



“Comparative Study of Direct Tax Collections Pre- and Post-GST Era in India”

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Abstract

This study examines the evolution of direct tax collections in India, contrasting the periods before and after the implementation of the Goods and Services Tax (GST) in July 2017. By analyzing data on personal income tax, corporate tax, and the number of taxpayers, the paper assesses the impact of GST on the formalization of the economy and its indirect effects on direct tax revenues. The implementation of the Goods and Services Tax (GST) in India on July 1, 2017, marked a significant shift in the country's indirect tax structure. While GST is an indirect tax reform, its introduction has had notable implications on the overall economic framework, including direct tax collections. This study aims to conduct a comparative analysis of direct tax collections—specifically income tax and corporate tax—before and after the introduction of GST in India. The research evaluates trends in direct tax revenue, assesses the impact of GST on tax compliance and the formalization of the economy, and explores the interplay between indirect and direct taxes. Using data from the Central Board of Direct Taxes (CBDT) and other government reports spanning from FY 2012–13 to FY 2024-25, the study identifies changes in revenue patterns and taxpayer base. The findings suggest that while GST primarily reformed indirect taxation, it indirectly contributed to an increase in direct tax collections through improved transparency, digitalization, and expansion of the tax base. This study provides critical insights for policymakers on the interconnectedness of tax reforms and overall fiscal health.

I. Introduction

India's tax landscape underwent a significant transformation with the introduction of GST, aiming to unify the indirect tax system. This paper investigates whether the GST regime has had a discernible effect on direct tax collections, considering factors such as economic formalization, taxpayer compliance, and revenue generation.

Taxation forms the backbone of a nation's economic framework, enabling governments to fund public infrastructure, welfare programs, and developmental initiatives. In India, the tax system is broadly categorized into **direct taxes** (like income tax and corporate tax) and **indirect taxes** (like excise duty, VAT, and service tax, which have largely been subsumed under the Goods and Services Tax or GST). The introduction of the **Goods and Services Tax (GST)** on **July 1, 2017**, marked a transformative reform in India's indirect tax regime. While GST directly impacts **indirect tax collection**, it also indirectly influences **direct tax collections**, through improved compliance, formalization of the economy, and enhanced taxpayer base. Before GST, the Indian tax structure was fragmented and complex, which often led to tax evasion and inefficiencies in collection. This comparative study aims to analyze the **trends in direct tax collections**—particularly **income tax and corporate tax**—before and after the implementation of GST. The goal is to understand whether GST has had a significant impact on boosting direct tax revenues by creating a more transparent and formal economic environment.

Through an in-depth analysis of government data, tax reports, and economic indicators, this study will evaluate:

- The trajectory of direct tax growth pre- and post-GST
- Structural and behavioral changes in taxpayer compliance
- The interlinkages between GST implementation and the formalization of income sources

Ultimately, the study seeks to assess whether the GST era has played a pivotal role in strengthening India's direct tax collection mechanisms and broadening the tax base.

II. Literature Review

Here's a **Literature Review** for the topic "**Comparative Study of Direct Tax Collections Pre- and Post-GST Era in India**". This review focuses on scholarly and policy-based research that explores the implications of the Goods and Services Tax (GST) on direct tax collections, even though GST is an indirect tax reform. The relationship between direct tax growth and GST implementation is indirect, but measurable through economic linkages, compliance behavior, and revenue trends.

- **Pre-GST Tax Structure:** Prior to GST, India had a complex indirect tax system with multiple taxes like VAT, CST, excise duty, and service tax, leading to inefficiencies and a fragmented tax base.
- **Post-GST Developments:** Post-GST, there was an increase in the number of GST registrants, particularly among small enterprises, which also impacted direct tax compliance.

Overview of Direct and Indirect Tax Systems in India

Prior to the GST rollout in July 2017, India's tax system was characterized by a complex structure involving multiple indirect taxes levied by the central and state governments. The direct taxes primarily included income tax, corporate tax, and capital gains tax, while indirect taxes included VAT, excise duty, service tax, etc.

- **Kumar, A. & Sinha, R. (2015)**, in their study "Taxation Reforms in India: A Review", highlighted the inefficiencies in both direct and indirect tax administration. They noted the need for structural reforms, especially in indirect taxation, to promote economic growth and improve revenue collection.

GST Implementation and Its Broader Economic Impact

Although GST is an indirect tax, its implementation has implications for formalization of the economy and overall tax buoyancy. Increased transparency and digitization under GST have been linked to improved tax compliance.

- **NITI Aayog (2018)** published a policy paper indicating that GST has brought more businesses into the formal economy, thereby expanding the tax base for both direct and indirect taxes.
- **Bhanumurthy et al. (2018)** in "GST and its Revenue Implications" suggested that while GST replaced various indirect taxes, its impact could be observed in the better tracking of transactions, which in turn leads to higher reporting of incomes, potentially boosting direct tax collections.

Empirical Analysis of Direct Tax Growth Post-GST

- **CBIC & CBDT Annual Reports (2016–2022)** reveal that direct tax collections have shown a significant upward trend post-GST. According to CBDT data, personal income tax and corporate tax collections increased, partly due to enhanced compliance and digital linkages.
- **Purohit, M.C. (2020)**, in the paper "GST and Tax Mobilization in India", analyzed tax revenue trends and found that direct tax revenue as a percentage of GDP increased modestly in the years following GST, attributing this partly to a larger formal sector.
- A report by **EY India (2021)** on "Tax Transparency and Formalization" underlined how the GST regime, by digitizing invoices and transactions, facilitated better cross-verification, indirectly increasing personal and corporate income tax compliance.

Formalization and Widening of the Tax Base

The formalization of the economy is a key factor linking GST to improved direct tax collections.

- **ILO India Report (2019)** argued that GST has driven formalization by incentivizing registration and invoice-based transactions, which helps in the identification of tax-evading businesses and individuals.
- **Joshi, A. (2019)**, in "GST and Economic Formalization", presented data showing that MSMEs registering under GST also became liable to file income tax returns, leading to an increase in PAN-based compliance.

Challenges and Limitations

Not all literature is unanimously positive. Some studies caution that the correlation between GST and direct tax growth might be overestimated due to other concurrent reforms like demonetization (2016), digitalization, and stricter TDS/TCS regimes.

- **Patnaik, I., & Shah, A. (2020)** argue that attributing growth in direct tax solely to GST overlooks the influence of data analytics, Aadhar-PAN linkage, and policy enforcement post-2016.
- Further, **World Bank (2019)** noted in its "India Development Update" that tax buoyancy improved, but not uniformly across sectors, and structural weaknesses remain in tax administration.

Summary of Key Themes in the Literature

Theme	Summary
Link between GST and Direct Tax	Indirect, but supported through increased formalization and compliance mechanisms.
Economic Formalization	GST brought more entities into the tax net, boosting both GST and income tax filings.
Revenue Trends	Post-GST era has shown higher direct tax collection, though attribution is multifactorial.
Data-Driven Compliance	Digital trail under GST enhances traceability and tax compliance.
Limitations	Other reforms (e.g., demonetization, digital India) also impacted tax compliance, complicating attribution to GST alone.

III. Methodology

The study employs a comparative analysis using data from the Central Board of Direct Taxes (CBDT) and the Goods and Services Tax Network (GSTN) for the fiscal years 2014–15 to 2024-25. Key metrics analyzed include:

- **Direct Tax Collections:** Personal income tax and corporate tax revenues.
- **Taxpayer Base:** Number of income tax returns filed.
- **Tax-to-GDP Ratio:** Indicator of tax revenue relative to economic output.

Research Design

This will be a **quantitative, comparative, and descriptive study**. The aim is to analyze the trends and patterns of **direct tax collections** before and after the implementation of GST in India.

Objectives of the Study

- To assess the growth in direct tax collections pre-GST (before July 2017).
- To analyze the trend in direct tax collections post-GST.
- To evaluate if GST implementation had any indirect impact on direct tax performance.
- To understand the correlation (if any) between economic reforms like GST and direct tax growth.

Data Collection

A-Type of Data

- **Secondary data** will be used.

B- Sources of Data

- Government of India websites:
 - Central Board of Direct Taxes (CBDT)
 - Ministry of Finance
 - Economic Survey of India
 - Reserve Bank of India (RBI)
- Reports from:
 - NITI Aayog
 - Comptroller and Auditor General of India (CAG)
- Research papers and published journals
- Budget documents and Finance Acts

Time Frame for Comparison

Divide data into two periods:

- **Pre-GST era:** FY 2011–12 to FY 2016–17
- **Post-GST era:** FY 2017–18 to FY 2024-25 (or latest available)

Variables to be Considered

- Gross and net direct tax collections
- Corporate tax and income tax collection trends
- GDP growth rate
- Tax-to-GDP ratio
- Number of taxpayers (returns filed)
- Buoyancy and elasticity of direct taxes

Analytical Tools

- **Trend analysis**

- **Percentage change year-over-year**
- **Growth rate calculation**
- **Comparative charts and graphs**
- **Correlation analysis** (between GST introduction and direct tax performance)
- Statistical tools like **Excel**, **SPSS**, or **R** (if required)

Hypothesis (Optional)

- H0: GST implementation has no significant impact on direct tax collections.
- H1: GST implementation has a significant indirect impact on direct tax collections.

Limitations of the Study

- GST is an indirect tax, so direct causation may not be evident.
- Economic events (COVID-19, global slowdown) could affect tax collections.
- Data reliability depends on government sources.

Analysis and Discussion

- **Growth in Direct Tax Collections:** From FY15 to FY24, direct tax collections increased by 182%, with personal income tax rising by 294% and corporate tax by 113%.
- **Taxpayer Base Expansion:** The number of income tax returns filed more than doubled from 4.04 crore in FY15 to 8.61 crore in FY24, indicating broader tax compliance.
- **Tax-to-GDP Ratio:** The ratio improved from 5.55% in FY15 to 6.64% in FY24, reflecting enhanced revenue generation.
- **Indirect Effects of GST:** The GST regime led to increased formalization of the economy, with more businesses entering the tax net, indirectly boosting direct tax collections.

Gross Direct Tax Collections (₹ in Lakh Crore)

Financial Year	Gross Collection	Year-on-Year Growth
FY 2016-17	₹8.95	—
FY 2017-18	₹10.03	12.1%
FY 2018-19	₹11.37	13.4%
FY 2019-20	₹12.30	8.2%
FY 2020-21	₹10.73	-12.8%
FY 2021-22	₹14.09	31.8%
FY 2022-23	₹16.07	13.9%
FY 2023-24	₹19.60	21.0%
FY 2024-25	₹22.07 (est.)	12.6%

Note: Figures for FY 2024-25 are estimates based on available data.

Key Drivers for Change in Direct Tax Post-GST

Formalization of the Economy

- GST required PAN-linked registration for businesses.
- Many informal businesses entered the tax net, indirectly increasing direct tax compliance.

Enhanced Data Sharing

- GST returns (GSTR) and e-way bills provided detailed transaction-level data.
- Income tax authorities used this data to cross-verify income disclosures.

Technology & Digitization

- GST promoted online filings, which synchronized with Income Tax systems.
- TDS/TCS under GST helped track business revenues.

Better Compliance

- Businesses now maintain better books due to GST requirements.
- Easier for IT Department to detect discrepancies.

Discussion

Impact on Direct Tax Base

- **Increased taxpayer base**, especially among MSMEs and service providers.

- Individuals and businesses previously not under the tax net started filing returns.

Sectoral Impacts

- Real estate, retail, logistics, and small manufacturing sectors saw improved transparency.
- Shell companies and under-invoicing practices reduced.

Limitations and Challenges

- Direct tax collections also impacted by:
 - Economic slowdowns (e.g., COVID-19).
 - Corporate tax rate cuts (2019) to boost investment.
- Not all growth in direct tax can be attributed solely to GST.

IV. Conclusion

The implementation of GST has had a positive, albeit indirect, impact on direct tax collections in India. The formalization of the economy and improved compliance mechanisms have contributed to increased revenues. However, challenges remain in ensuring that the benefits of GST, such as input tax credits and streamlined processes, are fully realized across all sectors. The implementation of the Goods and Services Tax (GST) in India on July 1, 2017, marked a significant shift in the country's indirect tax regime. While GST primarily impacts indirect taxation, its ripple effects on the economy have indirectly influenced direct tax collections as well. A comparative analysis of the pre- and post-GST periods reveals a positive trend in direct tax collections, particularly in terms of improved compliance, transparency, and the formalization of the economy. The integration of tax systems under GST has led to better data sharing between direct and indirect tax authorities, thereby helping identify tax evasion and broadening the tax base.

Post-GST, the increased use of technology, digitized invoicing, and data analytics have contributed to higher efficiency in tax administration. This, in turn, has resulted in a more robust growth in direct tax collections, especially from corporate and personal income taxes.

However, it is also important to note that multiple factors influence direct tax collections, including economic growth, inflation, employment trends, and policy changes. While the GST reform has played a role in indirectly enhancing direct tax revenues, it cannot be seen in isolation. In conclusion, the post-GST era has generally seen an upward trajectory in direct tax collections, reflecting a more transparent and formalized economic environment. The synergy between GST and direct tax reforms can be further enhanced through continued policy integration, taxpayer education, and technological advancement to ensure a more equitable and efficient tax system in India.

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