



India's Journey Towards a Robust Direct Tax Regime

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Citation: Kulbir Singh et al.(2023), India's Journey Towards a Robust Direct Tax Regime, Educational Administration: Theory and Practice. 29(4), 2651 - 2655
Doi: 10.53555/kuey.v29i4.7338

ARTICLE INFO

ABSTRACT

Indian fiscal health rests on direct taxes, individuals, and companies' payers. Their evolution closely parallels the trajectory of the nation's economy in terms of policy changes and economic progress, punctuated by external shocks. The research studies the trends of a decade from Fiscal year 2011-12 to FY 2020–21 regarding direct tax collection with special reference to how the COVID-19 pandemic has been instrumental in its transformation. This research will help provoke the possible trends, patterns, and growth rates to give a complete picture of direct tax revenue. The analysis will help understand the drivers for direct tax collection, be it government policies or the economy due to COVID-19. This study will likely be useful for policymakers, researchers, and others interested in India's fiscal policy and economic development.

Keywords: Direct tax, Economic, Growth, Tax policy, Tax revenue.

I INTRODUCTION

India collects a significant portion of its tax revenue through direct taxes, which can be collected directly from people and companies. They contribute significantly to economic growth and fiscal revenues, which is important when finding the funds for public expenditures and redistribution actions to reduce income inequalities. The direct tax system in India has evolved over the years with a focus on improving compliance, widening the base, and making taxes simple.

Nonetheless, the COVID-19 pandemic has presented a set of unique economic challenges and forced the reexamination of tax policies. The direct tax system of India has changed so much since independence. 1944 marked the entry of many other entrants in India; soon after, income tax was introduced, marking a definite step towards the country's direct tax structure. Other reforms in subsequent years, e.g., widening the base, rate rationalization, and introducing new tax instruments, have further structured the system as we see it today. Efforts were made to improve tax compliance and reduce the incidence of evasion while simplifying procedures.

2017 was a breakthrough for India's indirect tax regime when the Goods and Services Tax (GST) replaced all other taxes. Although GST per se has a direct relationship with indirect taxes, several fallouts have led indirectly to changes in the realm of Direct Taxes. The government had expected that GST would address the problem of indirect taxes and improve compliance, thus enhancing the direct tax collections by capturing more through widening the basket. The COVID-19 pandemic forced the global economy into recession, and India was hit hard. The authorities launched a set of stimulus packages to cushion the impact on local businesses, including those focusing on tax relief measures.

It was to inject liquidity into the hands of businesses and individuals, which shall trigger consumption and investment. Still, eliminating tax revenues in connection with these measures presented fiscal challenges for the government. The paper critically examines the trend in the collection of direct tax revenue in India from 2011-12 to the financial year (FY) 2020-21 with special reference to how it has been affected by the COVID-19 pandemic. The study hopes to observe the impact of COVID-19 on direct tax revenue and determine what alters this over time or by observing specific entries.

II LITERATURE REVIEWS

Kaul, A. & Nair, S. (2010) analyze the Indian direct tax architecture and look into path-breaking observations on tax evasion, compliance (lack of adherence), and administrative insolvency. The authors stress that broader tax reform is necessary to increase the base of those who pay and make compliance easier in an environment where electronic payments are becoming more common.

Jain, A., & Kumar, S. (2012) state that tax evasion and avoidance are very common in India. The evidence from empirical studies established certain determinants that will further impact these malpractices and their effect on revenue forgone.

Rao, K. S. (2014) This article examines the relationship between tax reforms and direct tax collection in India. In so doing, the act gives us a sense of what reforms in the past have been successful and where we can make improvements going forward.

Kumar, R., & Sharma, A. (2015) employed econometric models to analyze the data, and their paper investigates if there is any relationship between direct taxes (Income Tax + Corporate Taxes) and Economic Growth in India. They argue that direct taxes produce a range of effects when it comes to growth, some positive and others negative.

Acharya, A., & Ghosh, S. (2016) aim to explore the determinants of tax compliance behavior among Indian taxpayers through demographics and economics and to use psychological variables.

Mohan, R. (2017) The researcher conducted a study to assess the influence of demographic, economic, and psychological determinants on tax compliance in India. They underscore the importance of trust, perceived fairness, and enforcement in tax compliance.

Ghosh, S., & Mukherjee, D. (2018) examine the relevance of recent direct tax amenities in India, especially the introduction of Goods and Services Tax (GST), which is claimed to "reduce" indirect taxes by integrating all into one. Direct tax administration: The authors discuss the problems and prospects aspiring from GST indirect tax administrators.

Chatterjee, S., & Gupta, R. (2019) on the transformative power of digitization in tax administration. It studies how digital moves have impacted tax compliance, effectiveness, and generation.

Research Gaps

Even though the available literature offers a solid basis for India's direct tax collection, numerous issues have not been resolved. Thus, the current study seeks to fill the gaps in existing studies. The primary objectives include Investigating the direction of direct tax collection development during set years, determining the reasons behind the growth and drop in direct tax revenue, and comparing direct tax collection during different economic conditions.

III OBJECTIVE OF THE STUDY

1. To examine the trends in direct tax collection in India from 2011-12 to 2020-21.
2. To identify factors influencing the growth and decline in direct tax revenue during the examined period.

HYPOTHESIS OF THE STUDY

➤ **Ho (Null Hypothesis):** There is no significant difference in the mean direct tax collection between the two periods (2011-12 to 2015-16 and 2016-17 to 2020-21).

➤ **H₁ (Alternative Hypothesis):** There is a significant difference in the mean direct tax collection between the two periods (2011-12 to 2015-16 and 2016-17 to 2020-21).

IV RESEARCH METHODOLOGY

• **Data Collection:** The data on direct tax collection for 2011-12 to 2020-21 was obtained from the Central Board of Direct Taxes (CBDT).

• **Data Analysis:** We started by calculating descriptive statistics of direct tax collection through the years. A paired t-test was used to examine the difference in average direct tax collection between these two points as statistically significant.

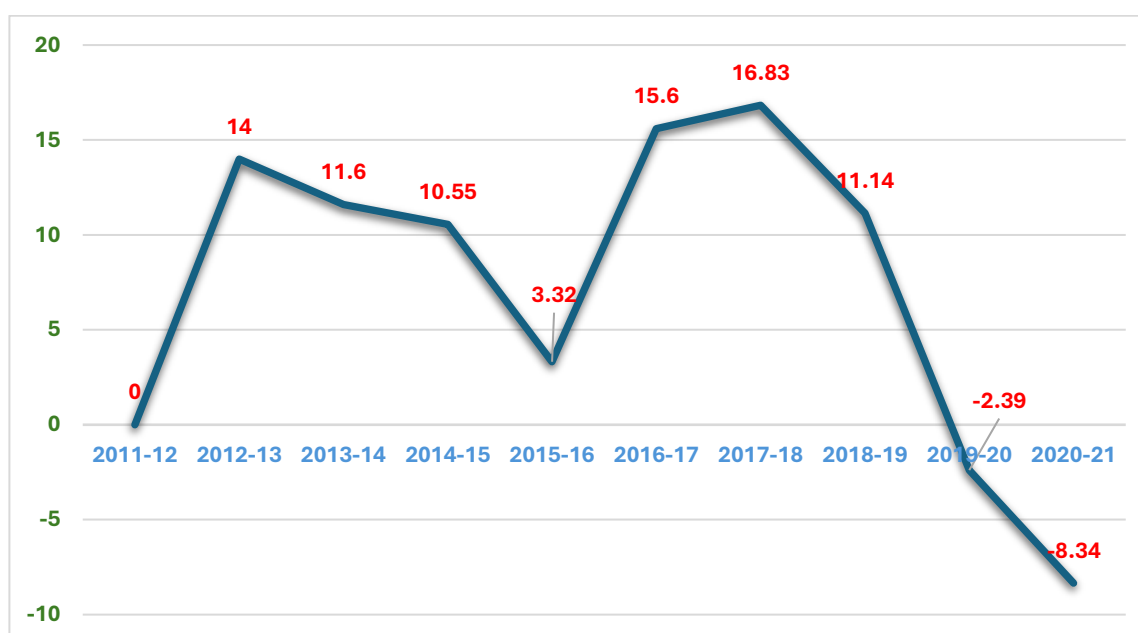
V DATA ANALYSIS & INTERPRETATION

Table 1 Direct tax collection with trends in percentage

Year	Direct Tax (₹ Crore)	Percentage
2011-12	571246	
2012-13	651227	14
2013-14	726773	11.6
2014-15	803440	10.55
2015-16	830121	3.32
2016-17	959627	15.6
2017-18	1121189	16.83
2018-19	1246083	11.14
2019-20	1216203	-2.39
2020-21	1114805	-8.34

Source: CBDT (Central Board of Direct Tax)

Trend of Direct tax



Source: - Compiled by Author

Growth Trend: The direction of FY 2011-12 to FY 2018-19 generally shows an increase in direct tax collections with a huge growth rate seen during the period between FY...

Growth Rate Variation: However, over the years, the growth rate has oscillated, having negative growth in FY 2019-20 and very recently in FY 2020-21.

Decline in Recent Years: A notable decline in direct tax collection is evident in the last two fiscal years (FY 2019-20 and FY 2020-21).

Interpretations

- **Positive growth:** the general trend in direct tax collection may imply better tax compliance and, more importantly, strengthening economic growth with a widening base of taxes.
- **Fluctuating Growth Rates:** The inconsistent growth rates from one year to another indicate that direct tax collection is subject to economic cycles, the performance of government policies, and global factors.
- **Recent Decline:** The declining trend observed in the previous two years could be because of the economic situation caused by the COVID-19 pandemic, which affected businesses and incomes for individuals as well.

T-Test

T-Test: Paired Two Sample for Means		Year
	2011-15	2016-17
	<i>Direct Tax</i>	<i>Direct Tax</i>
Mean	716561.4	1131581.4
Variance	11483274991	12557299211
Observations	5	5
Pearson Correlation	0.672088724	
Hypothesized Mean Difference	0	
Df	4	
t Stat	-10.44141874	
P(T<=t) one-tail	0.000237674	
t Critical one-tail	2.131846786	
P(T<=t) two-tail	0.000475349	
t Critical two-tail	2.776445105	

Source: - Compiled by Author

Findings:

Mean Difference: Mean difference of mean direct tax collection for the second part (2016-2021) minus that of the first part (2011–2015).

- **T-Statistic:** The t-statistic computed is -10.4414, a small number in the negative that shows how the differences between means are large enough.
- **P-value:** The p-value is very small (0.000475349; well below the typical $\alpha = 0.05$).

Interpretation:

According to the paired t-test, the null hypothesis of no change in average direct tax collection for two periods can be rejected.

There is strong evidence to suggest that direct tax collection has increased significantly from the 2011-15 period and the 2016-21 period.

The other major indication from our analysis is the rise of direct tax collection in India over and above what was being collected earlier in the latter part. One of the reasons for that could be several changes, including economic growth and some policy reforms, which resulted in better tax compliance.

VI SUGGESTIONS OF THE STUDY

Current analysis findings have provided the ability to suggest the following:

1. **Sustained Growth Efforts:** This category focuses on the direct tax uptake momentum seen up to FY 2018-19; they should keep it growing, expand the tax base, improve compliance, and ease of doing business for smooth taxation administration systems.
2. **Addressing the Decline:** A sharp decline in direct tax collection has so much to explore behind it. In order to cushion such contractions, policy measures need to be introduced.
3. **Economic Correlation Analysis:** A detailed assessment of the correlation between direct tax collection and economic indicators such as GDP, per capita income, or industrial growth can help to lay down future policy measures.

4. Sectoral Analysis: If direct tax collection is broken down into various sectors (such as agriculture, industry, or services), it is possible to identify growth areas and issues that may spring up.

5. Tax Compliance Measures: Step up efforts to increase compliance through digitalization, taxpayer education, and enforcement, which will help augment revenue.

6. Policy Evaluation: It is very necessary from time to time that tax policies will directly impact the collection of taxes, which needs attention with policymakers making some adjustments as their situations change.

VII CONCLUSION

Overall, the analysis of direct tax collection in India from FY 2011-12 to FY 2020-21 reflects a complex scenario affecting revenue receipt. Mr. Modi said that direct tax collection has shown a rise, but it is not static, as there have been fluctuations in its growth rate across different periods for years. About 60% of the direct tax revenue increase during the five years preceding the pandemic is offset by patterns related to economic growth, policy reforms, and a higher rate of compliance. Still, the COVID-19 pandemic's beginning meant a decrease in direct tax collection for FY 2019-20 and FY 2020-21. The reduction in credit can be largely attributed to a slump in the economy following its spread, which has hit businesses as well as the income of individuals. Government efforts to increase GDP growth, higher tax compliance, and humble the burden on taxpayers are all needed to keep up with the levels of taxation. Finally, the government must be ready to introduce countercyclical measures if needed so that tax receipts do not suffer much during economic downturns. Thus, the analysis concludes with a note on how direct tax collection in India continues to see many changes. Although the country has come a long way in enhancing tax compliance and widening the tax net, it will have to conduct regular monitoring and have proper policy tweaks due to external shocks like the COVID-19 pandemic.

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