

Net Direct Tax Collection grows 21% in FY'25

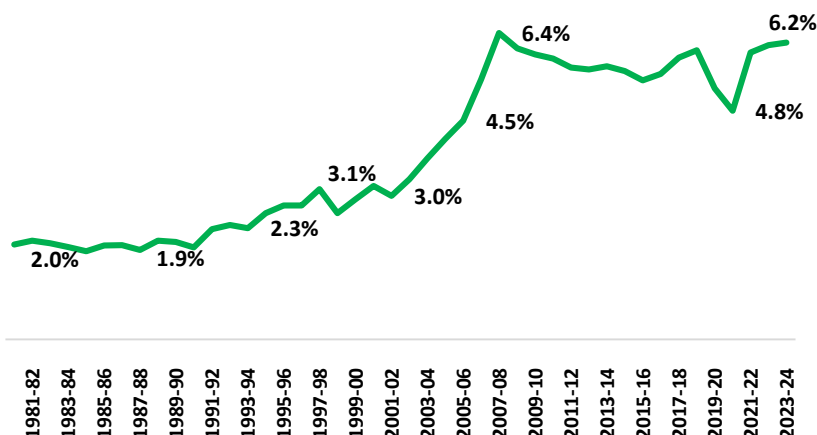
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STRATEGIC MANAGEMENT AND ECONOMIC ADVISORY DIVISION

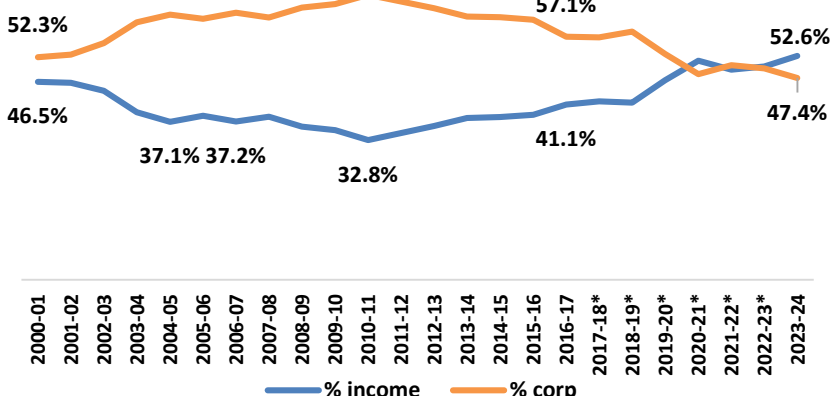
Chhavi Sachdeva, Economist

Central Govt. collected Rs.4.62 trillion in FY'25 so far

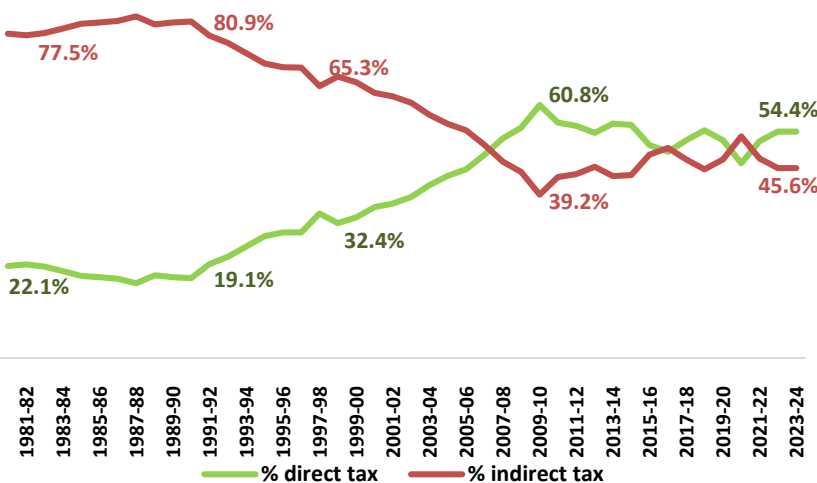
Direct tax as % of GDP



Income & Corp Tax share in Direct Tax



Direct & Indirect tax share in Total Tax Revenue



- A robust growth in India's direct tax collections witnessed for the financial year 2024-25, with net collections increasing by 21% on yearly basis to reach Rs.4.62 lakh crores.
- The direct tax-to-GDP (Gross Domestic Product) ratio reached at 16 year high of 6.2% at the end of FY'24. Previous highest of direct taxes-to-GDP ratio was 6.4% in 2007-08.
- The improvement in the direct tax-to-GDP ratio is likely to remain a permanent fiscal buffer for the government.
- The share of income tax in direct taxes has increased in the past few years and that of corporate taxes has reduced. The sharp fall in corporate tax after FY'19 can be attributed to the deep corporate tax cuts introduced by the ruling government in September 2019.
- Following are the reasons for surge in direct tax:-
 - ✓ Increase in personal income levels
 - ✓ Boost to corporate sector profitability amid low commodity prices.
 - ✓ Effective use of technology, especially since 2021 and enhanced transparency around various sources of income generated both by individuals and by corporates
 - ✓ Formalisation of the economy
 - ✓ Expansion of scope of TDS & TCS
 - ✓ Surge in digital transactions
- Over the past decades, the share of direct taxes has surpassed the share of indirect taxes in total tax revenues. This is good for the Indian economy as indirect taxes are regressive in nature.
- India's tax buoyancy stood at 1.4 in FY'2023-24. Tax Buoyancy of Indian economy has been continuously above 1 since past few years, signifying that growth in tax revenues was higher than the growth of GDP. This implies that the tax system in India is efficient and tax base has widened.
- There is a scope for rationalisation in the corporate and personal income tax rates in the upcoming Budget as it would not only attract foreign investors but would also propel local population to move towards tax compliance as non-compliance would increasingly become less attractive.