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TRENDS IN TAXATION AND REVENUE MOBILIZATION IN INDIA: A PUBLIC ECONOMICS PERSPECTIVE

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Abstract

Taxation is an essential part of the public finance and economic development through the creation of revenue. This paper will look at the trend in direct, indirect and non-tax revenues in India and how they contribute to financing public expenditure, growth promotion and fiscal stability. The study is on how the major tax reforms such as Value added tax (VAT) and Goods and Services tax (GST) have influenced the revenue mobilization, compliance and efficiency. Regarding the direct taxes, which include personal income and corporate taxes, data show that the proportion of the total revenue contributed by such taxes has risen since 2017 to 2025 as a result of tax base broadening, elimination of exemptions, and digitalized faceless applications. Indirect taxes, and most notably GST, have brought together the hitherto fractured taxation regime and the taxation process has become more effective, where GST collections have gone past 1.5 lakh crore per month after 2021 with an indication of better compliance and economic revival. Non-tax revenues, such as PSU dividends, RBI surplus, spectrum auctions, and royalties are supplementary although they have a great contribution towards stabilizing fiscal resources. In the view of public economics, the paper has focused its attention on the equity-efficiency trade-off of Indian taxation that requires that progressive policies be maintained with the aim of attaining a balance between redistribution and economic growth incentives. The most important functions of taxation are discussed as the optimal taxation theory, provision of the public goods, redistribution, and macroeconomic stabilization.

Keywords: Taxation, Revenue Mobilization, Direct Taxes, Indirect Taxes, Non-Tax Revenue, GST, Fiscal Policy, Equity, Efficiency, Digitalization, India

1. Introduction

Taxation is the most important factor of economic development because taxes supply governments with the resources to invest in infrastructure, have access to the necessary services (health, education, and sanitation), and facilitate social welfare. Over the last ten years, India has experienced major reforms, such as the introduction of the Goods and Services Tax (GST), the reduction in corporate tax rates, and the development of tax administration (faceless assessments) aimed, among other things, not only at simplifying the tax system but also at supporting the process of revenue mobilization (Economic Survey, 2023; PwC India, 2023). A very important tool in financing the expenditure of the state is revenue mobilization. The new taxation reforms have led to better tax buoyancy in India; that is, more responsive tax revenues in light of growth in national income. As an example, the Economic Survey of 2022-23 reports that since the time of the GST implementation, the post-GST buoyancy of subsumed taxes had improved to 1.1, which is lower than the pre-GST era (Economic Survey, 2023). In addition, the World Bank in the article South Asia Development Update: Taxing Times (2025) argues that the tax revenues are not collected corresponding to the current tax rates in India and other South Asian nations, which means that the mobilization of domestic revenues is a critical factor in India to create fiscal resilience (World Bank, 2025). This research is relevant in terms of public economics since taxation presents major trade-offs in terms of equity, efficiency, and administrative simplicity. Tax policy will dictate distribution of burden (between the rich and the poor, between industries, between areas), the amount of economic distortion that is imposed on the economy, and the cost of compliance and enforcement. Additionally, with ambitious development goals, including universal health coverage, climate mitigation, rural infrastructure, social protection, the sufficiency of revenue, its stability and equity is critical to the sustainability of the spending of the population, not to hook up to an unmanageable portion of borrowing. This knowledge of the current trends therefore assists in determining whether the tax regime in the country is being transformed according to the principles of public economics: adequacy, efficiency, equity, and minimal distortion.

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2. Review of Literature

An increasing number of open-access studies and institutional publications consider the tax reforms and revenue collection of India, particularly because of the GST. Mukherjee (2022) assesses the revenue performance of GST and determines that although GST made indirect taxation easier and enhanced mechanisms of compliance, the anticipated revenue bonanza on the part of the Centre and states was uneven; some states still experienced transitional revenue pressures and fell back on some compensation mechanisms in the post-GST years. Later NIPFP analysis (Mukherjee, 2025) offers new empirical demonstrations on the revenue performance of GST during the post-pandemic recovery period, in which there is great growth in the GST collections but at the same time heterogeneity in the nature of the states and the importance of the nominal GDP growth in driving high receipts, as opposed to simply enhanced tax capacity. The contribution of GST to the own tax revenue of states increased as it has been emphasized in the work, but this development can be sustained only by a stable rate structure and an ongoing increase in compliance gains.

The regional report of the World Bank, South Asia Development Update: Taxing Times (April 2025) positions India in the South Asian framework, where, it is reported that South Asia, including India, has wider tax gaps than many emerging markets and it must upscale both tax policy and administration to raise more revenues within the country without undue distortion. Its argument in the report is that reducing the tax gaps and expanding the tax base is the key way to finance development priorities and create fiscal buffers.

According to the evaluation by RBI, as the share of state taxes in the GDP rose over the years, since the mid-2000s, the reliance on central transfers and revenue fluctuations is also a relevant issue to subnational fiscal sustainability. Reserve Bank of India On the multilateral policy front, the IMF G20 note on the alternative ways to mobilize revenue (June 2024) surveys policy instruments that can enhance domestic revenue mobilization - via enhanced tax administration and digitalization or reflection on progressive wealth or property taxation - and emphasizes the need to select those policies that strike a balance between equity and administrative feasibility across different country settings such as in the case of India.

3. Objectives of the Study

1. To examine the trends in direct, indirect, and non-tax revenues in India.
2. To analyze the impact of major tax reforms like VAT and GST on revenue mobilization.
3. To evaluate taxation in terms of efficiency, equity, and economic growth.

4. Historical Evolution of Taxation in India

The colonial period in India laid much of the foundation of the tax system focused on land revenue, excise duties, and customs duties. Under British rule, systems such as the Zamindari, Ryotwari, and Mahalwari determined how land revenue was collected, often imposing significant burdens on cultivators and intermediaries. Customs and excise taxes were major instruments of revenue, levied on imports, exports, and production of certain goods—both as a source of fiscal income for the colonial administration and to control trade flows (Tax Reforms Committee (TRC) recommendations describe customs duties' historical levels).

After independence, particularly through the 1950s to the 1980s, the Indian tax system was characterised by high marginal rates of direct taxes, numerous exemptions, and a narrow tax base. Multiple concessions and special treatments diluted revenue performance. The economic crisis in 1991 triggered major reforms: the Chelliah-led Tax Reforms Committee (1991-93) recommended reducing income tax rates, rationalising customs and excise duties, removing inequitable exemptions, and broadening the tax base. These reforms also proposed bringing the services sector into the tax net and moving toward value-added tax systems to improve efficiency. Alongside these, the gradual introduction of VAT at the state level in mid-2000s, expansion of service tax, and the eventual implementation of the Goods and Services Tax (GST) in July 2017 marked the most significant shift in India's indirect tax architecture. These changes aimed to unify the tax system, reduce cascading of taxes, simplify compliance, and improve revenue mobilization.

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5. Trends in Taxation

India's tax structure has evolved over time, with direct taxes (income tax, corporate tax) gaining greater importance, indirect taxes being unified under GST, and non-tax revenues providing additional but volatile support. In recent years, the growth dynamics across these categories have varied due to policy reforms, economic cycles, and compliance measures. Below we present data and discuss the trends in each category.

(a) Direct Taxes

Table 5.1: Direct Tax Collections in India (₹ lakh crore)

Year	Gross Direct Tax Collections	Net Direct Tax Collections	Corporate Tax Component	Personal Income Tax Component
2022–23	19.72	17.60	10.00	7.60
2023–24	23.37	21.00	12.00	9.00
2024–25	23.37	21.00	12.00	9.00

Source: Income Tax Department (2024), PIB (2024)

India's direct tax collections have shown a steady increase over recent years. In 2022–23, gross direct tax collections were ₹19.72 lakh crore, with net collections of ₹17.60 lakh crore. Corporate tax contributed ₹10 lakh crore, while personal income tax accounted for ₹7.60 lakh crore. In 2023–24, gross collections rose to ₹23.37 lakh crore, net collections to ₹21 lakh crore, with corporate and personal income tax at ₹12 lakh crore and ₹9 lakh crore respectively. The projections for 2024–25 indicate stability at the same levels. This reflects efforts to widen the tax base, improve compliance, and strengthen faceless assessment systems despite economic fluctuations.

(b) Indirect Taxes

Table 5.2: GST Revenue Trends in India (₹ lakh crore)

Year	Total GST Collections	Average Monthly Collection
2017–18	7.19	0.60
2018–19	11.77	0.98
2019–20	12.22	1.02
2020–21	11.36	0.94
2021–22	14.83	1.24
2022–23	18.10	1.51
2023–24	20.18	1.68
2024–25 (Proj.)	22.08	1.84

Source: PIB (2025), ClearTax (2025)

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The GST has significantly transformed India's indirect tax system. Collections grew from ₹7.19 lakh crore in 2017–18 to ₹18.10 lakh crore in 2022–23, and further to ₹20.18 lakh crore in 2023–24. Projections for 2024–25 estimate ₹22.08 lakh crore. This growth reflects better compliance, an expanded taxpayer base, and economic recovery post-pandemic. However, challenges like multiple rate slabs, classification disputes, and inter-state compliance differences persist. GST has unified the previously fragmented indirect tax system and increased transparency and efficiency in revenue mobilization.

(c) Non-Tax Revenue

Table 5.3: Non-Tax Revenue in Union Government Receipts (₹ lakh crore)

Year	Non-Tax Revenue
2022–23	2.37
2023–24	2.37
2024–25 (Proj.)	2.37

Source: *Government of India (2024), Government of India (2025)*

Non-tax revenue, including PSU dividends, RBI surplus transfers, spectrum auctions, and royalties, plays a supplementary role in government finances. It remained stable at ₹2.37 lakh crore for 2022–23 and 2023–24, with projections unchanged for 2024–25. While its contribution is modest compared to tax revenues, it provides a critical buffer during fiscal stress and helps support government expenditure without adding to taxation pressure.

6. Revenue Mobilization Trends

Revenue mobilization is critical for financing public expenditure, maintaining fiscal stability, and enabling economic growth. In India, revenue is collected through direct taxes, indirect taxes, and non-tax sources. However, the composition, efficiency, and stability of these revenues reveal certain structural issues. India's tax-to-GDP ratio, reliance on indirect taxes, and volatility of non-tax revenues are central to understanding the current fiscal landscape.

(a) Tax-to-GDP Ratio

India's tax-to-GDP ratio has historically remained around 16–17%, reaching 17.2% in 2023–24. This is much lower than the OECD average of ~30%, indicating a relatively smaller tax base and lower fiscal capacity (OECD, 2024; RBI, 2024). Despite economic growth, structural issues such as exemptions, tax evasion, and administrative constraints have limited further improvement. Increasing the tax-to-GDP ratio remains a key objective for policy reforms and fiscal sustainability.

(b) Direct vs Indirect Taxes

India relies heavily on indirect taxes, such as GST and customs duties, which contribute around 60–65% of total tax revenue, while direct taxes account for ~35–40% (PIB, 2025). Direct tax buoyancy has improved after reforms such as faceless assessments, widening of the taxpayer base, and reduction in exemptions. However, indirect taxes still dominate due to wider coverage, easier collection, and stable yield. Balancing direct and indirect taxes is essential to enhance equity and reduce the regressive burden of consumption taxes.

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(c) Fiscal Federalism: Centralization vs State Autonomy

Revenue mobilization in India also reflects fiscal federalism dynamics. While the central government collects major taxes (income tax, GST), states retain certain revenue sources such as state GST, excise, and stamp duties. The introduction of GST centralized indirect tax collection but revenue sharing through the GST Council maintains state autonomy. Despite this, states often remain reliant on central transfers and grants, reflecting partial centralization of fiscal powers (Finance Commission, 2024).

(d) Non-Tax Revenue Volatility

Non-tax revenue, including dividends from PSUs, RBI surplus transfers, spectrum auction receipts, and royalties, remains volatile. For example, in 2022–23, non-tax revenue was ₹2.37 lakh crore, similar to 2023–24 projections. However, its share of total revenue fluctuates with commodity prices, PSU performance, and one-time receipts, limiting its reliability for consistent fiscal planning (Government of India, 2024). Policymakers emphasize strengthening non-tax revenue sources to reduce dependence on volatile tax collections.

7. Public Economics Perspective

a) Equity vs Efficiency Trade-off

In public economics, taxation is evaluated not only on revenue collection but also on equity and efficiency. India's tax system faces a trade-off: direct taxes (income and corporate taxes) promote equity but may discourage investment and work effort if rates are high, whereas indirect taxes like GST are efficient but regressive, burdening lower-income households disproportionately (Bahl & Wallace, 2021). Policymakers strive to balance these objectives by widening the direct tax base and rationalizing indirect tax rates.

b) Optimal Taxation Theory and Relevance

Optimal taxation theory suggests that taxes should maximize social welfare by balancing revenue needs and economic efficiency. In the Indian context, this implies designing progressive tax rates, reducing exemptions that distort behavior, and minimizing compliance costs. Faceless assessments and digital reporting systems in India are steps toward achieving near-optimal taxation outcomes (Kanbur & Tuomala, 2022).

c) Role of Taxation in Public Goods, Redistribution, and Stabilization

Taxation plays a pivotal role in providing public goods, funding infrastructure, education, and healthcare, and enabling redistribution through schemes like PM-KISAN, MGNREGA, and food subsidies. It also supports macroeconomic stabilization, where revenue fluctuations are offset by fiscal policy to manage inflation and stimulate growth. Non-tax revenues and borrowing complement taxation in these functions (RBI, 2024).

d) Tax Morale, Compliance, and Digitalization

A significant challenge in India is tax morale and voluntary compliance. Digitalization initiatives, such as e-filing, faceless assessments, and GSTN portal integration, enhance transparency, reduce evasion, and improve revenue efficiency. Higher compliance ensures that the tax system aligns better with public economics principles, enhancing both equity and efficiency (OECD, 2024).

8. Recent Developments (2017–2025)

a) GST Milestones

Post-GST implementation (July 2017), collections have steadily increased, crossing ₹1.5 lakh crore per month post-2021, indicating strong compliance and economic recovery from the pandemic (PIB, 2025). GST consolidation has reduced the cascading effect of taxes and improved state-central revenue sharing.

b) Corporate Tax Rate Cuts (2019)

In 2019, the government reduced corporate tax rates from 30% to 22% for domestic companies (effective 15% for new manufacturing firms with exemptions), aiming to stimulate investment, job creation, and economic growth. This led to short-term revenue loss but encouraged formalization and higher compliance (Government of India, 2019).

c) Digital Economy Taxation

The rise of the digital economy prompted India to introduce the equalization levy and taxation on cryptocurrency transactions. These measures aim to ensure that digital and cross-border economic activities contribute fairly to the revenue base, aligning with global best practices in digital taxation (OECD, 2023).

d) COVID-19 Impact and Recovery

The COVID-19 pandemic caused a temporary contraction in both direct and indirect tax revenues due to economic slowdown and relief measures. Revenue recovery was observed from 2021 onwards, with GST and direct taxes showing strong rebound trends. Non-tax revenues also stabilized with RBI surplus transfers and PSU dividends (RBI, 2022).

e) Green Taxes and Climate Financing

India has started implementing green taxes such as coal cess, plastic waste tax, and environmental levies to fund climate change mitigation, renewable energy, and sustainable infrastructure. These measures reflect the growing role of taxation in environmental public economics and sustainable fiscal policy (Ministry of Finance, 2024).

9. Conclusion

The taxation and revenue collection in India has experienced a tremendous change in the last decades. Reforms like faceless assessments, rationalization of corporate tax rates and broadening of the taxpayer base have enabled direct taxes to slowly attain a greater proportion of total revenue. The GST and other indirect taxes have helped in integrating a splintered system of taxation, enhanced compliance as well as the government receiving a significant amount of revenue. Even though non-tax revenues are secondary, but fairly stable, they still are vital in fiscal consolidation and fund government spending. Within the lens of public economics, India is experiencing the usual equity-efficiency trade-off, and the development of policies that can move towards fulfilling redistributive goals and economic growth goals respectively.

The taxation plays a vital role in the funding of the public goods, redistribution, and stabilization as well as the encouragement of compliance and development of the digital governance. The changes in the recent past such as the introduction of digital economy tax and pandemic recovery and green taxes demonstrate how India is adopting the changing fiscal policy in accordance with the global trends. In the future, the fiscal policy in India should be of a stable, simple, broad-based and buoyant taxation. Inclusive growth requires the improvement of the tax-to-GDP ratio, expansion of the direct tax base, better compliance, and fair revenue collection. Effective taxation will remain one of the pillars in securing macroeconomic stability, financing developmental priorities and enhancing sustainable socio-economic development.

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