury tax, entertainment tax, and purchase tax. The implementation of GST on 1 July 2017 subsumed many of these taxes into a comprehensive and destination-based tax system, thereby simplifying tax administration and improving compliance.

Since the economic liberalization reforms initiated in 1991, India's tax system has undergone substantial transformation. The period from 2000–01 to 2024–25 represents a particularly significant phase in the evolution of India's taxation system. This period encompasses major fiscal and economic developments, including rapid economic growth, the global financial crisis of 2008, implementation of the Fiscal Responsibility and Budget Management framework, the introduction of GST, demonetization, the COVID-19 pandemic, and the subsequent recovery phase. These developments have had far-reaching implications for tax collections, revenue composition, fiscal deficits, and public expenditure management.

An analysis of direct and indirect taxes during this period is therefore essential for understanding the changing dynamics of India's public finance system. The increasing contribution of direct taxes reflects rising income levels, improved tax compliance, and growing corporate profitability, while indirect taxes continue to remain a significant source of government revenue owing to their broad tax base and relative stability. The evolving relationship between these two components of taxation provides important insights into the effectiveness of tax reforms, the progressivity of the tax structure, and the fiscal capacity of the government.

Against this backdrop, the present study undertakes a comprehensive examination of India's taxation system by analyzing the trends, growth patterns, and composition of direct and indirect tax revenues during the period 2000–01 to 2024–25. By evaluating the contribution of various tax components and assessing the impact of major fiscal reforms, the study seeks to provide a deeper understanding of the changing structure of tax revenues in India and their implications for fiscal policy, economic development, and long-term revenue sustainability.

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2. REVIEW OF LITERATURE

S. No.	Author(s) & Year	Area of Study	Period of Study	Methodology	Major Findings
1	Chelliah (1991)	India	1950–51 to 1988–89	Fiscal Analysis	Recommended widening the tax base and rationalization of tax rates to improve revenue productivity.
2	Rao (1993)	India	Post-Independence Period	Policy Analysis	Suggested policy guidelines for implementing tax reforms to improve efficiency and equity in the Indian tax system.
3	Burgess and Stern (1993)	India	1970s–1990s	Tax Policy Analysis	Emphasized simplification of tax structure and reduction in rebates and deductions.
4	Das-Gupta and Mookherjee (1998)	India	1970–1995	Econometric Analysis	Highlighted significant scope for improving tax administration and compliance.
5	Acharya (2001)	India	1980–2000	Fiscal Policy Analysis	Focused that fiscal deficits are linked to inadequate revenue mobilization and rising expenditure.
6	Rao and Singh (2005)	India	1991–2004	Trend Analysis	Found that tax reforms increased direct tax buoyancy and improved revenue performance.
7	Hasan and Lincoln (2006)	Developing Countries	Various Periods	Cointegration and Granger Causality	Explored long-run relationships between revenue and expenditure.
8	Narayan and Narayan (2006)	Nine Asian Countries	1970–2000	Cointegration Analysis	Confirmed long-run fiscal relationships between revenue and expenditure.
9	Garg, Goyal and Pal (2007)	India	1970–71 to 2005–06	Regression Analysis	Revealed that tax revenue positively influences economic growth.
10	Rao (2009)	India	Post-Reform Period	Tax Reform Evaluation	Highlighted the role of Direct tax reforms in significantly enhancing revenue productivity.
11	Keho (2010)	West African Countries	1960–2007	Cointegration Analysis	Found long-run equilibrium between government revenue and expenditure.
12	Saunoris and Payne (2010)	United States	1950–2007	Bootstrap Granger Causality	Supported fiscal synchronization hypothesis.
13	Kumar (2012)	India	1991–92 to 2010–11	Time Series Analysis	Tax reforms contributed positively to GDP growth.
14	Aregbeyen and Ibrahim (2012)	Nigeria	1970–2008	VECM	Found expenditure-led revenue growth.
15	Rao and Chakraborty (2013)	India	1991–92 to 2011–12	Fiscal Analysis	Tax-GDP ratio improved after reforms, especially for direct taxes.
16	Gupta and Singh (2014)	India	1990–91 to 2012–13	Regression Analysis	Direct taxes showed stronger responsiveness to GDP growth than indirect taxes.
17	Sharma and	India	1991–92 to	Cointegration	Direct tax collections

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	Sharma (2015)		2013–14	Analysis	exhibited long-run association with economic growth.
18	Behera and Dash (2017)	Indian States	1980–2014	FMOLS, DOLS and VECM	GDP and tax revenue significantly influenced government expenditure.
19	Rao (2017)	India	1991–2016	GST Reform Analysis	GST was expected to improve efficiency and widen the tax base.
20	Mishra and Goyal (2018)	India	2000–01 to 2016–17	Time Series Analysis	Tax buoyancy improved significantly after major tax reforms.
21	Kumar and Gupta (2019)	India	1991–92 to 2017–18	Johansen Cointegration	Found long-run association among tax revenue, expenditure and GDP.
22	Singh and Kaur (2020)	India	2000–01 to 2018–19	VAR Analysis	Direct taxes had a stronger impact on economic growth than indirect taxes.
23	Bedi and Kaur (2021)	India	2000–01 to 2019–20	Trend and Growth Analysis	GST enhanced indirect tax collections and improved tax compliance.
24	Kiran (2024)	17 Indian States	2005–2022	Panel Cointegration and Causality	Revealed strong fiscal-growth linkages among revenue, expenditure and growth.
25	NITI Aayog (2024)	India	2000–01 to 2023–24	Fiscal Performance Analysis	Emphasized the role of tax reforms in sustaining economic growth and fiscal stability.

3. OBJECTIVES OF THE STUDY

Present study is conducted primarily with the following objectives:

i. To study the trends in direct and indirect tax revenue of India for the period 2000-01 to 2024-25.

ii. To evaluate the contribution of various types of tax revenues to GDP of the country.

4. DATA BASE AND RESEARCH METHODOLOGY

The data collected for the present research paper is for the period from 2000-01 to 2024-25 and secondary in nature. Required data has been collected from budgetary documents of Central Government and reports on currency and finance published by Reserve Bank of India. Secondary data collected has been presented in the form of tables for interpretation. MS office and MS excel is widely used for the purpose of study. Percentage method is used for the purpose of data analysis.

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5. DATA ANALYSIS AND INTERPRETATION

Table I

Direct and Indirect Tax Revenues of Central and State Governments

Financial Year	Direct Tax Revenue		Indirect Tax Revenue		Total Tax Revenue (Rs. Crore)
	(Rs. Crore)	Percentage of Total Tax Revenue	(Rs. Crore)	Percentage of Total Tax Revenue	
2000-01	68,305	36.31	119814	63.69	188,119
2001-02	69,198	37.10	117318	62.90	186,516
2002-03	83,088	38.52	132608	61.48	215,696
2003-04	105088	41.42	148608	58.58	253,696
2004-05	132771	43.72	170936	56.28	303,707
2005-06	165216	45.32	199348	54.68	364,564
2006-07	230181	48.80	241538	51.20	471,719
2007-08	314330	52.97	279031	47.03	593,361
2008-09	333818	55.34	269433	44.66	603,251
2009-10	378063	60.78	243939	39.22	622,002
2010-11	445995	56.48	343716	43.52	789,711
2011-12	493987	55.82	390953	44.18	884,940
2012-13	558989	54.17	472915	45.83	1,031,904
2013-14	638596	56.32	495347	43.68	1,133,943
2014-15	695792	56.16	543215	43.84	1,239,007
2015-16	741945	51.03	711885	48.97	1,453,830
2016-17	849713	49.66	861515	50.34	1,711,228
2017-18	1002738	52.28	915256	47.72	1,917,994
2018-19	1137718	54.83	937322	45.17	2,075,040
2019-20	1050681	52.42	953513	47.58	2,004,194
2020-21	947176	46.84	1074809	53.16	2,021,985
2021-22	1412422	52.27	1289662	47.73	2,702,084
2022-23	1663686	54.63	1381935	45.37	3,045,621
2023-24	1960166	56.71	1496114	43.29	3,456,280
2024-25	2226375	58.81	1559596	41.19	3,785,971

Source: i. Government of India: Indian Public Finance Statistics.

ii. Reserve Bank of India: Reports on Currency and Finance.

iii. Data for the year 2024-25 is provisional.

Data presented in Table I reveals a substantial increase in total tax revenue over the 25-year period. Total tax revenue rose from ₹188,119 crore in 2000–01 to ₹3,785,971 crore in 2024–25**,** representing more than a 20-fold increase**.** This growth reflects India's expanding economy, rising incomes, improved tax administration, and broadening tax base. The faster growth of direct taxes compared to indirect taxes indicates a gradual shift toward a more progressive tax structure.

In the early 2000s, indirect taxes constituted nearly two-thirds of total tax revenue. However, the share of direct taxes steadily increased and surpassed indirect taxes for the first time in 2007–08**,** when direct taxes accounted for 52.97% of total tax revenue.

By 2024–25**,** direct taxes contributed 58.81%**,** while indirect taxes accounted for only 41.19%**.** This trend suggests increasing reliance on income and corporate taxes rather than

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consumption-based taxation. The period from 2000–01 to 2009–10 witnessed remarkable growth in share of direct tax revenue in total taxes from 36.31% to 60.78%**.** various factors like economic liberalization, Expansion of the corporate sector and Introduction of information technology in tax administration contributed to rising share of Indirect taxes.

The introduction of the Goods and Services Tax (GST) in July 2017 marked a major reform in India's indirect tax system. The GST regime helped stabilize indirect tax collections despite economic fluctuations.

During COVID-19 Pandemic, share of direct tax revenue fell sharply from 52.42% to 46.84%**.** This shift occurred because lockdowns reduced corporate profits and individual incomes, thereby lowering direct tax collections. However, indirect tax collections remained relatively resilient due to taxation on essential goods and consumption recovery measures. However, the long-term trend shows a clear shift toward greater reliance on direct taxation, making India's tax system progressively more equitable and sustainable.

Table II

Index of Direct Tax – GDP Ratio

Financial Year	**Direct Tax Revenue (Rs. Crore)**	**GDP Current Market Price**	**Direct Taxes GDP Ratio**
2000-01	68,305	2102376	3.25
2001-02	69,198	2281058	3.03
2002-03	83,088	2458084	3.38
2003-04	105088	2754621	3.81
2004-05	132771	3242209	4.10
2005-06	165216	3693369	4.47
2006-07	230181	4294706	5.36
2007-08	314330	4987090	6.30
2008-09	333818	5630063	5.93
2009-10	378063	6457352	5.85
2010-11	445995	7674148	5.81
2011-12	493987	9009722	5.48
2012-13	558989	10113281	5.53
2013-14	638596	11355073	5.62
2014-15	695792	12541208	5.55
2015-16	741945	13567192	5.47
2016-17	849713	15362386	5.53
2017-18	1002738	17098304	5.86
2018-19	1137718	18886957	6.02
2019-20	1050681	20074856	5.23
2020-21	947176	19829927	4.78
2021-22	1412422	23597399	5.99
2022-23	1663686	26949646	6.17
2023-24	1960166	29535667	6.64
2024-25	2226375	29387892	7.58

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Source: i. Government of India: Indian Public Finance Statistics.

ii. Reserve Bank of India: Reports on Currency and Finance.

iii. Data for the year 2024-25 is provisional.

Table II shows the trend in India's Direct Tax–GDP ratio from 2000–01 to 2024–25. The Direct Tax–GDP ratio is a widely used indicator to assess the efficiency and effectiveness of a country's tax system. It measures the proportion of Gross Domestic Product (GDP) collected as direct taxes and reflects the government's ability to mobilize revenue from income and corporate profits. A rising ratio generally indicates improved tax compliance, expansion of the tax base, economic formalization, and enhanced tax administration.

The analysis of the Direct Tax–GDP ratio from 2000–01 to 2024–25 demonstrates a significant improvement in India's fiscal capacity and tax administration. The ratio increased from 3.25 percent to 7.58 percent**,** indicating that direct tax collections have expanded at a faster rate than economic growth. Despite temporary setbacks caused by the global financial crisis and the COVID-19 pandemic, the long-term trend remains strongly positive. The achievement of the highest-ever Direct Tax–GDP ratio in 2024–25 reflects enhanced tax compliance, widening of the tax base, increasing formalization of the economy, and greater efficiency in revenue collection. These developments suggest a progressive strengthening of India's direct taxation system and its contribution to sustainable fiscal development.

Table III

Index of Indirect Tax – GDP Ratio

Financial Year	Indirect Tax Revenue (Rs. Crore)	GDP Current Market Price	Indirect Taxes GDP Ratio
2000-01	119814	2102376	5.70
2001-02	117318	2281058	5.14
2002-03	132608	2458084	5.39
2003-04	148608	2754621	5.39
2004-05	170936	3242209	5.27
2005-06	199348	3693369	5.40
2006-07	241538	4294706	5.62
2007-08	279031	4987090	5.60
2008-09	269433	5630063	4.79
2009-10	243939	6457352	3.78
2010-11	343716	7674148	4.48
2011-12	390953	9009722	4.34
2012-13	472915	10113281	4.68
2013-14	495347	11355073	4.36
2014-15	543215	12541208	4.33
2015-16	711885	13567192	5.25
2016-17	861515	15362386	5.61

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2017-18	915256	17098304	5.35
2018-19	937322	18886957	4.96
2019-20	953513	20074856	4.75
2020-21	1074809	19829927	5.42
2021-22	1289662	23597399	5.47
2022-23	1381935	26949646	5.13
2023-24	1496114	29535667	5.07
2024-25	1559596	29387892	5.31

Source: Computed from Table I and II.

Table III illustrates the trend in India's Indirect Tax–GDP ratio from 2000–01 to 2024–25. The Indirect Tax–GDP ratio measures the proportion of Gross Domestic Product (GDP) collected through indirect taxes such as GST, excise duties, customs duties, and other consumption-based taxes. It is an important indicator of a government's capacity to mobilize revenue from economic transactions and consumption activities. Changes in this ratio reflect shifts in consumption patterns, tax policies, economic growth, and the efficiency of tax administration.

The analysis of the Indirect Tax–GDP ratio from 2000–01 to 2024–25 reveals a pattern of relative stability with periodic fluctuations driven by economic and policy developments. While indirect tax revenue increased more than thirteen-fold during the study period, the ratio remained close to 5 percent, suggesting that revenue growth largely kept pace with economic expansion. The global financial crisis and GST transition temporarily affected tax productivity, whereas the pandemic period demonstrated the resilience of indirect taxes. Overall, the findings indicate that indirect taxes continue to play a crucial role in India's revenue system, although their relative importance has gradually declined as direct taxes have become increasingly significant in the country's fiscal structure.

Table IV

Index of Total Tax Revenue – GDP Ratio

Financial Year	Total Tax Revenue (Rs. Crore)	GDP Current Market Price	Total Taxes GDP Ratio
2000-01	188,119	2102376	8.95
2001-02	186,516	2281058	8.18
2002-03	215,696	2458084	8.77
2003-04	253696	2754621	9.21
2004-05	303707	3242209	9.37
2005-06	364564	3693369	9.87
2006-07	471719	4294706	10.98
2007-08	593361	4987090	11.90
2008-09	603251	5630063	10.71
2009-10	622002	6457352	9.63
2010-11	789711	7674148	10.29

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2011-12	884940	9009722	9.82
2012-13	1031904	10113281	10.20
2013-14	1133943	11355073	9.99
2014-15	1239007	12541208	9.88
2015-16	1453830	13567192	10.72
2016-17	1711228	15362386	11.14
2017-18	1917994	17098304	11.22
2018-19	2075040	18886957	10.99
2019-20	2004194	20074856	9.98
2020-21	2021985	19829927	10.20
2021-22	2702084	23597399	11.45
2022-23	3045621	26949646	11.30
2023-24	3456280	29535667	11.70
2024-25	3785971	29387892	12.88

Source: Computed from Table I and II.

Table IV presents the trend in India's Total Tax–GDP ratio from 2000–01 to 2024–25. The Total Tax–GDP ratio is a key indicator of a country's fiscal capacity and tax effort. It measures the proportion of Gross Domestic Product (GDP) collected as tax revenue and reflects the government's ability to mobilize resources for public expenditure and economic development. A higher ratio generally indicates improved tax administration, greater compliance, expansion of the tax base, and enhanced revenue-generating capacity.

The analysis of the Total Tax–GDP ratio from 2000–01 to 2024–25 reveals a significant strengthening of India's tax system over the past twenty-five years. The ratio increased from 8.95 percent to 12.88 percent**,** demonstrating that tax revenue has grown faster than the overall economy. Although temporary declines occurred during the global financial crisis and economic slowdown periods, the long-term trend remains positive. The strong post-pandemic recovery, supported by rising direct tax collections, improved GST administration, technological advancements in tax compliance, and expansion of the formal economy, has enabled India to achieve its highest-ever Total Tax–GDP ratio in 2024–25. These findings suggest enhanced fiscal capacity and a more efficient tax system capable of supporting sustainable economic development and public finance objectives.

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Table V

Comparison of GDP Growth Rate and Tax – GDP Ratio

Financial Year	GDP Current Market Price (Rs. Crore)	GDP Growth Rate (%)	Direct Taxes GDP Ratio	Indirect Taxes GDP Ratio	Total Taxes GDP Ratio
2000-01	2102376	7.7	3.25	5.70	8.95
2001-02	2281058	8.50	3.03	5.14	8.18
2002-03	2458084	7.76	3.38	5.39	8.77
2003-04	2754621	12.06	3.81	5.39	9.21
2004-05	3242209	17.70	4.10	5.27	9.37
2005-06	3693369	13.92	4.47	5.40	9.87
2006-07	4294706	16.28	5.36	5.62	10.98
2007-08	4987090	16.12	6.30	5.60	11.90
2008-09	5630063	12.89	5.93	4.79	10.71
2009-10	6457352	14.69	5.85	3.78	9.63
2010-11	7674148	18.84	5.81	4.48	10.29
2011-12	9009722	17.40	5.48	4.34	9.82
2012-13	10113281	12.25	5.53	4.68	10.20
2013-14	11355073	12.28	5.62	4.36	9.99
2014-15	12541208	10.45	5.55	4.33	9.88
2015-16	13567192	8.18	5.47	5.25	10.72
2016-17	15362386	13.23	5.53	5.61	11.14
2017-18	17098304	11.30	5.86	5.35	11.22
2018-19	18886957	10.46	6.02	4.96	10.99
2019-20	20074856	6.29	5.23	4.75	9.98
2020-21	19829927	-1.22	4.78	5.42	10.20
2021-22	23597399	19.00	5.99	5.47	11.45
2022-23	26949646	14.21	6.17	5.13	11.30
2023-24	29535667	9.60	6.64	5.07	11.70
2024-25	29387892	-0.50	7.58	5.31	12.88

Source: Computed from Table I and II.

Table V presents the relationship between GDP growth rate, Direct Tax–GDP ratio, Indirect Tax–GDP ratio, and Total Tax–GDP ratio in India from 2000–01 to 2024–25. The table provides insights into how changes in economic growth influence tax revenue mobilization and the overall fiscal capacity of the government.

The Tax–GDP ratio is an important measure of tax effort and fiscal performance, while GDP growth reflects the overall expansion of economic activity. An examination of these indicators helps assess whether tax revenues are growing proportionately with the economy.

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The analysis of GDP growth and Tax–GDP ratios from 2000–01 to 2024–25 reveals a strong but not absolute relationship between economic growth and tax revenue mobilization in India. While periods of rapid GDP growth generally led to higher tax ratios, institutional reforms, tax policy changes, technological advancements, and improvements in compliance also played a crucial role in enhancing tax performance. The Direct Tax–GDP ratio exhibited the most significant improvement, reflecting increasing formalization of the economy and better tax administration. Consequently, the Total Tax–GDP ratio reached a record 12.88 percent in 2024–25**,** indicating a substantial strengthening of India's fiscal capacity and revenue-generating potential over the study period.

CONCLUSION

Analysis of data used for the study provides a comprehensive picture of the evolution of India's tax structure, tax productivity, and fiscal capacity over the period 2000–01 to 2024–25. The analysis covers trends in direct tax revenue, indirect tax revenue, total tax revenue, their respective shares in total tax collections, Direct Tax–GDP ratio, Indirect Tax–GDP ratio, Total Tax–GDP ratio, and their relationship with GDP growth.

The findings reveal a significant transformation in India's tax system characterized by rapid growth in tax revenues, increasing importance of direct taxes, improved tax productivity, and enhanced fiscal capacity despite periodic economic disruptions.

Analysis of data reveals that Direct taxes grew much faster than indirect taxes, indicating a major structural shift in the composition of tax revenue. This reflects the increasing contribution of income tax and corporate tax as India's economy expanded and became more formalized.

Findings of the study demonstrates that India's tax system underwent a profound transformation between 2000–01 and 2024–25. Total tax revenue increased more than twenty-fold, while direct tax revenue expanded over thirty-two times, significantly outpacing the growth of indirect taxes. Consequently, the tax structure shifted from being predominantly dependent on indirect taxes to one in which direct taxes became the principal source of revenue.

The Direct Tax–GDP ratio increased substantially from 3.25 percent to 7.58 percent, while the Total Tax–GDP ratio improved from 8.95 percent to 12.88 percent, reflecting enhanced tax effort, improved compliance, and greater efficiency in revenue collection. In contrast, the Indirect Tax–GDP ratio remained relatively stable around 5 percent, suggesting that indirect tax collections broadly kept pace with economic growth.

Although major economic shocks such as the Global Financial Crisis of 2008–09 and the COVID-19 pandemic temporarily disrupted revenue performance, the long-term trend remained strongly positive. Structural reforms, including modernization of tax administration, digitalization, widening of the tax base, and the implementation of GST, played a crucial role in strengthening India's fiscal capacity.

Overall, the findings indicate that India has achieved significant progress in developing a more efficient, productive, and progressive tax system. The increasing contribution of direct taxes, rising Tax–GDP ratios, and sustained growth in revenue collections suggest a stronger fiscal foundation capable of supporting long-term economic development, public investment, and social welfare objectives.

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