Direct Tax to GDP ratio

By IASToppers | 2024-01-27 16:10:00

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The **Central Board of Direct Taxes (CBDT)** recently stated that India's **direct tax-to-GDP ratio** recently reached a **15-year high** of 6.11% in 2022-23.

[Ref- Economic Times]

Key findings by Central Board of Direct Taxes (CBDT):

- The CBDT data showed that **direct taxes**, comprising corporate and personal income tax, have rebounded to pre-pandemic levels.
- In **2022-23**, direct taxes made up 54.62% of the **total tax revenue**, up from 52.27% (2021-22) and 46.84% (2020-21), the **lowest in 15 years**.
- **Direct Tax-to-GDP Ratio**: If the central government meets its 2023-24 budget estimates, the direct tax-to-GDP ratio may rise to about 6.2%.
    - Estimates suggest a **potential all-time high of 6.5%** for the direct tax-to-GDP ratio in the same period.
- **Budget Estimates:** The government may surpass its budget estimates of Rs 9.23 lakh crore for corporate tax and Rs 9.01 lakh crore for personal income tax.
- **Cost of Tax Collection**: The government spent Rs 8,452 crore on direct tax collection in 2022-23, showing an increase from Rs 7,479 crore in 2021-22.
- Despite the **rise in spending**, the efficiency of tax collections improved, with the cost of collection decreasing to 0.51% of total collections in 2022-23.
- **Income Tax Returns**: A total of 7.78 crore income tax returns were filed in 2022-23, marking a 6.5% increase from the previous year, mainly by individuals.
- **Number of Taxpayers**: The total number increased by 7.8% to 9.34 crore for the assessment year 2022-23.
    - A taxpayer includes those who filed a return of income or had tax deducted at source without filing a return.
- **Efficiency Improvement**: It reflected in the decrease of the cost of collection to 0.51% in 2022-23 from 0.53% in the previous year.
- An **increased market volatility** is predicted as the direct tax-to-GDP ratio may reach an all-time

high.

About Direct tax-to-GDP ratio:

- A tax-to-GDP ratio is a gauge of a **nation's tax revenue relative to the size of its economy** as measured by **gross domestic product (GDP).**
- It reveals **potential taxation** relative to the economy, enables the overall direction of a **nation's tax policy** and international comparisons of tax revenues.
- This ratio is used with other metrics to determine how well a nation's government d**irects its economic resources via taxation.**
- **Developed nations** typically have **higher tax-to-GDP ratios** than developing nations.
- **Higher tax revenues** mean a country **can spend more** on improving infrastructure, health, and education, indicating long-term prospects for a country's economy and people.
- According to the **World Bank,** tax revenues above **15% of a country's GDP** are a key ingredient for **economic growth and poverty reduction.**

