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Beneath the surface: Surfacing tax collection truths

November 2026

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Introduction

Over the last decade, India's direct tax system has evolved from paper-based scrutiny to sophisticated, data-driven administration powered by clickstream analytics. Between FY2014–15 and FY2024–25, net direct tax collections surged from INR6.96 lakh crore to INR22.26 lakh crore, pushing the direct tax-to-GDP ratio above 6 percent despite the disruptions of the pandemic and a significant reduction in corporate tax rates. This growth was not driven by higher statutory tax rates; rather, it was enabled by technology, data integration and behavioural nudges, including pre-filled income tax returns, real-time TDS reporting, faceless assessments and refund cycles measured in days rather than months. During the same period, the taxpayer base expanded to more than 12.13 crore, while the tax burden gradually shifted from corporations towards individuals, reflecting the growing prominence of India's services-led and digital economy. Employment-generation initiatives, structural reforms and targeted incentives have further strengthened workforce formalisation, broadening the pool of income tax return filers and contributing to the buoyancy observed in direct tax collections.

This expansion, however, has been uneven. Five industrialised states contribute nearly three-fourths of every direct tax rupee collected, while half of all individual tax returns and almost nine out of ten corporate tax returns report little or no tax liability. Litigation remains a significant challenge, with more than half a million appeals pending across various appellate forums in FY2022–23, even as the revenue realised from such disputes has dwindled to a negligible share of the exchequer's receipts. A record-low cost-to-collection ratio of 0.41 percent underscores the administrative benefits of digitisation; however, the latest compliance audit by the Comptroller and Auditor General highlights that outstanding tax arrears have risen to approximately INR22.74 lakh crore, the majority of which is categorised as difficult to recover. India's direct tax framework therefore stands at a critical inflexion point. Although the infrastructure for efficient tax administration is firmly in place and revenue flows remain robust, leakages, compliance gaps and regional imbalances continue to undermine the objective of building a broad-based, progressive and dependable revenue system.

This thought paper synthesises eleven years of official data, parliamentary disclosures and independent reporting into a coherent narrative. It traces the evolution of India's direct tax landscape from national-level trends to state-wise disparities, from corporate balance sheets to the incomes of gig-economy workers, and from voluntary compliance to judicial backlogs. Its objective is not merely to document the past, but also to identify policy levers that can help India develop a direct tax regime that is broader, deeper, fairer and more resilient, without compromising efficiency, administrative simplicity, or taxpayer trust.



Detailed analysis

1. Direct taxes: The fiscal bedrock of the Union exchequer

Over the last decade, direct taxes have held centre stage in India's fiscal narrative, supplying more than one half of every rupee to the Union government's tax treasury. In FY2014–15, the Centre garnered INR 6.96 lakh crore (net) from income taxes, equal to 56.16 percent of its total tax haul. By FY2024–25, that contribution has climbed to INR22.26 lakh crore (net) (provisional) – more than tripling in absolute terms, while the share (to total tax collection) inched higher to 58.8 percent[1] (highest in the past decade).

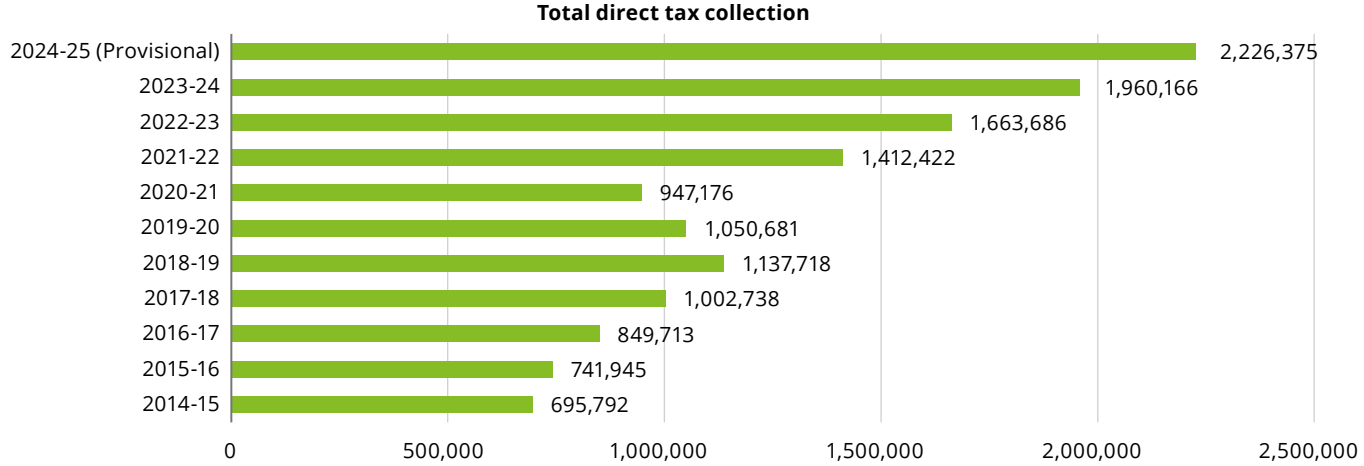
On the surface, the ratio appears static, yet that very stability is revealing: despite a deep pandemic shock, a headline corporate rate cut and revamping of individual taxation regimes with elevated tax thresholds, direct taxes have retained their primacy. In other words, the progressive pillars of Personal Income Tax (PIT) (or Non-corporate tax) and Corporate Income Tax (CIT) remain the keystone of New Delhi's revenue architecture.

A decade of twin growth curves, but direct taxes pull ahead

Over FY2014–15 to FY2024–25, direct tax revenue compounded at 11.15 percent per year while indirect tax revenue clocked 10.06 percent. This 100 basis point edge may sound modest, but on today's base it translates to an extra ~INR 6,500 crore (net) of progressive revenue every year - money the government can deploy without amplifying inflation or penalising consumption. The amount may sound small, although it is not insignificant; the sum is more than the annual capital outlay of the Indian Coast Guard pegged by the government for FY2025–26.

The variation beneath a seemingly uniform share

The direct tax share flatline masks three powerful counter currents. First, the post-demonetisation (of November 2016) compliance wave briefly pushed the direct tax share near 54 percent, signalling that new filers and clean-up of cash businesses were adding genuine buoyancy. Second, the September 2019 slash in the corporate headline rate to 22 percent shaved the share by almost two percentage points overnight; the ensuing pandemic era profit slump and large-scale refunds drove it down to 46.8 percent in FY2020–21. Third, the recovery phase (FY2021–22 to FY2024–25) shows direct taxes roaring back, powered by AIS-driven pre fills, a wider TDS /TCS net, GST-led formalisation of the economy, introduction of the new individual tax regime and the faceless scheme effect - offsetting the structural rate cut without any increase in headline rates. The fact that direct taxes have already recaptured the lost tax base underscores how policy-led base broadening outran the mechanical drag of a lower statutory CIT.



[1] Time series data covering FY2000–01 to FY2024–25 issued by the Central Board of Direct Taxes, https://incometaxindia.gov.in/Lists/Latest%20News/Attachments/735/Final-time-series-data.pdf



The 'why' behind direct tax dominance

The resilience of direct tax collections is not accidental; it rests on a confluence of structural and policy anchors. While the data allow only careful inference rather than certainty, the following factors stand as plausible drivers of this dominance:

a. **Depth of the formal salary economy:** Growth in wages, coupled with seamless employer TDS and pre filled returns, has given PIT a built-in escalator.

b. **Profit growth elasticity:** Even after the rate cut, nominal corporate profits seemingly rebounded strongly post-COVID.[2] At the same time, measures aimed at protecting the tax base and improving certainty and realisation of tax revenues have supported the resilience of corporate tax collections. These include anti-base erosion and compliance measures such as thin capitalisation and an expanded withholding tax net, as well as tax-certainty and dispute-resolution /management mechanisms such as safe harbour rules, Advance Pricing Agreements (APAs) and Vivad se Vishwas (VsV). The APA programme, for instance, had concluded 1035 agreements by March 2026, which CBDT estimates brought finality to about INR51,000 crore of income and translated into approximately INR15,000 crore of tax, without further litigation.[3] Similarly, the original VsV scheme addressed ~1.47 lakh disputes involving INR99,756 crore of disputed tax, with payments of INR53,684 crore, thereby facilitating resolution and realisation of tax locked in legacy disputes.[4]

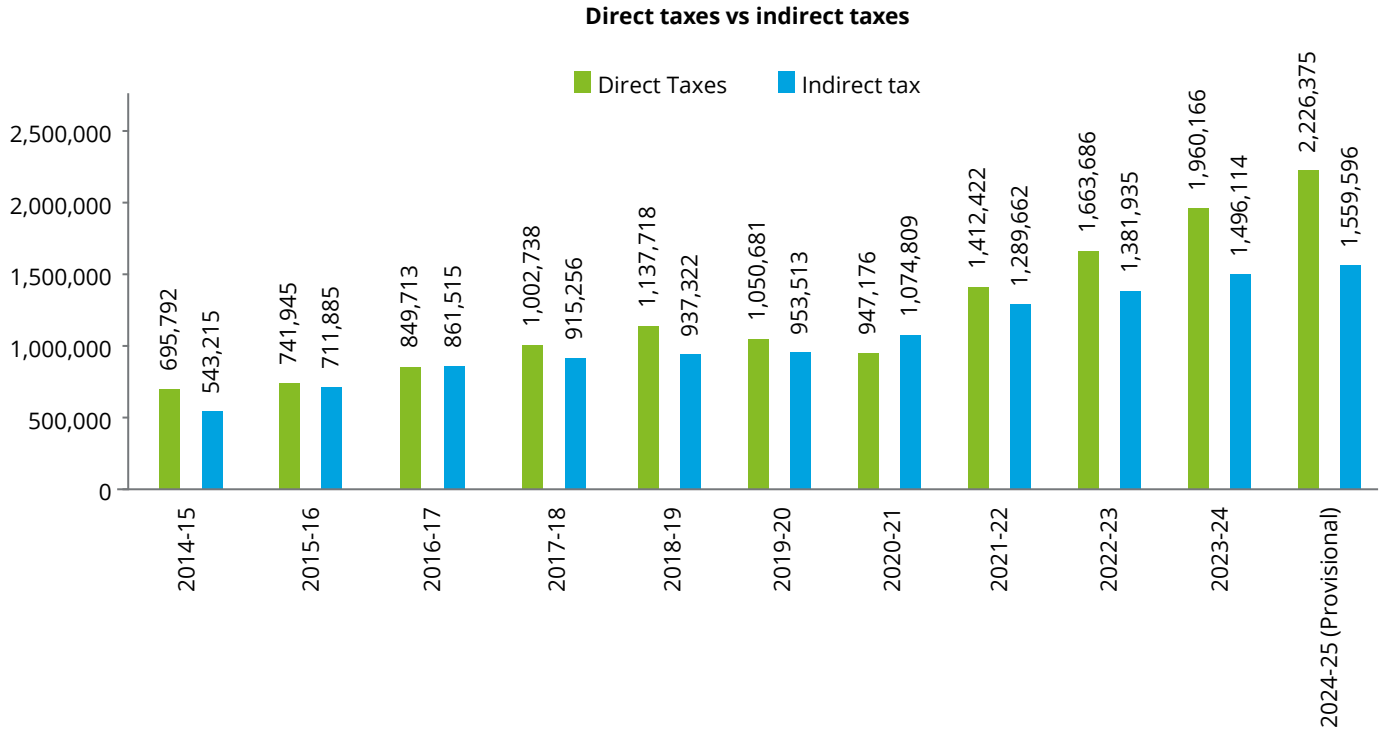
   According to data from the Reserve Bank of India, aggregate profits of listed companies rose from approximately INR2.5 trillion in FY2020–21 to about INR7.1 trillion in FY2024–25, reflecting a sharp improvement in corporate earnings.[5] This expansion in profitability has coincided with a more than two-fold increase in corporate tax collections over the same period, underscoring the close linkage between profit cycles and corporate tax buoyancy.

c. **Data loop enforcement:** AIS /TIS, high-value TDS sections (194 O for e commerce, 194 Q for large-ticket B2B goods), TCS on foreign remittances by individuals and on overseas tour packages, amendments in the Black Money Act and Benami Law, option to file updated return, new Form 26AS (capturing plethora of transactions) and GST income tax data fusion have expanded the 'visibility frontier' of taxable cash flows.

d. **Trust and technology refund cycle:** With the CPC 2.0 platform routinely issuing refunds within a fortnight, high compliance taxpayers see the system as a short working capital blocker and not a confiscatory black hole, raising voluntary advance tax payments.

e. **The indirect reform with a direct tax dividend:** Although GST is an indirect tax, its nationwide introduction in 2017 is widely regarded as one of the structural compliance drivers for direct taxation. Active GST registrations have increased from roughly six million in 2017 to about 15 million by FY2024–25, while GST revenues have doubled in the past 5 years.[6] This expansion indicatively reflects, among other factors, the formalisation of businesses and/or transactions that were likely outside the tax net in the Pre-GST era. GST's invoice matching and e-way bill systems generate granular transaction-level data, potentially enabling the income tax department to reconcile data and target under-reporting, thereby strengthening the direct tax base.

2. https://www.business-standard.com/economy/news/rbi-study-pent-up-demand-boosted-corporate-profits-post-pandemic-125102100567_1.html
3. https://www.incometaxindia.gov.in/documents/81799/15520974/APA-Report2025-26+%281%29.pdf/b82779ff-39a2-26e5-ac90-bccee0064047?t=1784913339477
4. https://www.pib.gov.in/PressReleaseIframePage.aspx?PRID=1744134&reg=48&lang=2
5. https://www.business-standard.com/economy/news/rbi-study-pent-up-demand-boosted-corporate-profits-post-pandemic-125102100567_1.html
6. https://www.pib.gov.in/PressNoteDetails.aspx?id=154789&NoteId=154789&ModuleId=3#:~:text=The%20Deloitte%20GST%408%20survey,flow%20and%20stronger%20digital%20infrastructure.



Importance for fiscal strategy

A direct tax share north of 58 percent matters for three reasons. First, it anchors the Union's buoyancy: direct taxes historically almost track or exceed GDP growth, whereas indirect collections are more vulnerable to commodity price swings and GST compliance cycles. Second, it enhances equity: the burden falls on income and profit earners, not on final consumers of essentials. Third, it grants policy latitude: with a progressive revenue spine, the government gets a cushion to calibrate GST rates (evidenced by the recent revamp of September 2025), excise, or customs duties to boost consumption.

The broader international positioning of India's revenue mix, which situates the trends within the global tax landscape, is captured under section 9 of the paper.

Increasing share of direct taxes: An outcome, not an objective; and the road ahead

The increase in the share of direct taxes in the total tax pool should be viewed as an outcome of base broadening, not a policy target in itself. The primary objective remains strengthening India's overall fiscal capacity, which is measured more meaningfully through the tax-to-GDP ratio, while ensuring that revenue growth is equitable and growth-friendly.

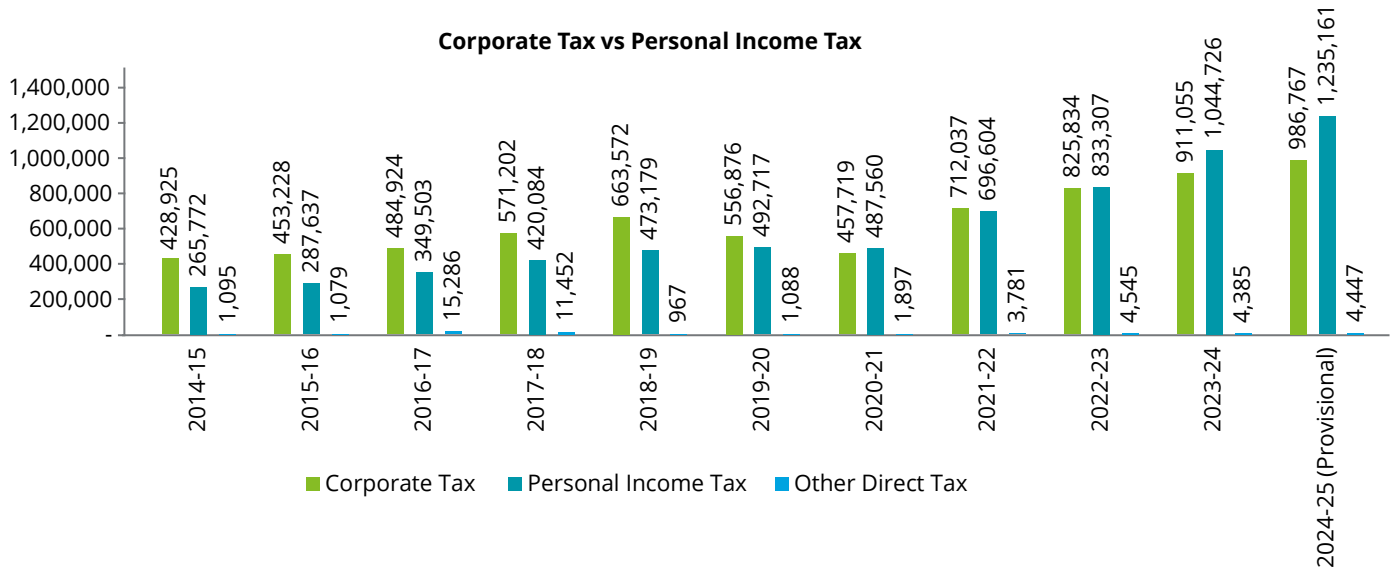
Coordinated, data-driven base expansion, undertaken within the existing legal framework and in collaboration with the States, can deepen the direct-tax base and strengthen fiscal resilience. If this process leads to the direct-tax share moving north of 58 percent, it would reflect the natural maturation of India's tax system.

2. Who shoulders the direct tax load? A decade of shifting weight

Headline numbers: Growth with a dramatic remix

Over FY2014–15 to FY2024–25, India's direct tax kitty (net collections) expanded from INR6.96 lakh crore to INR22.26 lakh crore. **The question is, who is writing the ever-larger cheques?**

Category	FY2014–15 (in INR crore)	FY2024–25 (provisional) (in INR crore)	CAGR (%)	FY2014–15 share	FY2024-25 (provisional) share
Individuals /Non-corporate	2.66 lakh	12.35 lakh	15	38	55
Companies	4.28 lakh	9.86 lakh	8	61	44



Dominance of corporates in the direct tax bill has slipped from 61 percent to 44 percent. PIT (or Non-corporate tax) has surged, nearly sextupling and now outpacing CIT on an incremental basis since FY2020–21.

Corporate share slides, individual share surges. What do the shares reveal?

a. **FY2014–15 to FY2018–19:** Corporate share held greater than 56 percent. PIT rose, but only about 3 percent in these years.

b. **FY2019–20 and FY2020–21 "reset years":** The 22 percent corporate rate cut and a weak profit cycle (on account of COVID) sliced corporate share by almost 10 percent.

c. **FY2021–22 to FY2024–25:** AIS, ever expanding TDS/TCS net (Sections 194-O, 194Q, section 206C(1G)), modified Form 26AS, updated income tax return encouraging taxpayers to come out of the non-compliance hole, pre-filling of tax returns, simplification of PIT regime and nominal salary growth pushed PIT share above 50 percent for the first time in FY2022–23; it now stands at 55 percent.

d. **From 'Boardroom profits to pay-slip taxes':** Another plausible driver of the increasing share of PIT relative to CIT lies in the sustained acceleration of employee compensation. According to recent statements in Parliament, employee salaries have grown at a compound annual rate of over 11 percent over the past decade.[7] As wages rise, the taxable base under PIT naturally expands,

[7] https://www.business-standard.com/economy/news/factors-of-production-being-reset-post-covid-compensation-has-risen-fm-125031800870_1.html

enhancing the revenue potential from salary earners. Thus, the stronger upward momentum in employee incomes may help explain why PIT is gaining ground over CIT in recent years.

e. **GST fueled formalisation deepens the PIT base:** An important but often under-appreciated driver of the PIT surge has been the precipitous turn towards formalisation ushered in by GST. Since GST's launch in 2017, active registrations have climbed from about 60 lakh to nearly 1.5 crore by FY2024–25, signalling not just new business formation but the migration of many previously informal enterprises into the formal tax net. GST's invoice matching, e-way bill mechanism and ITC linkages generate a transaction-level digital trail that income tax authorities can match against turnover declarations. This has curtailed under-reporting and steadily drawn small and mid-sized individual-run businesses and their owners into the PIT, reinforcing the trend where PIT now outpaces CIT in the overall direct tax mix.

Result: The transformational shift in the PIT and CIT share has broken India's long-held belief that 'companies pay the bulk'.

Elasticity check: How fast did each rupee scale?

Corporate buoyancy (i.e., CIT growth rate /GDP growth rate) averaged 0.83, reflecting the rate cut's drag. PIT buoyancy (i.e., PIT growth rate /GDP growth rate) averaged 1.54, showing revenue from PIT grew 54 percent faster than nominal GDP, proof that data trail reforms translate into real collections.

Implications for policy and forecasts

a. **Revenue mathematics has flipped:** Future budget arithmetic must treat PIT volatility with the same weight as CIT.

b. **Widening the PIT net beats raising rates:** A one percentage point PIT-to-GDP lift now nets over ~INR3 lakh crore, which is double the 2015 yield.

c. **Corporate yield depends on profit cycle, not rates:** With the headline CIT already among Asia's lowest, growth must come from breadth (new registrants, MSME formalisation) rather than further cuts.

Personal versus CIT contribution: A global comparative lens[9]

India's evolving tax composition and its alignment with global patterns are further synthesised in Section 9.



3. Decoding the size and revenue contribution of the tax filer base[8]

Why headcounts matter

Knowing that individuals now out-contribute companies is only half the story; the number of taxpayers shows whether revenue growth springs from a wider net or heavier burden on the same people. The "No. of Taxpayers" data released by CBDT counts every PAN that either filed a return or had tax deducted at source, across all major categories of taxpayers. When we juxtapose that roll call with each category's rupee contribution (analysis stated above), the following powerful narratives emerge.

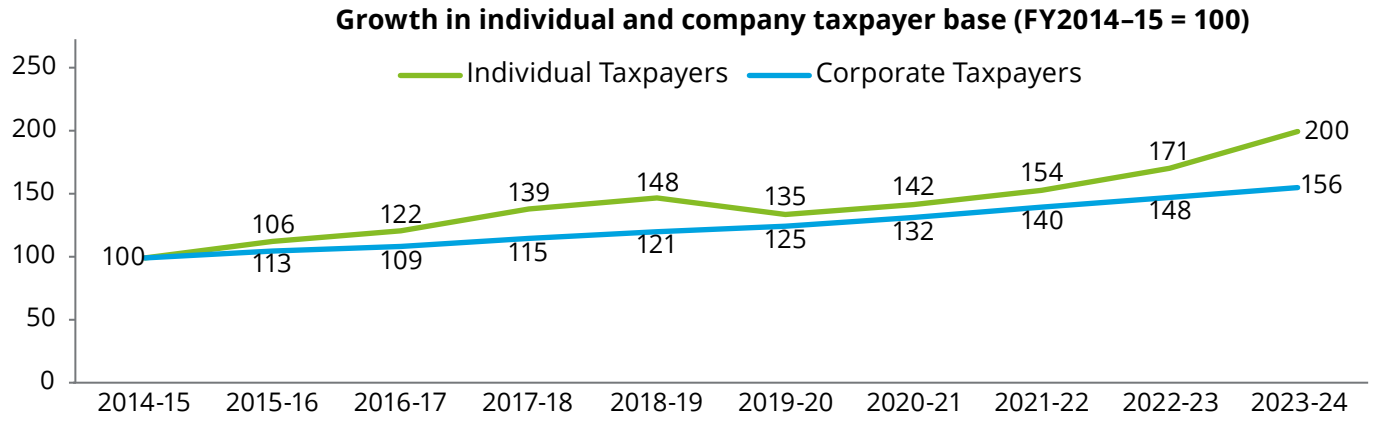
Headline growth: People first, companies later

The number of taxpayers in India has increased to almost 1.7 times its level a decade ago, as shown in the following table.

Category of taxpayer	FY2014–15	FY2023–24	CAGR %
Individuals/Non-corporate	5.79 crore	11.61 crore	7.20%
Companies	0.076 crore	0.11 crore	4.54%
Others (including Firm, HUF and AOP)	0.26 crore	0.39 crore	4.14%
Total	**6.13 crore**	**12.13 crore**	**7.05%**

Nearly 5.81 crore fresh individuals entered the grid, lifting the total base by more than 100 percent in ten years.

The sharp rise in India's income-tax filer base over the last decade can plausibly be seen as the outcome of multiple reinforcing trends. On the employment side, schemes such as the 2020 Labour Codes, e-Shram Portal, Udyam Portal, Pradhan Mantri Rojgar Protsahan Yojana (PMRPY), Pradhan Mantri Kaushal Vikas Yojana (PMKVY) and the National Career Service (NCS) Project appear to have nudged more workers and enterprises from the unorganised sector into formal structures. In parallel, the Department's expanding information trails, through the Annual Information Statement (AIS), greater cross-reporting between departments, GST-driven formalisation and the use of AI-enabled analytics seem to have widened the reporting net and strengthened the perception of oversight. The combined effect of these employment and data-led shifts is likely to have created a virtuous cycle where higher formal participation translates into broader tax footprints, and deeper data intelligence encourages greater voluntary compliance.



Both series are indexed to FY2014–-15 = 100 to facilitate comparison of their respective growth trajectories. Between FY2014–15 and FY2023–24, the number of individual taxpayers increased by approximately 100 percent, compared with an increase of approximately 56 percent in company taxpayers. The chart therefore depicts relative growth.

8. The section deals with trends analysis of change in number of taxpayer who is different from a tax return filer as the taxpayer includes not only a person who has filed tax return but also a person whose tax has been deducted (irrespective he /she has filed a return or not). The analysis covers interplay with tax return filers as well – which has been clearly specified in the analysis.

9. Peer group figures are at the level of general government (i.e., inclusive of all levels of government) and follow the OECD definition of income /profits taxes; India's figure is at the Union level, which is directionally comparable but not a strict apple-to-apple comparison.

Headcount and yield: A wider net, but half the fish pay no tax

a. The double-edged success of base widening

India's taxpayer universe has grown from 6.13 crore to 12.13 crore over the decade - an undeniable compliance win. Yet fresh evidence shows that more than half of those returns still sport a zero tax liability. An NDTV analysis[10] of tax return filing data reports that 63 percent of individual returns for FY 2023 24 paid no tax at all, up from 50 percent a decade earlier, underscoring a stern reality: headcount alone does not guarantee rupees.

According to an article published by 'The Print', a reply submitted by the Finance Minister in Lok Sabha showed that between FY2019–20 and FY2022–23, the pool of income tax return filers expanded at roughly 3.4 percent per year.[11] Within that total, however, the subgroup of filers whose returns showed no tax payable jumped far faster, about 15.5 percent annually. For FY2022–23, the figures break down as follows: 7.4 crore individuals submitted returns, yet 5.16 crore of them (approximately 70 percent) reported zero liability, leaving only 2.24 crore actual taxpayers, barely 1.6 percent of India's population.

Key causes of the skewed expansion:

- **Successive exemption hikes:** effective nil tax ceiling has climbed from INR2 lakh to INR7 lakh (recently increased to INR12 lakh under the new regime).
- **Low per capita income:** Per NDTV's piece, 84 percent of Indians earn less than INR10 lakh,[12] many legitimately owe no tax. Hence, a policy choice of the government and not an administrative gap.
- **Compliance-only filings:** Returns filed for loan/visa purposes or to claim TDS refunds.

b. A mile-wide base, an inch-deep contribution: How 1 percent of companies supply 85 percent of corporate tax

Per the NDTV piece,[13] out of roughly 10.7 lakh companies that filed returns, 57 percent reported no taxable profits, while another 33 percent showed profits capped at INR50 lakh. In effect, nine out of ten corporate filers declared profits no higher than that threshold. Further, 48 percent paid nothing and 36 percent remitted less than INR5 lakh. Combined, these low-profit, low-tax companies delivered only a token share of the tax collected from corporates. The fiscal load is strikingly concentrated: just 1 percent of corporate taxpayers contributed 85 percent of the entire CIT haul.

Expanding the filer base: India's policy choice in structuring exemptions

Over the past decade, India has witnessed a sharp rise in the number of PIT filers, marking significant progress in taxpayer formalisation. Yet, a large share of these filers (estimated to be over 50 percent) report nil or minimal tax liability.

This pattern may be better viewed not as a reflection of administrative weakness but as a considered policy outcome. It appears that India's PIT architecture has been designed to expand participation and data visibility. The approach emphasizes formalisation and compliance behaviour at the lower end of the income distribution, while deferring material taxation until incomes rise above modest thresholds.

a. Thresholds that have outpaced income growth

Under the old tax regime, the basic exemption limit of INR2.5 lakh is slightly lower than the country's GDP per capita of about US$3,050 (~INR2.77 lakh) in 2026, based on the IMF's *DATAMAPPER on GDP per Capita.*[14] When the section 87A rebate is factored in, individuals with taxable income up to INR5 lakh pay no tax even under the old regime, effectively exempting those earning almost twice the national average.

The new regime, introduced to simplify rate structures and compliance, extends this approach further. The enhanced 87A rebate, applicable from FY2025–26, effectively grants full relief to individuals with taxable income up to INR12 lakh (~ US$13,500). Consequently, individuals earning around four times the national average income may continue to fall outside the tax net. Effectively, it can be stated that the threshold of tax exemption (factoring in the rebate under section 87A) in India is almost 200 percent of the GDP per capita (under the old regime) and 400 percent of GDP per capita (under the new regime).

Taken together, the two regimes suggest a consistent policy trajectory, which is encouraging voluntary compliance and data visibility first, while delaying effective taxation until incomes move well above subsistence and lower-middle class thresholds.

10. https://www.ndtv.com/opinion/why-over-half-of-all-itr-filings-in-india-are-zero-tax-7579295
11. https://theprint.in/economy/more-indians-filing-tax-returns-but-only-1-2-of-population-actually-pays-income-tax-shows-govt-data/1686818/
12. https://www.ndtv.com/opinion/why-over-half-of-all-itr-filings-in-india-are-zero-tax-7579295
13. https://www.ndtv.com/opinion/why-over-half-of-all-itr-filings-in-india-are-zero-tax-7579295
14. https://www.imf.org/external/datamapper/NGDPDPC@WEO/OEMDC/ADVEC/WEOWORLD

b. How India compares with peer economies

When benchmarked globally, India's exemption thresholds appear high relative to GDP per capita, whereas most middle-income peers set theirs below or near average income to broaden the taxpayer base.

Country	GDP per capita (~US$) (2026 – IMF DATA MAPPER)[15]	Indicative nil /entry level tax threshold (~US$ equivalent)[16]	Threshold as ~% of GDP per capita	Derivation of annual no-tax threshold
Brazil	10,710	5,074	47.37%	2,259 (BRL) * 12 = ~US$5074
South Africa	6,830	5,500	80.52%	R95,750 = ~US$5,500
Indonesia	5,400	3,200	59.25%	IDR 54 M = ~US$3,200
Philippines	4,620	4,300	93.07%	PHP 2,50,000 = ~US$4,300
Vietnam	4,960	5,000	100.80%	VND 11 M * 12 = ~US$5,000
Singapore	107,800	15,600	15%	First SGD 20,000 of chargeable income at 0% = US$15,600
United States	94,400	16,100	17.05%	2026 standard deduction, single filer
United Kingdom	61,000	16,620	27%	Standard Personal Allowance of GBP 12,570
France	52,000	13,000	25%	Up to EUR 11,600–0% bracket for one family quotient = US$13,000
Australia	75,600	12,670	16.76%	Up to AUD 18,200 – Nil tax = US$12,670
New Zealand	52,000	Nil	-	Tax applies from the first dollar at 10.5%

c. Interpreting India's policy stance

The comparative evidence suggests that India's exemption architecture represents a measured policy trade-off between fiscal depth and social equity. While the jurisdictions considered above (both emerging and advanced economies) generally begin taxing income at levels significantly below their respective average output per person, India has chosen to start meaningful taxation well above that level, effectively shielding a broad segment of its lower- and middle-income earners.

This approach may be interpreted along three dimensions:

- **Equity and consumption support:** Higher exemption thresholds preserve purchasing power among low-income households;
- **Administrative prioritisation:** Concentrating machinery on higher-income segments helps optimise limited administrative capacity;
- **Compliance deepening:** Filing without liability builds long-term data visibility, enabling gradual future expansion of the taxpayer base.

In comparative perspective, India's tax regime design appears to prioritise equity, formalisation and stability over immediate revenue mobilisation. The relatively high threshold for effective taxation, even when viewed against the emerging markets or developed economies (as covered above), reinforces India's apparent policy preference for widening participation in the tax ecosystem before progressively deepening the tax-paying base.

Conclusion: The expanding 'Roll Call': Progress achieved, choices ahead

India's taxpayer universe has expanded impressively, reflecting the cumulative impact of multiple policy levers: pre-filled returns, an ever-wider TDS/TCS net, AIS /TIS reporting and data-driven nudges such as the Non-Filer Monitoring System (NFMS).

Yet the current factum depicts that filer headcount is not the same as the tax base. However, this imbalance in PIT 'filer' vs 'payer' in the present context is not purely structural but policy-induced also.

The next frontier lies in increasing the 'taxpayer base' while simultaneously continuing with the 'filer expansion'. This conversion is expected to happen on two fronts: (a) With the gradual upliftment of income levels, mere filers would convert into active payers – essentially projecting reinforcement of the 'policy choice' and (b) Continued effort of expanding the taxpayer base by further AIS integrations to tap the untaxed, increased formalisation, widening of TDS /TCS net, etc.

15. https://www.imf.org/external/datamapper/NGDPDPC@WEO/OEMDC/ADVEC/WEOWORLD
16. As per information generally available in the public domain

4. Voluntary collection versus litigation inducement: How India's direct tax engine moved upstream

Why this contrast matters?

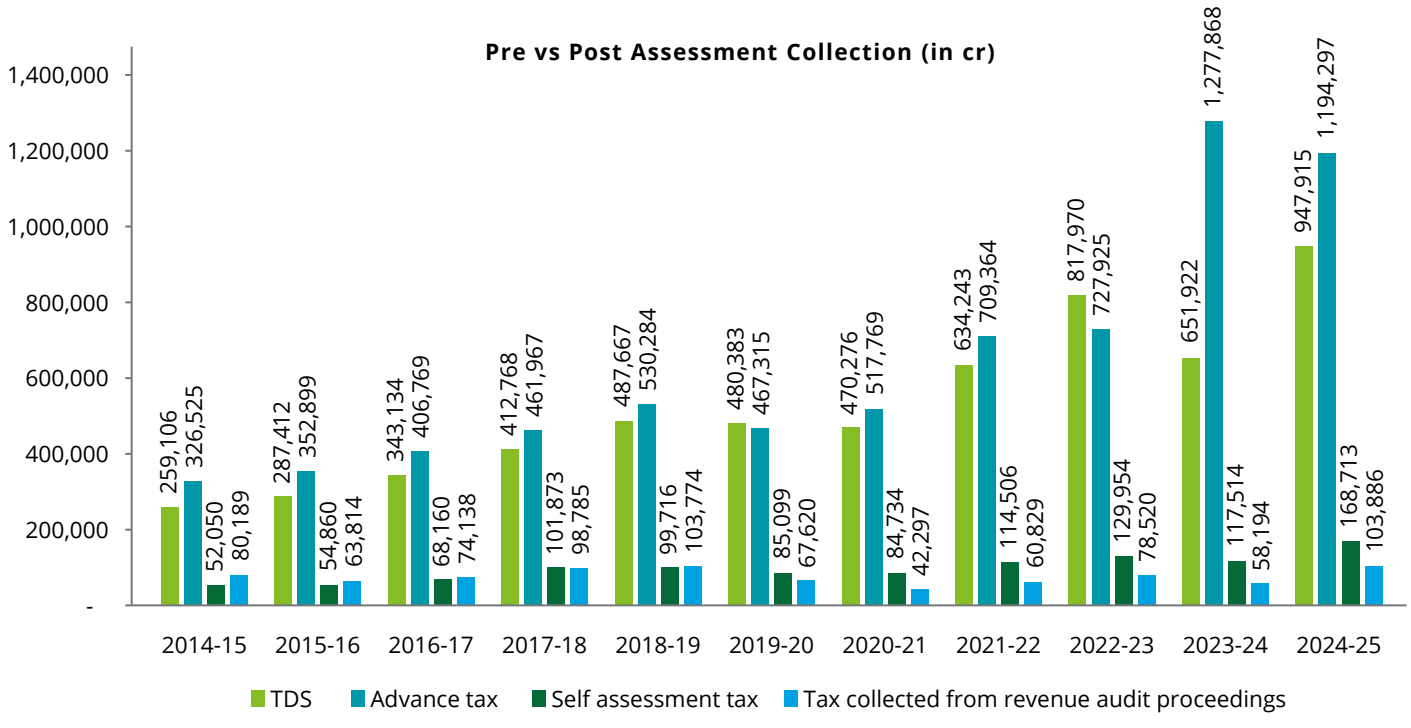
No fiscal statistic is more revealing than how much revenue arrives before a tax officer lifts a pen versus how much is wrested through audits, appeals and court orders. Voluntary receipts, viz. TDS, advance tax and self assessment, signal both trust and system efficiency; litigated collections, while vital for deterrence, are costly and time-consuming. Tracking the balance across a decade tells us whether India's digital reforms are paying off in hard cash or merely shifting paperwork online.

A decade's scorecard in two lines

a. Voluntary gross inflows expanded from ~INR7.2 lakh crore in FY2014–15 to ~INR26 lakh crore in FY2024–25, a compound growth of 12.39 percent a year.

b. Post-assessment gross cash rose from ~INR0.8 lakh crore to ~INR1 lakh crore, growing at a sluggish rate of 2.38 percent annually despite a 220 percent increase in net direct tax collections over the subject decade.

Result: 96.2 percent of every direct tax rupee now arrives voluntarily, up from ~90 percent a decade ago. Litigation still matters for compliance signalling, but its fiscal weight is fading fast.



The pendency paradox: More cases, less cash

As of December 2024, 71,453 direct-tax disputes were pending before tribunals and courts, involving approximately INR11.83 trillion in contested demand, according to a written reply by the Finance Minister in the Rajya Sabha.[17] While the quantum in dispute remains substantial, the pendency count has fallen sharply from 1,35,169 cases in FY2018–19,[18] representing a reduction of nearly 50 percent. This decline reflects the impact of dispute-resolution initiatives, faceless appellate processes and settlement schemes, even as the large value locked in litigation underscores the continuing need to convert disputed demand into realised revenue.

Notably, post-assessment collections have remained relatively modest despite the sizeable stock of disputed tax demand. Reassessment proceedings, including disputes arising from procedural issues (such as those considered by the Apex Court in the case of Ashish Agarwal), have added to the litigation pipeline. At the assessment stage, recurrence of certain routine additions and automated processing at the CPC level, many times, result in matters travelling through the appellate process before attaining finality. These factors, coupled with the time involved in resolution (across successive appellate forums), have contributed to the continuing pendency of tax disputes and delayed the ultimate realisation of disputed demands.

High-value income, meanwhile, is intercepted upstream by TDS, advance tax and AIS nudges. The pile of files grows, but the tap is a trickle, proof that case count alone is a poor metric for revenue collection effectiveness.

How policy measures are strengthening voluntary tax payments

a. Data visibility and Pre emptive withholding

- **TDS/TCS expansion:** E commerce receipts (194 O), large B2B goods transactions (194 Q), TCS on foreign remittances and overseas travel [206C(1G)], new Form 26AS capturing a plethora of transactions, amendments in Black Money Act and Benami Law and higher TDS/TCS rates for habitual non filers create a "tax first, litigate later" environment.
- **AIS /TIS pre fill:** Salaries, dividends, capital gains, foreign remittances and even crypto trades now land in the taxpayer's draft return. The compliance decision becomes binary: pay what the system already knows or invite scrutiny.

b. GST's compliance spillover into voluntary payments

It appears that the GST framework has improved voluntary compliance in direct taxes. Between FY2014–15 and FY2024–25, tax deducted at source rose from about INR2.6 lakh crore to INR9.47 lakh crore and advance tax climbed from roughly INR3.3 lakh crore to nearly INR11.94 lakh crore, both compounding well above nominal GDP growth. The digital transaction trail created by GST appears to be one of the key reasons why more taxpayers now pre-pay and self-assess accurately, reducing reliance on litigation to secure revenue.

c. Trust-based processing and faster refunds

With CPC 2.0 refunds, average refund (claimed in tax return) processing time has dropped from roughly three months to under three weeks. This quick refund process has encouraged taxpayers to comply with the advance tax mechanism with reduced hesitation to avoid interest and receive excess back quickly. Evidence of a maturing, self-reporting tax culture comes from refund behaviour. A growing share of gross collections indicates that taxes are increasingly paid in advance and in full, with adjustments /refunds made quickly through automated processing rather than through disputes. An independent report highlights the same,[19] this is a strong sign that efficient administration and taxpayer trust are reinforcing voluntary compliance.

d. Simplification through the new tax regime

The shift towards concessional tax regimes for both individuals and corporates may also be contributing to a simpler and more predictable compliance framework. For individuals, the new tax regime combines concessional tax rates with significantly fewer exemptions and deductions, thereby reducing the need for supporting documentation and multiple exemption and deduction claims. Its increasing acceptance is evident from the fact that, of approximately 8.20 crore returns filed electronically by individuals for AY2024–25, approximately 6.28 crore, or 76.64 percent, were filed under the new tax regime.[20] A similar policy direction is visible on the corporate side through sections 115BAA and 115BAB, which provide concessional tax rates to eligible domestic companies subject to foregoing specified exemptions and deductions. Taken together, these regimes reflect a broader movement towards lower rates accompanied by a rationalisation of tax preferences and a simpler tax base. While their independent contribution to voluntary tax collections cannot be isolated from the available data, such

17. https://www.business-standard.com/economy/news/over-rs-11-8-trn-locked-in-direct-tax-litigation-fm-informs-rajya-sabha-125031801241_1.html
18. The Report of the Comptroller and Auditor General of India on Direct Taxes of the Union Government for the year ended March 2023 (Audit Report No. 14 of 2025 – page 25), https://cag.gov.in/en/audit-report/details/122514
19. https://www.livemint.com/economy/direct-tax-revenue-refunds-income-tax-returns-online-filing-faceless-assessment-tds-digital-11752405729847.html
20. Receipt Budget, 2026–27; https://www.indiabudget.gov.in/



frameworks can potentially reduce compliance complexity and provide greater certainty in determining tax liabilities, complementing the broader shift towards easier and more voluntary tax compliance.

e. Targeted nudges instead of blanket notices

- The Non Filer Monitoring System's last two cycles flagged 4 million high-value non filers;[21] over 1 million of those complied, remitting INR7,319 crore in self-assessment tax, which has all been booked on the voluntary side of the ledger. Outreach e mails, SMS reminders and social media campaigns convert potential disputes into revenue.
- According to an article[22] published by The Times of India in December 2024, the tax department's extensive crackdown on non-filers led to voluntary collection of INR37,000 crore. The officials used data analytics and transaction records such as purchases of gems, jewellery, property and luxury holidays paid in cash. The article states that an expanded and stricter tax collection and TDS system helped identify significant transactions that previously went unnoticed.
- Interestingly, in a piece published by The Economic Times[23] it has been revealed that as many as 11 million updated returns have been filed, resulting in additional collection of more than INR11,000 crore since the rollout of the facility of updated returns. This is mainly attributable to the department's commendable proactiveness in providing taxpayers with information about their financial transactions.

  Further, the piece goes on to report that, on account of a recent targeted nudge campaign, the taxpayers withdrew tax deduction claims worth INR963 crore, resulting in payment of ~INR409 crore in additional taxes. Furthermore, a humongous number of taxpayers declared foreign assets worth ~INR29,000 crore and financial income of INR1,089 crore.

- Also, in the budget session of March 2025 the Hon'ble Finance Minister announced that over 30,000 taxpayers voluntarily revised their income tax returns, declaring additional foreign assets and income of approximately INR30,300 crore. This was a result of a targeted 'nudge' campaign, where selective SMS and emails were sent to taxpayers, prompting them to disclose their foreign income and assets.[24]
- Further, as noted in Box II.1 of the Economic Survey 2025–26,[25] nudges relating to deductions under section 80GGC prompted over 91,000 taxpayers to file updated returns, leading to a correction of excessive claims amounting to nearly INR2,050 crore and additional tax payments exceeding INR680 crore. Similar interventions addressing incorrect House

21. As per the Finance Ministry's reply to unstarred question no. 729 in the Lok Sabha, https://sansad.in/getFile/loksabhaquestions/annex/178/AU729.pdf?source=pqals
22. https://timesofindia.indiatimes.com/business/india-business/taxpayers-take-note-income-tax-department-recovers-rs-37000-crore-from-individuals-not-filing-returns-despite-taxable-income/articleshow/116356134.cms
23. https://economictimes.indiatimes.com/news/economy/policy/cbdt-to-ramp-up-ai-led-crackdown-on-tax-evasion-ahead-of-new-income-tax-law-chairman-ravi-agrawal/articleshow/122866379.cms?from=mdr
24. https://economictimes.indiatimes.com/news/economy/policy/over-30k-taxpayers-declare-foreign-assets-income-of-rs-30300-cr-due-to-nudge-campaign-fm-nirmala-sitharaman/articleshow/119483550.cms?from=mdr
25. https://www.indiabudget.gov.in/economicsurvey/

Rent Allowance (HRA) claims resulted in further tax collections of over INR119 crore, underscoring the effectiveness of data-driven compliance strategies in improving voluntary reporting.

f. One-time dispute clean ups

The Vivad se Vishwas initiative resolved INR99,658 crore of contested demand across 1,31,939 declarations.[26] Crucially, these inflows are likely recorded as voluntary, not post-assessment recovery, further reducing the litigation column.

Fiscal advantages of a front-loaded model

- **Stability and predictability:** Advance tax instalments land quarterly, smoothing cash flow and shielding the exchequer from court calendars.
- **Progressive equity:** Income and profit payers shoulder their burden up front; consumption taxes can then be used counter-cyclically.
- **Administrative economy:** With cost of collection already below 55 paise per INR 100, every rupee moved from litigation to voluntary channels saves investigative and interest costs.
- **Policy latitude:** A robust voluntary spine permits GST or excise tweaks without jeopardising headline tax targets.

Closing the loop: Realisation over demand

The mountain of disputed tax of INR11.83 trillion remains a fiscal headache, but the data teaches a sharper lesson: revenue strategy should be judged by "realisation ratio" (i.e., cash collected /demand raised), not by docket size. By that yardstick, data-led nudges have already eclipsed courtroom victories.

Litigation remains relevant primarily as a deterrent tool

The Finance Minister's statement that INR11.83 trillion remains locked across courts signals consequences for egregious evasion and sets precedents that guide voluntary behaviour. However, each litigated rupee now costs ever more departmental time and foregone interest; the strategic objective must shift from "win more cases" to "make cases less necessary."

Therefore, in other words, Litigation is acting as a necessary evil and not the revenue engine. Courtroom pendency may have doubled in the last seven years, but cash realised from those disputes has shrunk to an afterthought. The revenue engine has relocated upstream into AIS pre fills, TDS nets and lightning-fast refunds. Litigation now functions less as a cash funnel and more as a guardrail that deters non compliance. The task ahead is to keep the guardrail sturdy but narrow, while widening the digital highways that channel voluntary payments straight into the consolidated fund.

[26] As per Finance Ministry's reply to unstarred question no 729 in the Lok Sabha, https://sansad.in/getFile/loksabhaquestions/annex/178/AU729.pdf?source=pqals

5. Cost of collection: How India learned to raise INR100 for half a rupee

Why efficiency deserves its own spotlight

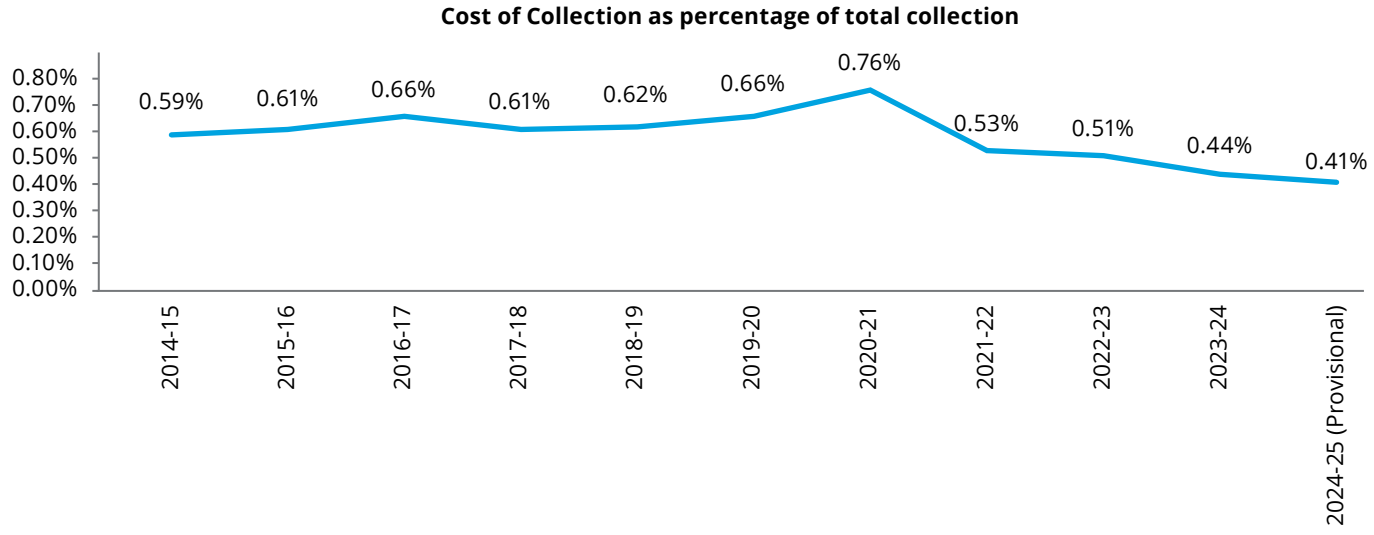
After establishing that voluntary payments now dominate receipts, the natural next question is: What does it cost the exchequer to collect those rupees? The cost of collection ratio is the department's internal barometer of efficiency; every decimal drop releases resources to focus on data analytics, tax leakages and taxpayer services.

A decade of numbers at a glance

The data available on CBDT's website[27] traces three variables from FY2014–15 to FY2024–25:

Particulars	FY2014–15	FY2024–25	Decadal CAGR
Direct tax receipts (net)	INR6.96 lakh crore	INR22.26 lakh crore	11.15%
Expenditure on collection	INR4101 crore	INR9,136 crore	7.55%
Cost of collection ratio	0.59%	0.41%	NA

Key takeaway: Collections grew almost 40 percent faster than departmental spending, driving the cost ratio down by about 20 basis points, a relative efficiency gain of 33 percent.



[27] https://incometaxindia.gov.in/Lists/Latest%20News/Attachments/735/Final-time-series-data.pdf

The roller coaster beneath the downtrend

A

Steady ascent (FY2014–15 to FY2019–20): Cost inched up from 0.59 percent to 0.66 percent with technological introductions such as e-assessments, deeper CPC integration during the stabilisation of the CPC ITR 1.0 platform and limited pre-filled returns.

B

Pandemic spike (FY2020–21): Receipts shrank in the COVID slump while costs remained sticky, pushing the ratio up to 0.76 percent. A one-year aberration, it underlined how sensitive the metric is to revenue shocks.

C

Digital payoff (FY2021–22 to FY2024–25): Faceless assessments, e proceedings, widening of digital infrastructure, CPC (ITR 2.0) project and CPC (TDS 2.0) led to greater efficiencies even as receipts hit record highs, slicing the ratio to a historic low of 0.41 percent.

Why costs fell even while litigation grew

A

Front-loaded compliance: With 96 percent of tax arriving via TDS, advance tax and self-assessment, the department's most expensive activity, i.e., post-assessment enforcement, now touches a shrinking share of rupees.

B

Self-service interfaces: Rapid e-verification (triggered by CPC 2.0) and online grievance redressal shifted routine tasks onto software, not tax officers.

C

Virtualisation of the process: Another potential factor for reduction in costs could be the virtualisation of assessment and appellate proceedings.

Policy imperatives to keep the curve down

A

Demand "Realisation KPIs": Measuring rupees collected per rupee demanded will spotlight high cost, low yield litigation pockets.

B

Scale risk-weighted nudges: Building on earlier digitisation gains, the next frontier in keeping collection costs low lies in harnessing data convergence for precision-driven compliance. Expanding AIS coverage, GST e-invoice cross-verification with revenue, etc., can unlock incremental revenue with minimal administrative overhead.

C

Triage appeals: With INR11.83 trillion locked in appeals, interest outgo and staff time could creep up if cases languish. Fast tracking high value /stakes disputes (say, tax impact above INR10 crore) caps interest leakage and staff hours.

D

Single window digital experience: Consolidating portals and rationalising forms keeps self service momentum, crucial for preserving the sub 0.5 percent cost ratio.

The aforesaid approaches are already seeing a lot of traction in the department circles. For instance, to further reduce time and effort on litigation, per the announcement in the Union Budget 2024–25, the monetary thresholds for filing tax dispute appeals by the department were enhanced.[28] As a result of these revised limits, it has been estimated that about 4,300 cases would be withdrawn from various judicial forums over time.[29]

Quality gaps that dilute the dividend of low cost recovery

[findings drawn from the Comptroller and Auditor General's Compliance Audit Report No. 14 of 2025 on Direct Taxes][30]

A

Assessment errors with real price tags: The CAG's sampling of scrutiny assessments uncovered INR6252.06 crore in under-assessed tax arising from misapplied deductions, MAT credit mistakes and plain arithmetic slips. Extrapolated across the full assessment pool, such weaknesses could claw back a meaningful slice of the year's headline gains.

B

Arrear demand vs collectable cash: The same audit notes that outstanding direct tax demand has swelled to INR22.74 lakh crore (in FY2022–23) yet labels 97 percent of that amount "difficult to recover". Much of what appears as an asset on departmental books is, in the auditor's words, "unlikely to translate into actual revenue," casting doubt on the true net yield of recent assessment cycles.

C

Litigation bottleneck at first appeal: CAG reviewers highlight a growing blockade at the Commissioner (Appeals) tier, with over five lakh cases pending, even though higher court inflow has slowed after monetary thresholds for departmental appeals were raised. Each unresolved appeal freezes revenue, accrues interest liability and pushes up the hidden cost of collection.

The auditor's findings reinforce that while systems in place have shifted revenue upstream, they must be matched by rigorous, error-free assessments and faster dispute closures. Otherwise, a portion of today's voluntary buoyancy leaks into tomorrow's refunds, arrears and interest payouts, eroding the efficiency gains we celebrate elsewhere in this paper.



Conclusion: Efficiency as the hidden dividend

Low cost of collection rarely grabs headlines, yet it is the silent dividend of India's decade-long tax modernisation. Every basis point saved on administration frees hundreds of crores for public investment, signalling to taxpayers that their rupees are managed prudently. Sustained digital expansion, paired with disciplined dispute management, can push the ratio even lower, making India not just a higher tax yield economy but also among the world's most efficient revenue collectors. However, it has to be ensured that these cost reductions are not at the cost of quality gaps.

28. ITAT: Increased from INR50 lakh to INR60 lakh, High Courts: increased from INR1 crore to 2 crore, Supreme Court: Increased from INR2 crore to INR5 crore
29. https://www.pib.gov.in/PressReleasePage.aspx?PRID=2058314#:~:text=As%20per%20the%20announcements%20in,crore%20to%20%E2%82%B92%20crore.
30. https://cag.gov.in/en/audit-report/details/122514

6. Direct tax-to-GDP ratio: Charting India's fiscal depth and buoyancy

Why this is the North-Star metric

Among all fiscal yardsticks, direct tax as a share of GDP is the most revealing indicator of tax system maturity. It shows how effectively the economy's income and profits are being channelled into public revenue, reflecting:

- **Base breadth:** The share of national income brought into the formal net;
- **Administrative efficiency:** How well withholding, third-party reporting and refunds work; and
- **Policy design:** Rates, thresholds and incentives that determine how GDP growth translates into revenue

International financial institutions, including the World Bank and IMF, have generally observed that a (total) tax-to-GDP ratio of 15 percent or higher is associated with sustainable growth and fiscal stability. Economies crossing this threshold tend to have greater capacity to invest in essential public goods such as health, education and infrastructure, and to manage macroeconomic shocks more effectively. With a tax-to-GDP ratio of 11.5 percent[31] (at the Central level) India is now marching towards this benchmark, with direct taxes (at 6.7 percent of GDP) emerging as the big brother in fiscal expansion and resilience.

Because it captures both depth and quality of taxation, this ratio serves as a north-star metric for fiscal planners.

Decadal performance: From 5.5 percent to 6.73 percent of GDP

Drawing on CBDT time series data (FY2014–15 to FY2024–25),[32] India's direct tax-to-GDP ratio has climbed from ~5.5 percent to ~6.73 percent, a compound annual growth rate of roughly 1.77 percent in the ratio itself.

Ratio to GDP	FY2014–15	FY2024–25	CAGR of the ratio
Direct taxes	5.55%	6.73%	1.77%
CIT	3.42%	2.98%	(~1.23%)
PIT	2.12%	3.74%	5.29%

The above composition narrates an important story:

- Overall ratio increased, confirming stronger tax capacity;
- CIT ratio declined slightly, despite growing nominal collections;
- PIT ratio surged, more than offsetting the CIT slide

Buoyancy: Revenue growing faster than GDP

Tax buoyancy explains the relationship between the changes in the government's tax revenue growth and the changes in GDP. When a tax is buoyant, its revenue increases without increasing the tax rate. It is a litmus test of how dynamically revenue responds to economic expansion.

The decadal movement of India's tax buoyancy is captured in the following table:[33]

Buoyancy	FY2014–15	FY2024–25
Overall direct tax	0.86	1.39
CIT (derived)	0.83	0.85
PIT (derived)	0.90	1.86
Indirect tax (derived)	0.92	0.43

31. Refer Economic Survey 2025-26 Highlights – Section 2 'Fiscal Developments: Anchoring Stability through Credible Consolidation, https://www.indiabudget.gov.in/economicsurvey/doc/Infographics%20English.pdf
32. https://incometaxindia.gov.in/Lists/Latest%20News/Attachments/735/Final-time-series-data.pdf
33. Calculated as Tax Growth Rate divided by GDP Growth Rate – refer statistics in https://incometaxindia.gov.in/Lists/Latest%20News/Attachments/735/Final-time-series-data.pdf

What do the numbers show?

a. Overall direct tax buoyancy has strengthened from 0.86 to 1.39. India moved from collecting less than proportionate growth in FY2014–15 to collecting almost 1.5 times the GDP growth rate in FY2024–25, evidence of a maturing, technology-backed tax system.

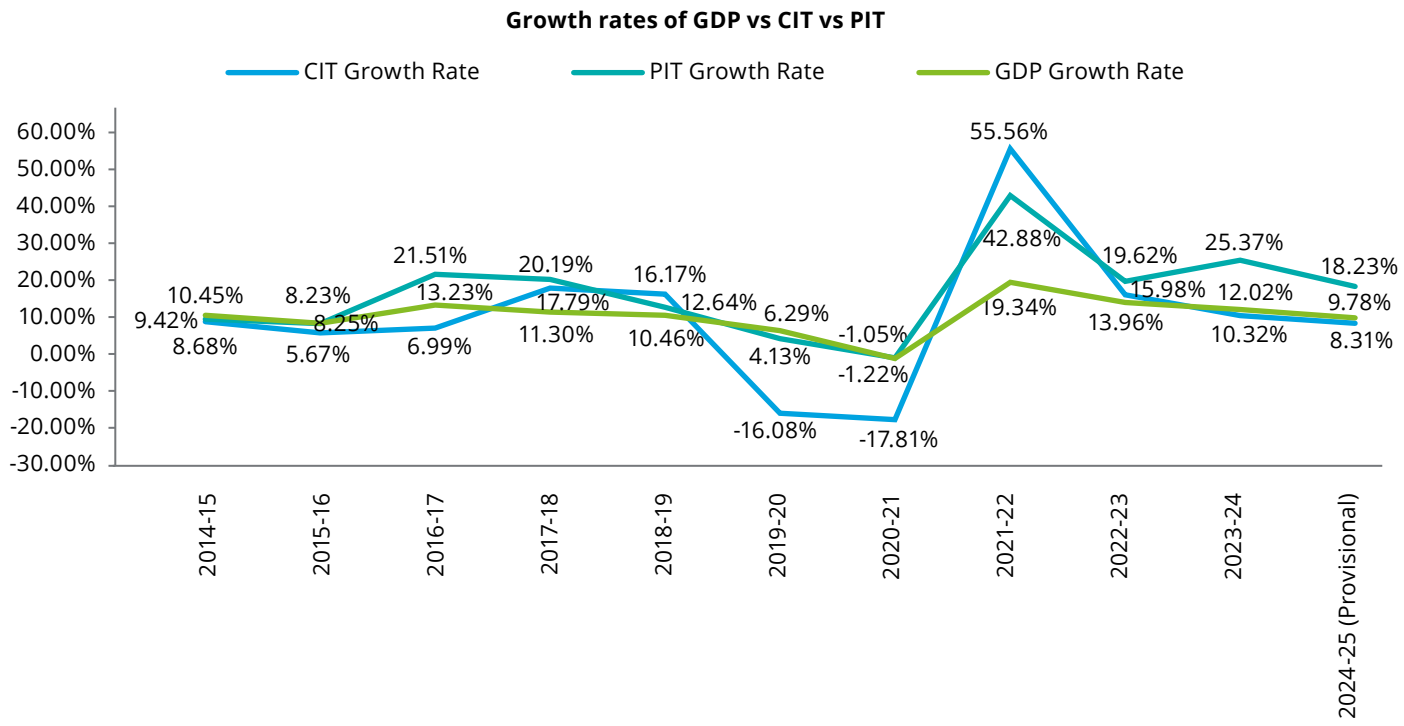
b. CIT buoyancy began at 0.83 and improved marginally to 0.85 by FY2024–25. Despite a (~1.23 percent) CAGR in the CIT-to-GDP ratio, corporate tax collections broadly kept pace with GDP, seemingly reflecting a balancing mix of rate cuts and profit cycle effects. The uptick to 0.85 at the end of the decade appears to signal a widened taxpayer base, seemingly a profit rebound (as headline rates were already reduced) and improved collection efficiency.

c. PIT buoyancy tells the most dramatic story, from 0.90 to 1.86. Personal taxes are now growing nearly two times faster than GDP, powered by ever-expanding digitised architecture, increased formalisation, integration and cross-reporting of data between the income tax department and other departments /organisations, the UP- led digital trail and salary growth.

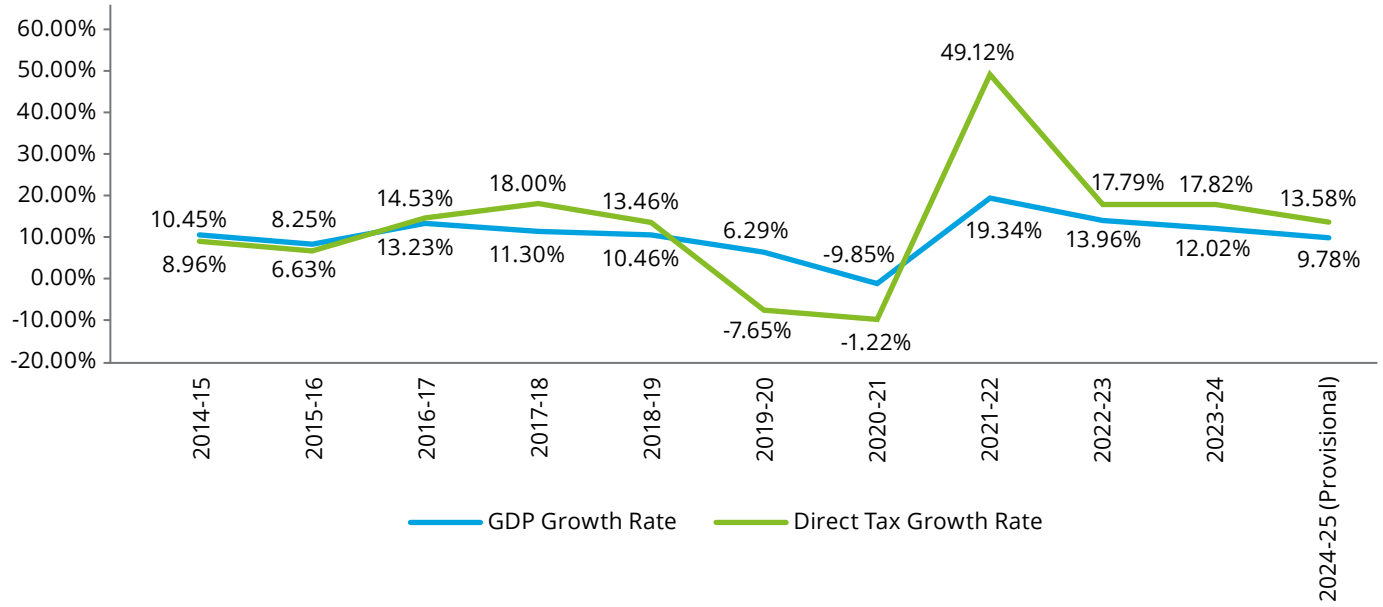
The combination of a negative CIT-to-GDP CAGR (1.23 percent) with a positive overall direct tax-to-GDP CAGR of 1.77 percent is striking. It confirms that India's direct tax effort over the last decade has substantially borne fruit in PIT collection. This underscores the decisive role of formalisation and digitisation in strengthening the personal tax base, while corporate profitability and stable collections ensure the floor.

d. Indirect tax buoyancy has moderated over the decade, declining from 0.92 in FY2014–15 to 0.43 in FY2024–25. This decline reflects the structural stabilisation of the GST regime, where revenue growth has become more closely linked to underlying consumption and compliance normalisation rather than one-time formalisation gains witnessed in the initial years. The tapering of buoyancy suggests that the transformational gains from GST-led base discovery have largely been absorbed, reinforcing that future revenue acceleration is increasingly anchored in direct taxes rather than indirect levies.

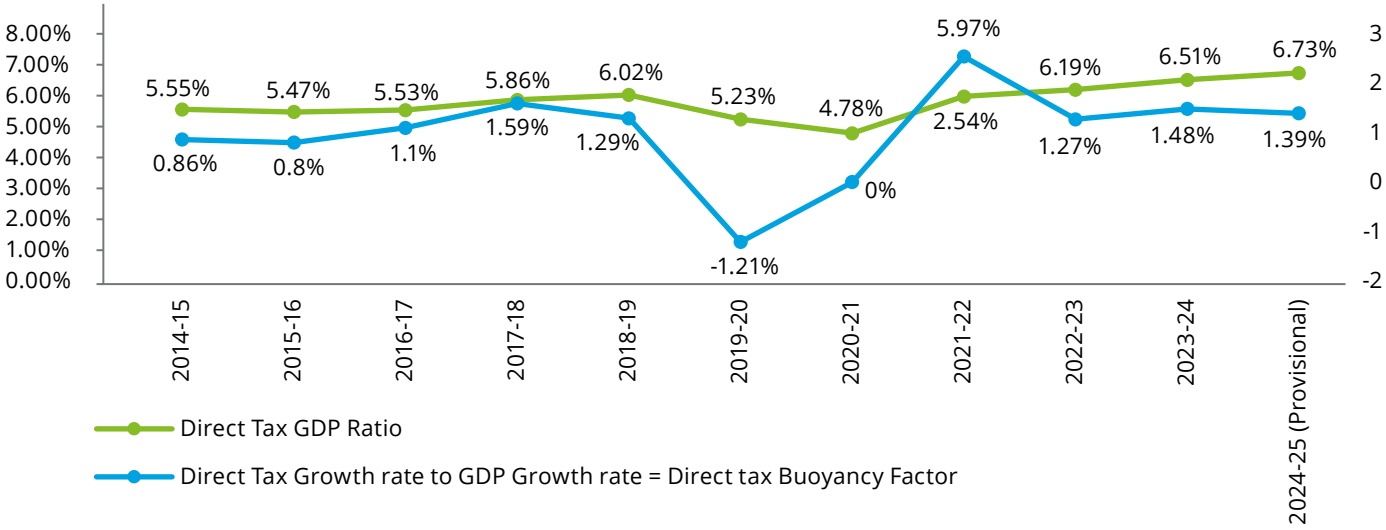
Together, these trends point to a clear pattern: while indirect tax buoyancy has fallen following the GST transition, the momentum in PIT collections has fundamentally reshaped India's direct-tax profile, making individuals the dominant force behind incremental fiscal buoyancy.



GDP versus direct tax growth rate



Direct tax to GDP ratio and tax buoyancy factor



Explaining the divergence: PIT momentum vis-à-vis CIT stabilisation

PIT as the growth engine: Multiple structural factors explain why PIT-to-GDP grew at a 5.29 percent CAGR and maintained the strongest buoyancy:

a. **GST as a formalisation bedrock:** GST has underpinned the surge in PIT buoyancy. By mandating invoice matching, e-way bills and ITC linkages, GST has created a nationwide digital trail that income tax authorities can match with income disclosures. The growth of active GST taxpayers, from about 60 lakh in 2017 to nearly 1.5 crore by FY2024–25, has directly enlarged the population of individuals and small businesses now reporting income for direct tax purposes, and materially raised advance tax and TDS collections.

b. **Digital payments revolution:** UPI now handles 18 billion+ monthly transactions (~85 percent of digital payments),[34] creating a rich audit trail.

[34] https://www.pib.gov.in/PressNoteDetails.aspx?NoteId=154912&ModuleId=3



c. **Formal labour market expansion:** Between 2017 and 2024, more than 6.9 crore enrolments under the Employees' Provident Fund Organisation (EPFO) underscore the scale of India's ongoing formalisation of work.[35] A parallel driver of India's rising PIT collections / individual filers has been a set of government initiatives aimed at formalising employment. Flagship measures such as the e-Shram Portal and Udyam Portal have simplified registration of unorganised workers and micro and small enterprises, giving millions of individuals a verifiable employment identity. The Pradhan Mantri Shram Yogi Maan-dhan Yojana has provided pension coverage to informal workers, while the Pradhan Mantri Rojgar Protsahan Yojana (PMRPY) has reimbursed employers' provident fund contributions for new hires, creating direct incentives for formal recruitment.

d. **Tech-led compliance:** Pre-filled ITRs /AIS reporting, NUDGES (Non-Intrusive Usage of Data to Guide and Enable) and expanded TDS /TCS (including s.206C(1G) on foreign remittances) move payments upstream.

e. **Compensation growth as a structural tailwind:** According to a March 2025 Business Standard article,[36] the Indian Finance Minister stated that employee compensation in India has witnessed an upward CAGR of 11.1 percent in the first 10 years of the NDA Government, seemingly reflecting higher salaries, bonuses and employer social security contributions. This rise directly enlarges the taxable salary base, lifting TDS and strengthening PIT. By reinforcing the upward trajectory of personal tax buoyancy, this structural change supports the paper's central conclusion that PIT is the dominant engine of India's direct tax growth.

CIT: Stability with a measured drift

By contrast, CIT-to-GDP slipped from 3.42 percent to 2.98 percent (~ -1.23 percent CAGR), and CIT collections struggled to keep pace with GDP (buoyancy 0.85). The reason behind such decline can be largely attributed to headline rate cuts in 2019 (to 22 percent for existing companies and 15 percent for new manufacturing).

This was partly offset by base-broadening measures, viz., TDS on e-commerce (194-O), TDS on goods (194-Q), enhanced transaction visibility (AIS /TIS), litigation backlog addressed via the VsV scheme and equalisation levy,[37] which kept collections stable in nominal terms.

India's overall direct tax ratio rose even as the CIT ratio fell, underscoring how PIT buoyancy and formalisation have become the decisive drivers of fiscal depth.

What keeps the ratio below 7 percent?

a. **Informal self-employment:** Cash-heavy micro services, influencers, freelance gigs which escape the tax net.

b. **Thin PIT wedge:** According to FY2021–22 data, mere ~2.2 percent of adult Indians pay PIT. Similar comparative percentages for other developed nations include France at 78.3 percent, the USA at 50.1 percent, Germany at 61.3 percent and the UK at 59.7 percent.[38]

35. https://www.pib.gov.in/PressNoteDetails.aspx?NoteId=154912&ModuleId=3

36. https://www.business-standard.com/economy/news/factors-of-production-being-reset-post-covid-compensation-has-risen-fm-125031800870_1.html

37. Equalization Levy has been considered in the present analysis having regard to CBDT's Time Series Data on Direct Taxes, which includes Equalization Levy within "Other Receipts" while computing gross direct tax receipts. It may, however, be noted that Equalization Levy was introduced as a separate levy under Chapter VIII of the Finance Act, 2016 and not under the Income-tax Act, 1961.

38. https://timesofindia.indiatimes.com/blogs/spreading-light/income-tax-law-applicability-in-india-to-individuals-regressive-and-unjust/

c. **Capital gains/wealth taxation:** India does not presently levy inheritance tax, while specified capital gains may qualify for exemptions, subject to prescribed conditions and monetary limits. Further, gaps in property transaction reporting and valuation may potentially contribute to under-reporting of consideration and consequent leakage of capital gains tax.

d. **Litigation loop:** Total amount of tax revenue locked in litigation for direct taxes stands at INR11.83 with over ~71,500 cases pending across the Supreme Court, High Court and tax tribunals as of 31 December 2024.[39]

Picturing the DT-GDP ratio in a global frame[40]

a. Why this ratio matters

The direct tax-to-GDP ratio is the cleanest single yardstick of how effectively an economy converts incomes and profits into public revenues. Unlike raw collections, it scales out inflation and growth to reveal three fundamentals: (i) base breadth (the extent to which people and businesses are in the net), (ii) compliance / administration quality (withholding, third-party reporting, etc.) and (iii) policy stance (rates, thresholds, incentives). It is also internationally comparable, so it anchors any claims about "catching up" to peer systems.

b. India's level and momentum

Per the CBDT, India's direct tax-to-GDP ratio rose to 6.73 percent in FY2024–25, the decadal highest, on the back of strong PIT growth, resilient corporate profitability and denser third-party reporting (AIS /TDS /TCS). The FY2024–25 step-up implies buoyancy of 1.39 (direct tax growth outpacing nominal GDP growth by roughly 39 percent), signalling that the system is pulling in more revenue for each incremental rupee of GDP rather than merely riding the cycle.

c. How India stacks up against peers

India's fiscal depth and buoyancy trends are synthesised in the international comparison in Section 9, which situates these metrics within a broader global perspective.

Placing direct taxes inside the broader "Tax-to-GDP" narrative

Comparing India's central tax revenue-to-GDP ratio of 11.45 percent in FY2024–25[41] with the OECD countries' average of about 34.1 percent, a glaring gap comes to light, which underscores the room to raise revenue primarily through base broadening and compliance gains.

Road to an 8 percent direct tax ratio: Action signals

India's medium-term fiscal strength depends on raising this ratio well beyond 8 percent of GDP, a level consistent with sustainable infrastructure investment and social spending in large emerging economies. To continue the upward trend, the following can also be considered:

a. Introduce "AIS 3.0" unified with GST e-invoices (deriving turnover and counterparty summaries, enabling pre-fill and cross-verification of revenue) for cash flow triangulation to tackle revenue leakages.

b. Segment-specific nudges (influencers, crypto investors) with risk-weighted presumptive regimes for the gig economy.

The direct tax-to-GDP ratio is both a scorecard and a speedometer. India's ratio has finally vaulted past its long-standing 6 percent ceiling, signalling that digital compliance architecture is working. Yet global benchmarks suggest room for further improvement achievable by deepening participation, shortening litigation and tightening data loops.

39. https://www.business-standard.com/economy/news/over-rs-11-8-trn-locked-in-direct-tax-litigation-fm-informs-rajya-sabha-125031801241_1.html

40. Peer group figures are at level of general government (i.e., inclusive of all levels of government) and follow the OECD definition of income /profits taxes; India's figure is at Union level which is directionally comparable but not a strict apple to apple comparison

41. Refer Economic Survey 2025-26 Highlights – Section 2 'Fiscal Developments: Anchoring Stability through Credible Consolidation, https://www.indiabudget.gov.in/economicsurvey/doc/Infographics%20English.pdf

7. Where the rupees reside: A state-by-state map of India's direct tax decade

Why the geographic lens matters

After tracing the national direct tax to GDP ratio, zooming in on which States actually write the cheques shows how India's economic geography drives fiscal outcomes. The data released by CBDT, reinforced by parliamentary data and media analysis, reveals a landscape that is both heavily concentrated and quietly shifting.

Five states = Seven tenths of rupees

Parliamentary tables cited in March 2025 show that Maharashtra, Karnataka, Delhi, Tamil Nadu and Gujarat together supplied 72 percent of all direct tax rupees in FY2023–24. These states accounted for INR14.2 lakh crore (net) of the total INR19.6 lakh crore (net) collected.[42] These same five States also generate 53 percent of Central GST, underscoring their dominance in both direct and indirect tax levies.

The same trend continues for FY2024–25, where these states have supplied more than 75 percent of the direct tax collection, amounting INR16.27 lakh crore (net) of INR22.26 lakh crore (net).

Rank	State	FY2024–25 direct tax collection (in INR lakh crore)	Five-Year CAGR	Share of total direct tax collection
1	Maharashtra	8.97	22%	41.76%
2	Karnataka	2.61	18%	12.17%
3	Delhi	2.29	14%	10.67%
4	Tamil Nadu	1.32	17%	6.16%
5	Gujarat	1.07	18%	4.99%

The southern and tech hub surge

Karnataka and Telangana outpace the pack in growth: Bengaluru's ESOP cashouts and Hyderabad's pharma tech boom drive double-digit CAGRs. Telangana has notably seen a massive surge in direct tax collections, rising from INR15,854 crore in FY2018–19 to INR 97,861 crore in FY2024–25, growing at a compounded annual growth rate of 44 percent, elevating the state to sixth position.

A business line data story notes that Karnataka's direct tax to GSDP ratio now rivals Maharashtra's, while Delhi tops the national league table.[43]

North-South imbalance: High population, Low yield

Despite hosting 17 percent of India's population, Uttar Pradesh contributes only 3.21 percent of direct taxes; Bihar and Madhya Pradesh show similar gaps. The New Indian Express report highlights[44] that these three States together receive 36 percent of tax devolution while contributing just under 5 percent of the Centre's direct-tax kitty. Compliance nudges and economic diversification must close this inter se fiscal imbalance.

Policy signals from the map

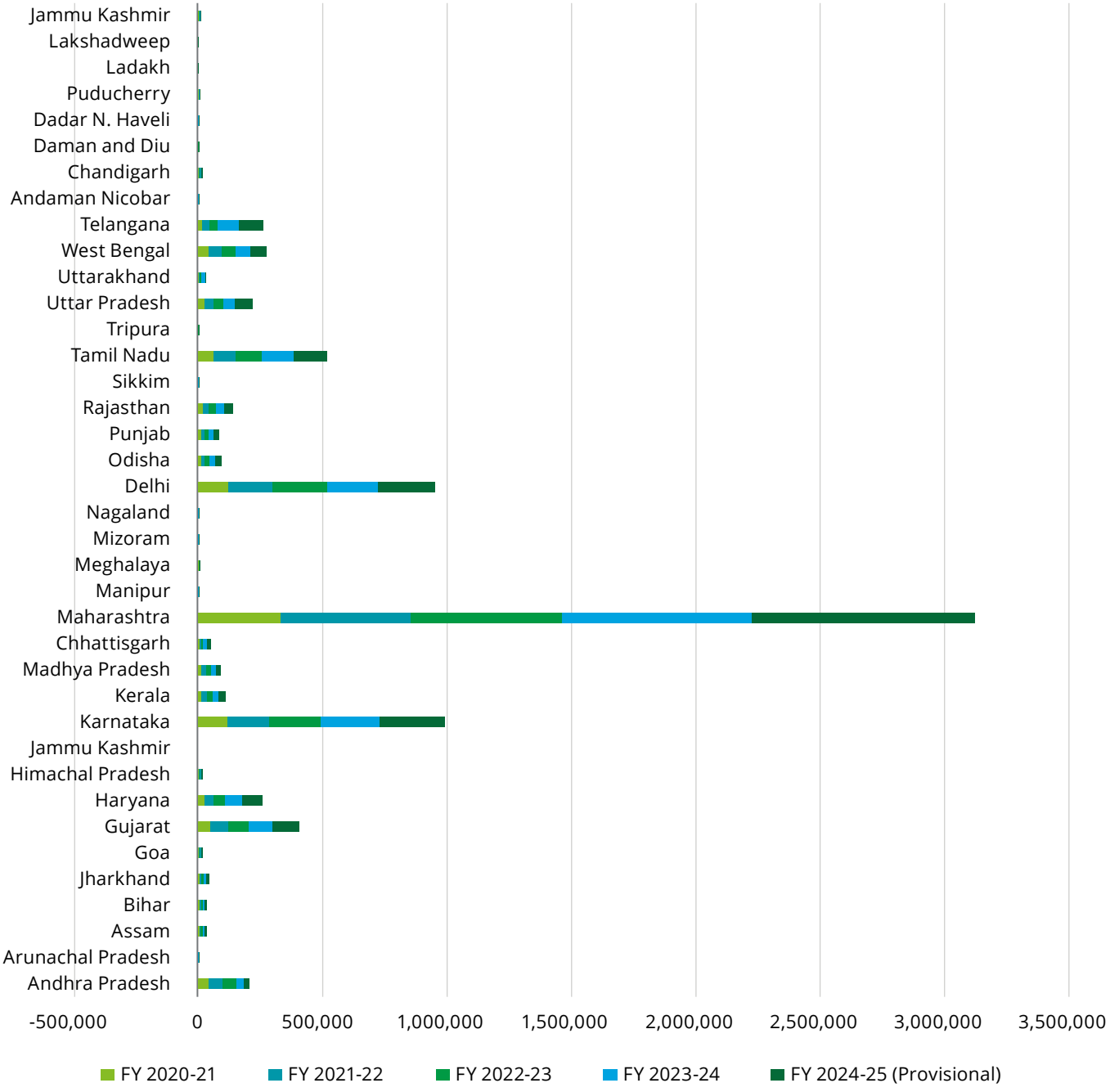
a. **Deploy AIS 3.0 in low yield states:** Linking electricity consumption records and smart-meter feeds, property registrations, GST e-invoice data, etc., to generate activity indicators and transaction-level linkages. Use these signals to pre-fill returns, trigger targeted nudges and prioritise where activity is disproportionate to reported income or in case of no return. Use the above data to target states or geographies whose direct tax contribution is abysmally low in comparison to their demographic/economic footprint.

42. https://www.newindianexpress.com/business/2025/Mar/10/five-industrial-states-contribute-72-of-direct-taxes-2
43. https://www.thehindubusinessline.com/data-stories/how-delhiites-maharashtrians-and-kannadigas-are-shelling-out-more-direct-taxes/article68778850.ece
44. https://www.newindianexpress.com/business/2025/Mar/10/five-industrial-states-contribute-72-of-direct-taxes-2

b. **Use Section 206C(1G) as a wealth proxy:** TCS on overseas remittances and tour packages flags high spenders in low yield States, offering a ready nudge list.

Factoring direct tax contribution growth in devolution debates: As the 16th Finance Commission weighs formulas, linking a portion of devolved funds to growth in state-collected direct taxes could reward reforms.

State wise collection of direct taxes



Conclusion: One India, uneven rupees

Five industrial powerhouse States bankroll more than three-quarters of direct tax collections, but the fastest momentum now emanates from newer technology centres such as Telangana and Karnataka. Bridging the geographic divide through data-driven onboarding and balanced devolution incentives will be critical if India hopes to push its national direct tax to GDP ratio past the 7/8 percent threshold.

8. Time for universal social security?

India's expanding direct tax base and rising PIT collections raise an important policy question: can the gains from formalisation and fiscal deepening support broader social protection? Historically, India's tax system has prioritised revenue mobilisation and compliance. However, the growing scale, stability and predictability of income-linked taxation suggest that the fiscal architecture is gradually acquiring the capacity to support more comprehensive social security coverage.

International experience indicates that robust tax systems and social protection frameworks evolve in tandem. As economies formalise and tax bases deepen, governments gain the fiscal space to mitigate lifecycle risks such as unemployment, illness, disability and old age, through targeted or universal social protection mechanisms. India's trajectory over the past decade suggests the early contours of such a transition.

Fiscal capacity and social protection: A strengthening link

PIT has emerged as the principal driver of direct tax buoyancy in India. PIT collections increased from INR2.66 lakh crore in FY2014–15 to over INR12 lakh crore in FY2024–25, reflecting formalisation of employment, digital income trails and improved reporting. Over the same period, the number of income tax return filers crossed 10 crore, indicating a widening taxpayer base.

The World Bank notes that countries with stronger income tax systems are better positioned to finance social protection and stabilise household consumption.

India's social security landscape: Expanding but fragmented

India's social protection system has historically been fragmented, with coverage concentrated among formal sector workers through EPFO, ESI and targeted welfare schemes. However, recent initiatives have significantly expanded administrative visibility and coverage.

- **e-Shram Portal:** Over 30 crore unorganised workers registered;[45]
- **Direct Benefit Transfers:** Over INR6 lakh crore transferred annually across schemes[46]
- **Aadhaar coverage:** Over 1.3 billion enrollments enabling targeted delivery

These digital platforms create the administrative foundation for integrating tax data, labour registries and welfare systems.

Formalisation as the bridge between taxation and protection

The same forces driving direct tax growth, viz. payroll formalisation, GST data trails, digital payments and information reporting, also expand the state's capacity to deliver social protection. Convergence pathways are illustratively tabulated below:

Driver	Tax impact	Social protection impact
Payroll formalisation	Higher PIT compliance	Worker eligibility for insurance
Digital payments (UPI)	Income traceability	Targeted transfers
GST e-invoicing	Business income mapping	Identification of self-employed
AIS/TIS integration	Comprehensive reporting	Scheme Eligibility verification

This convergence creates a virtuous cycle: Formalisation -> Wider tax base -> Greater fiscal capacity -> Expanded social protection -> Incentives for formal participation. The tax system thus evolves from a revenue instrument into an enabling platform for inclusive economic security.

A measured outlook

Universal social security in India appears unlikely to emerge as a single policy shift. Rather, it will evolve through incremental integration of tax systems, labour registries and digital delivery platforms. As formalisation, digitisation and voluntary compliance deepen fiscal capacity, the convergence of taxation and social protection may become a defining feature of India's next phase of economic transformation.

Viewed in this light, the strengthening of direct taxes is not only a fiscal story but also a potential enabler of broader economic security; a theme that gains further perspective when India's experience is situated within the global tax landscape.

45. https://eshram.gov.in/indexmain
46. https://dbtbharat.gov.in/

9. International comparison: India in the global tax landscape

India's direct tax transformation over the past decade has been both rapid and structural. Viewed in isolation, rising collections and improved efficiency signal progress; viewed globally, they reveal a system that is converging towards the administrative maturity of advanced economies while retaining the growth dynamics of an emerging market. This section situates India's performance within international benchmarks to assess the depth, balance and sustainability of its tax architecture.

While this paper examines India's direct tax evolution through a domestic lens, the significance of these trends can only be fully understood in a global context. Fiscal metrics such as tax buoyancy, direct tax share and cost efficiency gain meaning when viewed alongside international benchmarks, which help distinguish structural progress from cyclical movements. Without such comparison, it is difficult to assess whether India's direct tax performance reflects genuine institutional strengthening or merely the scale effects of economic growth. Accordingly, this paper situates India's experience within the global tax landscape to evaluate both its achievements and its structural headroom.

Revenue composition: Direct taxes as the dominant pillar

Direct taxes now account for 58.8 percent of total tax revenues in FY2024–25 (provisional), marking the highest share in the past decade and confirming a decisive shift towards income-based taxation.

A statistical snapshot of various jurisdiction/Group are tabulated below:[47]

Jurisdiction /Group	Direct tax share
OECD Average (2023)	On average, in 2023, OECD countries collected 35.6 percent of their tax revenues through taxes on income and profits (PIT and CIT combined). Taxes on personal and corporate incomes remain the most important source of revenues used to finance public spending in 20 OECD countries; in ten of these (viz. Australia, Canada, Denmark, Iceland, Ireland, Mexico, New Zealand, Norway, Switzerland and the United States), the share of income taxes in the tax mix exceeded 40 percent in 2023.[48]
United States (2023)	48.6 percent (PIT 40 percent + CIT 8.6 percent)[49]
Asia Pacific average (2023)	Revenue from PIT accounted for 16.5 percent of total tax revenue on average in Asia-Pacific in 2023. CIT accounted for a larger share of tax revenue than PIT in the Asia-Pacific region at 19.5 percent. Hence, the total share of direct taxes (to tax revenue) in Asia-Pacific stands at 36 percent.[50]
South Africa (FY2023–24 and 2024–25)	PIT 37.4 percent (2023–24) and CIT 17.4 percent (2024–25),[51] hence the total share stands at about 54 percent.

47. Peer group figures are at the level of general government (i.e., inclusive of all levels of government) and follow the OECD definition of income /profits taxes; India's figure is at the Union level, which is directionally comparable but not a strict apple-to-apple comparison

48. OECD (2025), Revenue Statistics 2025: Disentangling Personal Income Tax Revenue in OECD Countries, OECD Publishing, Paris, https://doi.org/10.1787/3a264267-en.

49. Report viz. 'Revenue Statistics 2025 – United States' issued by OECD, https://www.oecd.org/en/publications/revenue-statistics-2025_b1943459-en/united-states_efcc8c03-en.html

50. OECD (2025), Revenue Statistics in Asia and the Pacific 2025: Personal Income Taxation in Asia and the Pacific, OECD Publishing, Paris, https://doi.org/10.1787/6c04402f-en.

51. 2025 edition of the Tax Statistics publication published by South African Revenue Service, https://www.sars.gov.za/about/sars-tax-and-customs-system/tax-statistics/



Jurisdiction /Group	Direct tax share
China (2023)	Shares of direct tax revenue to total tax revenue in China amount to 24 percent (PIT 6 percent + CIT 18 percent). The highest share of tax revenues in China in 2023 was derived from social security contributions (31.5 percent). The second highest share of tax revenues in 2023 was derived from value added taxes/goods and services tax (28.7 percent).[52]
Brazil (2023)	Shares of direct tax revenue to total tax revenue in Brazil amount to 21 percent (PIT 10 percent + CIT 11 percent). The highest share of tax revenues in Brazil in 2023 was derived from social security contributions (25.2 percent). The second highest share of tax revenues in 2023 was derived from other taxes on goods and services (20.6 percent).[53]

India's 58.81 percent sits well above the OECD and Asia-Pacific averages and alongside South Africa's direct tax-heavy mix. That positioning is consistent with our decade narrative: widening withholding nets (TDS/TCS), AIS-driven pre-fill, faceless processing and faster refunds have shifted collections towards income /profits rather than consumption. By contrast, China's VAT-centric structure (24 percent direct share) and Brazil's reliance on social security contributions (which have not been counted as 'direct tax' here) explain their lower 'direct' shares on this definition.

The strategic takeaway is clear: India can sustain a high direct tax share by deepening data-driven base broadening, keeping us in the top tier of large emerging economies.

The income pivot: India's distinct path to PIT dominance

Evaluating India's balance between PIT (55.48 percent) and CIT (44.32 percent) against select global peers helps us benchmark India's tax structure. It indicates whether our direct tax collections are optimally diversified, progressive and sustainable, or whether there is scope for strategic realignment. A statistical snapshot of various jurisdictions / Group are tabulated below:

Jurisdiction/Group	PIT contribution	CIT contribution
OECD Average (2023)[54]*	66.57%	33.43%
United States (2023)[55]**	82.30%	17.7%
Asia-Pacific Average (2023)***[56]	45.8%	54.1%
South Africa (2023-24)****	67.3%	32.7%
China (2023)*****	25.1%	75.1%
Brazil (2023)******	47.6%	52.4%

*PIT = 23.7 percent and CIT = 11.9 percent of total tax; shares within direct tax: 23.7/(23.7+11.9), 11.9/(23.7+11.9)
**PIT = 40 percent and CIT = 8.6 percent of total tax; shares within direct tax: 40/(40+8.6), 8.6/(40+8.6)
***PIT = 16.5 percent and CIT = 19.5 percent of total tax; shares within direct tax: 16.5 /(16.5+19.5), 19.5/(16.5+19.5).
****PIT = 37.4 percent and CIT = 18.2 percent of total tax; shares within direct tax: 37.4/(37.4+18.2), 18.2/(37.4+18.2)
*****PIT = 6 percent and CIT = 18 percent of total tax, shares within direct tax: 6/(6+18), 18 (18+6)
******PIT = 10 percent and CIT = 11 percent of total tax, shares within direct: 10/(10+11), 11/(10+11)

52. Report viz. 'Revenue Statistics in Asia and the Pacific 2025: China' issued by OECD, https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/06/revenue-statistics-in-asia-and-the-pacific-2025-country-notes_0a069779/china-people-s-republic_9dbe4e96/fc58ee5c-en.pdf
53. Report viz. 'Revenue Statistics in Latin America and the Caribbean 2025: Brazil' issued by OECD, https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/05/revenue-statistics-in-latin-america-and-the-caribbean-2025-country-notes_29961c77/brazil_b08e62db/f6a5cb34-en.pdf
54. Report viz. 'Revenue Statistics 2025 – United States' issued by OECD, https://www.oecd.org/en/publications/revenue-statistics-2025_b1943459-en/united-states_efcc8c03-en.html
55. Report viz. 'Revenue Statistics 2025 – United States' issued by OECD, https://www.oecd.org/en/publications/revenue-statistics-2025_b1943459-en/united-states_efcc8c03-en.html
56. OECD (2025), Revenue Statistics in Asia and the Pacific 2025: Personal Income Taxation in Asia and the Pacific, OECD Publishing, Paris, https://doi.org/10.1787/6c04402f-en.

A

What does the comparison show?

- **An equilibrium:** With PIT 55.48 percent and CIT 44.32 percent, India sits between the OECD average (PIT dominant, ~66/34) and the Asia-Pacific average (CIT dominant, ~46 and 54). This balance reduces overreliance on either household income or corporate profits, supporting stability through cycles.
- **Advanced economy pattern (US):** An ~82/18 PIT-CIT split in the United States underscores how far a mature Pay-As-You-Earn (PAYE) system, combined with a broad individual tax base, can tilt collections heavily towards individuals. India may not converge to such an extreme pattern; the lesson lies in deepening withholding mechanisms and broadening the base rather than raising rates.
- South Africa proximity: ~67/33 puts South Africa close to India on structure, achieved via strong PAYE and withholding, useful validation that large emerging democracies can sustain a PIT-led mix without sacrificing competitiveness.

B

Implications for India's strategy

- **Sustain the PIT dominance momentum:** Growing PIT dominance showcases India's shift towards developed /mature economy pattern. Preserve it while broadening PIT coverage (third-party reporting, AIS/ TIS enrichment, high-risk segment nudges) so PIT grows with formalisation /widening of the tax net rather than higher rates.
- **Stabilise CIT without increasing rates:** CIT's share can remain material if profit cycle volatility is managed (say by easing carry forward rules catering to ups and downs of profit cycles) and base erosion is minimised.

Fiscal depth: Direct tax-to-GDP in comparative perspective

To situate India, we compare 'taxes on income, profits and capital gains' as a percentage of GDP across key jurisdictions. Where country notes have published total tax-to-GDP and the direct tax share of the tax mix, we have computed the direct tax-to-GDP value as (total tax-to-GDP × direct tax share) and have stated it as 'derived'.

Jurisdiction	Direct tax to GDP (%) (derived)	Derivation and comments
United States (2024)[57]	12.44	Total tax-to-GDP is 25.6%; direct taxes account for ~48.6% of the tax mix (PIT 40%, CIT 8.6%), which entails 25.6 × 0.486 = 14.1. This reflects a very deep PAYE /withholding spine.
South Africa (2023)[58]	13.25	Total tax-to-GDP is 26.5%; PIT 34% and CIT 16% of total taxes, entailing 26.5 × (0.34+0.16) = 13.25.
Brazil (2023)[59]	6.72	Total tax-to-GDP is 32%; PIT is 10%, and CIT is 11% of total taxes, entailing 32 × 0.21 = 6.72%.
China (2023)[60]	4.73	China's direct tax ratio is structurally lower given greater reliance on VAT and social contributions.
OECD Average (2024)[61]	12.13	Total tax-to-GDP ~34.1%; income/profits taxes 35.6% of total taxes, entailing 34.1 × 0.356= 12.13.
Asia-Pacific Average (2023)[62]	7	Total tax-to-GDP 19.5%; PIT 16.5% and CIT 19.5% of total taxes, entailing 19.5 × (0.165+0.195) = 19.5 * 0.36 = 7.

India's 6.73 percent (FY2024–25) places it above China's latest outturn (which is VAT-centric) and within close reach of Asia-Pacific's ~7 percent average on a derived basis, equating to Brazil and well below the OECD mean. The gap with the U.S. /South Africa reflects not just their higher income levels but seemingly their wider PIT bases and tighter reporting.

57. Report viz. 'Revenue Statistics 2025 – the United States', https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/12/revenue-statistics-2025-country-notes_3708be73/united-states_f45a114c/efcc8c03-en.pdf
58. Report viz. 'Revenue Statistics in Africa 2025 – South Africa' by OECD, https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/11/revenue-statistics-in-africa-2025-country-notes_ee0ba7f7/south-africa_eb77f710/fee1e581-en.pdf
59. Report viz. 'Revenue Statistics in Latin America and the Caribbean 2025: Brazil' issued by OECD, https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/05/revenue-statistics-in-latin-america-and-the-caribbean-2025-country-notes_29961c77/brazil_b08e62db/f6a5cb34-en.pdf
60. Report viz. 'Revenue Statistics in Asia and the Pacific 2025: China' issued by OECD, https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/06/revenue-statistics-in-asia-and-the-pacific-2025-country-notes_0a069779/china-people-s-republic_9dbe4e96/fc58ee5c-en.pdf
61. OECD (2025), Revenue Statistics in Asia and the Pacific 2025: Personal Income Taxation in Asia and the Pacific, OECD Publishing, Paris, https://doi.org/10.1787/6c04402f-en.
62. OECD (2025), Revenue Statistics in Asia and the Pacific 2025: Personal Income Taxation in Asia and the Pacific, OECD Publishing, Paris, https://doi.org/10.1787/6c04402f-en.

Conclusion

A decade of evidence points to an unequivocal lesson: digital, front-loaded compliance increasingly writes India's fiscal story, while traditional /post assessment enforcement is progressively assuming a more deterrent role. TDS, advance tax and self assessment together finance 96 percent of direct tax rupees; litigation realises less than three rupees in every hundred, even as its docket swells. The steady rise in prompt refunds offers hard evidence that India's direct tax administration is not only wider but also faster and more trustworthy, which is vital for sustaining voluntary compliance and future buoyancy.

The cost to collect each rupee has fallen to less than half a paisa. Yet the gains are fragile. Two-thirds of individual returns still bear no tax, one per cent of companies pay 85 percent of corporate tax and five States eclipse the contributions of the rest of the territories. Growing arrears and first appeal bottlenecks threaten to erode the cash benefits of voluntary buoyancy.

The path forward could therefore be multi-dimensional. First, deepen the digital net. Existing GST turnover information in AIS could be complemented by deeper backend integration of GST e-invoice data with the income-tax system. Transaction-level information on outward supplies and counterparties could enable automated reconciliation with turnover and income reported in tax returns, allowing material mismatches to be identified early and addressed through targeted nudges or risk-based verification rather than subsequent litigation. Similarly, section 206C(1G) remittance data can continue to provide visibility over specified high-value overseas remittances. The presumptive taxation framework could also be evaluated for wider application to appropriate segments of the rapidly expanding gig and platform economy, particularly small service providers presently falling outside the specified professions covered by the existing presumptive regime. A simple turnover- or gross-receipts-based framework, supported by information reported by digital platforms, could lower record-keeping and compliance burdens while bringing a larger part of such income into the formal tax reporting framework.

Second, periodically reassess the stock of tax incentives, exemptions and deductions. The appropriate objective need not be their indiscriminate withdrawal since many concessions pursue legitimate economic and social objectives. Rather, significant incentives should be periodically evaluated against their stated purpose, revenue impact, continuing economic rationale and associated compliance complexity. The Government already publishes a *'Statement of Revenue Impact of Tax Incentives'* as part of the Union Receipt Budget. Building upon this disclosure, a periodic outcome-based evaluation could help distinguish incentives that continue to generate commensurate economic or social benefits from those whose rationale may have weakened over time. The movement towards a simpler personal income-tax regime with fewer exemptions and deductions also illustrates the potential compliance dividend from a broader base accompanied by simpler rules.

Third, shift the centre of gravity from dispute resolution towards dispute prevention and tax certainty. India's experience with Advance Pricing Agreements provides an important illustration. By March 2026,[63] CBDT had concluded 1,035 APAs, including 220 during FY2025–26, the highest number signed in any financial year since the programme's inception. These agreements have cumulatively provided transfer pricing certainty across 5,732 assessment and rollback years. CBDT estimates that, even assuming only half of these years would otherwise have resulted in litigation, the programme may have prevented or resolved more than 2,800 transfer pricing disputes. Equally significant is the institutional approach underlying the programme: CBDT itself describes APAs as being founded on mutual cooperation and trust between taxpayers and the Revenue, with a cooperative rather than adversarial approach forming its cornerstone. The experience therefore illustrates how advance certainty and collaborative engagement can complement conventional enforcement in strengthening the taxpayer-administration relationship.

Fourth, complement dispute prevention with efficient resolution of the legacy stock. The original Vivad se Vishwas scheme addressed approximately 1.47 lakh disputes involving INR99,756 crore of disputed tax, against which payments of INR53,684 crore were reported.[64] The subsequent Vivad se Vishwas Scheme, 2024 attracted nearly 33,000 taxpayers by

63. https://www.incometaxindia.gov.in/documents/81799/15520974/APA-Report2025-26+%281%29.pdf/b82779ff-39a2-26e5-ac90-bccee0064047?t=1784913339477

64. https://www.pib.gov.in/PressReleaseIframePage.aspx?PRID=1744134&reg=48&lang=2

the time of the Union Budget 2025–26.[65] These outcomes demonstrate the capacity of settlement mechanisms to unlock disputes already embedded in the appellate system. At the same time, the recurring need for settlement initiatives can also be read as a reminder that one-time dispute clean-ups cannot substitute for improvements in assessment quality, appellate capacity and dispute prevention. APAs, safe harbours and other certainty mechanisms therefore operate upstream, while settlement schemes such as VsV address the accumulated stock downstream; a mature dispute-management framework necessitates both.

Fifth, international experience provides a useful benchmark for the next phase of tax administration. OECD's *Tax Administration 2025*[66] records that 87.7 percent of surveyed tax administrations pre-fill personal income-tax returns and highlights the growing use of third-party information, rule-based technologies and data science to move compliance upstream and prevent errors before returns are finalised. OECD's work on tax administration digitalisation[67] similarly demonstrates the increasing integration of electronic invoicing and other transaction-level data into tax administration. India has already made substantial progress in this direction through pre-filled income-tax returns, AIS/TIS, technology-enabled return processing and increasingly integrated information reporting. Accordingly, the comparative opportunity lies more in building upon these processes through greater interoperability, targeted risk analytics and taxpayer certainty. International experience is particularly instructive in the latter area: approximately 72 percent of surveyed administrations report formal cooperative-compliance approaches for large taxpayers.[68] India has itself made significant progress through the APA programme and also provides a statutory advance ruling framework for obtaining certainty on specified tax questions. The next step should be to strengthen the effectiveness of such ex-ante certainty mechanisms, including through more timely resolution of advance ruling applications, so that complex tax positions can attain certainty before crystallising into disputes. India need not replicate any one foreign model; rather, the common principle is to use technology to make routine compliance easier, while combining early engagement and timely certainty.

India's next generation of tax reform should therefore seek not merely to collect more, but to collect earlier, more accurately, more predictably and with fewer disputes. Deeper interoperability of tax data, periodic evaluation of incentives, stronger quality control in assessments, wider use of dispute-prevention mechanisms and continued investment in taxpayer certainty can together support further improvement in India's direct tax-to-GDP ratio without compromising trust. The foundations have been poured; the next fiscal decade will be judged by how effectively the superstructure is built.

In this context, a guiding principle from antiquity continues to hold resonance. Chanakya's Arthashastra emphasizes that taxation should be measured, balanced and designed to avoid imposing an undue burden on taxpayers.

The evolution of India's tax architecture over the past decade, marked by rising participation, technology-driven transparency and greater formalisation, appears to reflect a progressive movement towards this ethos.

Sustaining this trajectory will require maintaining the delicate balance between revenue imperatives and taxpayer trust, ensuring that the expanding tax base continues to strengthen without undue burden.

64. https://www.indiabudget.gov.in/doc/bspeech/bs2025_26.pdf
65. OECD (2025), Tax Administration 2025: Comparative Information on OECD and other Advanced and Emerging Economies, OECD Publishing, Paris, https://doi.org/10.1787/cc015ce8-en.
66. OECD (2025), *Tax Administration Digitalisation and Digital Transformation Initiatives,* OECD Publishing, Paris, https://doi.org/10.1787/c076d776-en.
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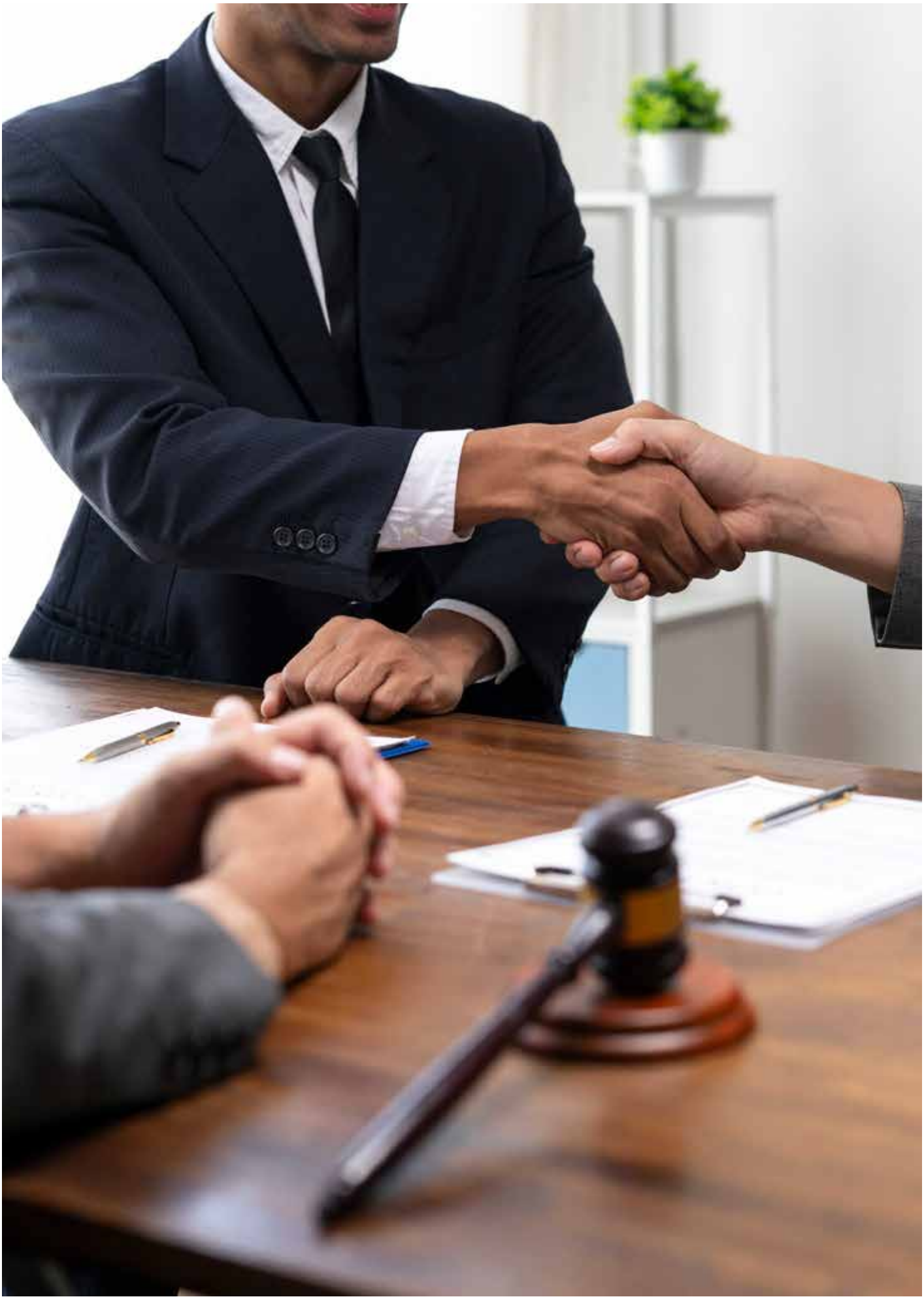
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