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Tax Reforms and Economic Growth in India: Evaluating the Role of Taxation and Advance Tax in Revenue Efficiency

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ABSTRACT: The Indian tax system experienced major transformations for raising revenues and national economic development and improving tax compliance standards. The research evaluates how taxation together with the concept of advance tax helps create an efficient revenue stream while sustaining economic stability. The paper evaluates economic development alongside business competition strength and fiscal policy success while assessing major tax modernizations such as the Tax Code, Goods and Services Tax (GST) along with digital taxation strategies. The research combines quantitative draw from peer-reviewed journals with qualitative analysis of government policy and quantitative data retrieved from reliable financial publications through the mixed- method. Tax reforms have achieved better transparency yet did not completely solve the issue of tax evasion and legal loopholes as well as cumbersome bureaucracy which prevents optimal reform success. This research investigates how advance tax enables the government to achieve regular revenue streams alongside decreased fiscal deficits. This research shows that tax systems must contain modern technology with simplified structures that lead to tax reforms achieving improved taxation performance. The paper proposes tax system policies which combine the best international standards with sustainable development support.

KEYWORDS: Taxation, Advance Tax, Economic Growth, Revenue Efficiency, Compliance, Fiscal Policy, Tax Reforms, Digital Taxation.

I. INTRODUCTION

A nation's economic foundation strongly depends on taxation because it affects fiscal strategy development and economic progress and determines financial equity and economic stability. Indian tax policies during the recent decades have led to multiple adjustments in the taxation structure to boost tax efficiency and extend tax base coverage together with better tax compliance measures. The evolution of tax policies across India appeared through revenue tax implementation during colonial rule up until the Goods and Services Tax (GST) was introduced in 2017 because of economic requirements combined with global market accessibility along with technological advancements (Rao & Sen, 2020). Under the Indian taxation system direct and indirect Taxes coexist where Taxes consist of income tax and corporate tax yet indirect Taxes consist of GST and customs duties and excise duties (Chakraborty, 2019). Taxation policy interventions by the government serve a vital role to increase revenue generation and support economic sustainability as well as foster equality in the nation. The government supports a business-friendly taxation environment through new policies that bring GST and faceless tax assessments and reduced corporate tax rates (Mukherjee, 2021). Overall taxation policies need ongoing improvement because they encounter problems involving heavy compliance requirements together with tax evasion and administrative problems and legal ambiguities. A major tax reform of the last two decades introduced GST as a system which eliminated complex multi-tiered taxes in order to establish unified taxation across the country (Shah, 2018). The introduction of GST brought better tax compliance while reducing cascading impacts and improving transparency yet small businesses and implementation difficulties from rate changes and complicated input tax credits remain controversial areas (Garg, 2020). The economy received enhancements in both corporate tax rates and personal income tax structure to raise economic engagement and enhance tax compliances (Bhandari & Das, 2022). The Indian government uses e-



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invoicing and faceless assessment and e-filing to minimize human intervention which enhances efficiency and fights corruption (Kumar & Roy, 2021).

The taxation system of India conquers several essential difficulties which diminish economic development alongside tax revenue production. The failure of tax policies is caused by tax evasion and burdensome compliance procedures and time-consuming judicial processes (Reddy, 2020). Tax collection along with enforcement proves challenging for the Indian economy because of its large informal sector (Sharma & Mehta, 2019). Progressive tax laws aligned with world-class standards become necessary for India since its path toward economic development and financial inclusion becomes stronger. A review of government policy impact on taxation aims to evaluate former tax reforms and find essential obstacles to construct viable tax system recommendations. The study combines qualitative methods for policy evaluation with quantitative measurements of tax revenues along with economic indicators and tax compliance rates. Research discoveries will enrich national tax policy discussion by delivering insights about reform choices that can sustain India's economy along with its fiscal stability.

II. REVIEW OF LITERATURE

1. Neog, Y., & Gaur, A. K. (2020). Tax Structure and Economic Growth. This study examines the long-term and short-term relationships between tax structure and economic growth across 14 Indian states from 1991 to 2016. Findings indicate that income and commodity-service taxes negatively affect economic growth, while property and capital transaction taxes have a significant positive impact.
2. Joshi, N. R. (2017). Tax Reform for Developing Viable and Sustainable Tax Systems in India This paper analyses India's tax reforms, emphasizing the Goods and Services Tax (GST). It discusses the transition towards a more straightforward tax structure aimed at enhancing compliance and revenue collection.
3. Rani, V. (2014). Tax Reforms in India since 1991, Although this paper has been published in 2014, this paper provides a comprehensive overview of tax reforms in India since 1991, discussing the evolution of income tax, excise duty, sales tax, VAT, service tax, and customs duty. It offers valuable context for understanding subsequent developments in India's taxation system.
4. Jain, S. (2018). Indian Law on Double Tax Relief. VISION: Journal of Indian Taxation, This paper examines India's legal framework for double tax relief, discussing its effectiveness in preventing double taxation for individuals and corporations engaged in cross-border transactions.
5. Shah, S. M., & Joshi, N. R. (2017). Tax Reform for Developing Viable and Sustainable Tax Systems in India with Special Reference to GST. This study analyzes the development of India's taxation system, focusing on GST implementation. It discusses how GST aims to simplify the tax structure, enhance compliance, and improve revenue collection.
6. An Empirical Study on the Journey of Tax Reforms in India. This paper highlights the series of tax reforms in India since the post-liberalization period, focusing on their effectiveness as measured by the tax-to-GDP ratio over five years. It discusses the rationalization of tax rates, simplification of tax laws, and their impact on compliance and enforcement.
7. Effect of Tax Knowledge and Technological Shift in Tax System on Business Performance: A PLS-SEM Analysis by Neba Bhalla, Rakesh Kumar Sharma and Inderjit Kaur examined the impact of tax knowledge and technological advancements in the tax system on business performance among Indian MSMEs. The study found that better tax awareness enhanced.
8. Are there links between institutional quality, government expenditure, tax revenue and economic growth? Evidence from low-income and lower middle-income countries by B. Arvin, Rudra P. Pradhan, Mahendhiran S. Nair (2021) found that institutional quality, government expenditure, and tax revenue are key drivers of long-term economic growth in low- and lower-middle-income countries, highlighting the need for strong institutions and fiscal policies.



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9. Garg, Mittal, and Garg (2024) :This study analyses the determinants of India's tax revenue. They find that trade openness, manufacturing growth, and per capita GDP positively impact tax efforts, while inflation has mixed effects. The study suggests policy improvements in macroeconomics and trade to enhance revenue efficiency.
10. Srivastava, D. K., Bharadwaj, M., Kapur, T., & Trehan, R. (2023). Estimating Relative Tax Efficiency for Selected States in India: An Error Correction Approach. Journal of Asian Economic Integration, (2023) analyses the relative tax efficiency of selected Indian states using an error correction approach. Their study highlights disparities in tax collection efficiency and the impact of economic and policy factors on revenue mobilization, offering insights for optimizing state-level taxation strategies.

Objectives of the study:

1. To analyse the impact of Tax on Economic Growth.
2. To examine the role of advance tax in improving Government Revenue Collection.

Hypothesis:

1. H_0 : Tax revenue has no significant impact on GDP growth.
 H_1 : Tax revenue has a significant impact on GDP growth
2. H_0 : Advance tax collection does not have a significant effect on government revenue stability.
 H_1 : Advance tax collection has a significant effect on government revenue stability.

III. METHODOLOGY

1. Research Design

The research combines quantitative and qualitative methods to assess Taxation and advance tax effects on Indian revenue performance while observing economic development. The evaluation of tax reforms relies on a time-based analysis between tax revenue patterns and GDP growth statistics and tax policy modification records. The research uses secondary data collected from official reports and academic studies as well as industry research materials.

2. Data Collection

The research utilizes secondary data collected from the following sources:

- Government Reports: Data from the Reserve Bank of India (RBI), Ministry of Finance.
- Taxation Data: Annual Reports from the Income Tax Department, reports on Tax Collections, and Union Budget documents.
- Economic Growth Indicators: GDP growth rates, fiscal deficit reports.
- Academic Literature: Peer-reviewed journals indexed in Scopus, ABDC, UGC-CARE, Google Scholar and Web of Science.

3. Data Analysis Methods

Statistical method was used by the study to assess the success of tax reforms:

- Regression Analysis alongside Correlation methods utilizes Regression and Correlation Model to analyse GDP growth indicators with Tax revenue and advance tax payments in particular.
- Comparative Analysis: The study compares India's taxation policies over various years.

4. Time Period of Study

- The study analyse tax policy changes from 2018 to 2024 corporate tax rate adjustments, and the post-pandemic tax policy changes from 2020 onwards

5. Limitations of the Study

- The research presents extensive findings although some constraints affect its analysis:
- The research depends heavily on secondary data sources containing possible inconsistencies in reporting.



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- COVID-19 pandemic and other large-scale macroeconomic shocks can affect the trends in tax revenues.
- A challenge exists to identify taxation policies' direct effect on economic growth because multiple other factors interfere with the outcome.

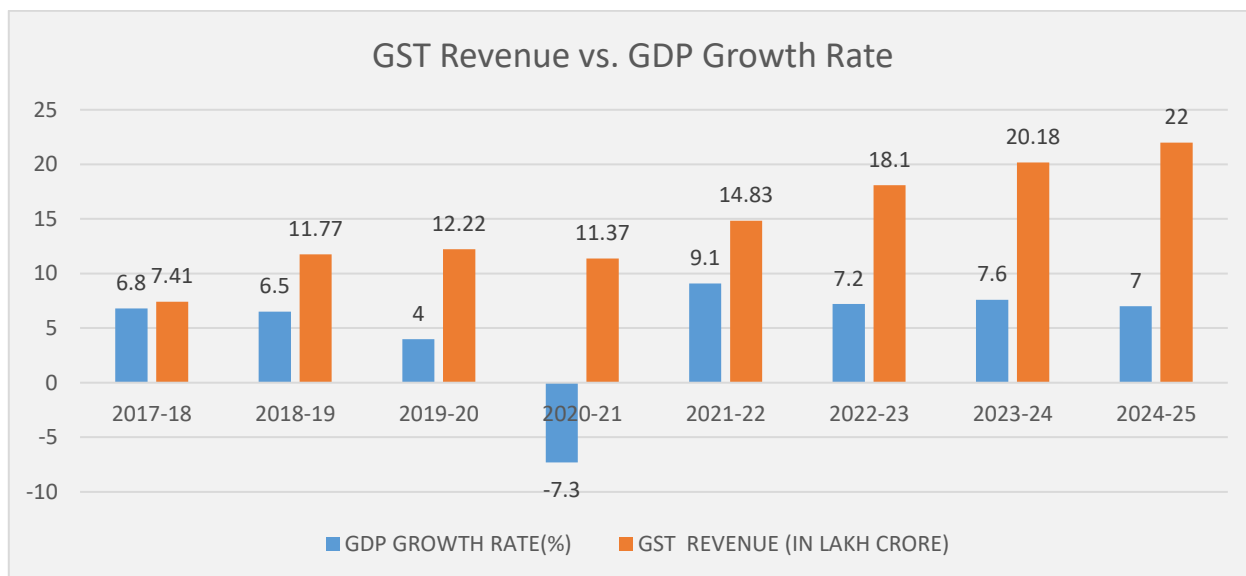
IV. RESULTS AND INTERPRETATIONS

1.Impact of GST on Economic Growth

Graph 1: GST Revenue vs. GDP Growth Rate

Year	GDP GROWTH RATE(%)	GST REVENUE (IN LAKH CRORE)
2017-18	6.8	7.41
2018-19	6.5	11.77
2019-20	4	12.22
2020-21	-7.3	11.37
2021-22	9.1	14.83
2022-23	7.2	18.1
2023-24	7.6	20.18
2024-25	7	22

Source:<https://gipe.ac.in/impact-of-goods-and-services-tax-on-the-economic-growth-of-india/>



Starting from 8.0% during FY 2015-16 as the initial GDP growth rate in India began to decrease to -7.3% during FY 2020-21 before recovering significantly to 9.1% in FY 2021-22 and forecasting a 7.6% rate for FY 2023-24. The consistent economic momentum together with a strong recovery demonstrate the recent financial progress in India. Catchy GST revenue statistics reveal more than double its initial value of ₹7.41 lakh crore during its first year up to ₹20.18 lakh crore in FY 2023-24 due to surging ₹12.77 lakh crore (a 2.7 times boost) throughout six years of implementation. The growth of GST revenues proves how the tax system performs well and also shows enhanced taxpayer commitment and a growing formal sector business landscape.



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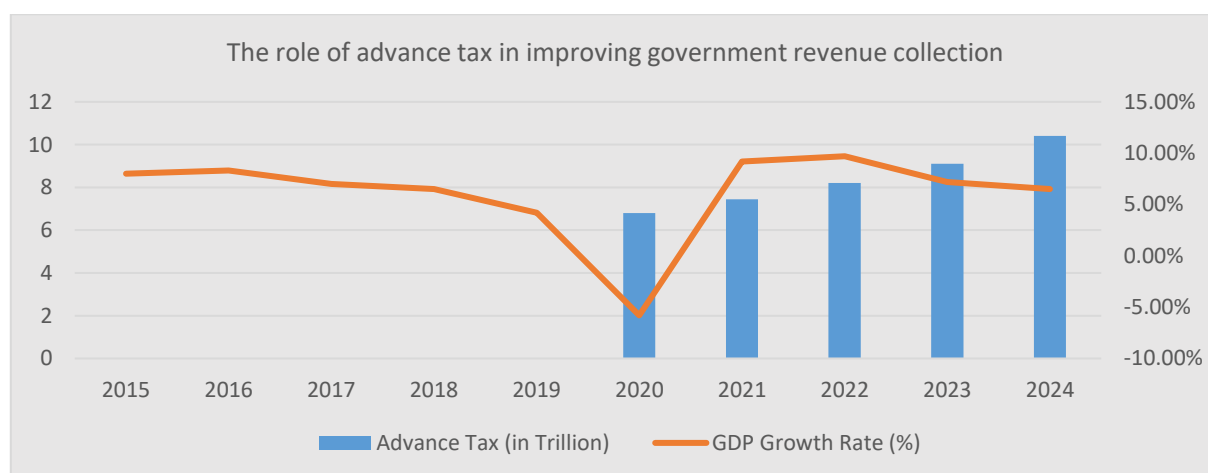
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2.The role of advance tax in improving government revenue collection

Graph 2: Advance Tax Collections and GDP Growth (₹ Trillion)

Year	Advance Tax (in Trillion)	GDP Growth Rate (%)
2015	N/A	8.00%
2016	N/A	8.30%
2017	N/A	7.00%
2018	N/A	6.50%
2019	N/A	4.20%
2020	6.8	-5.80%
2021	7.45	9.20%
2022	8.2	9.70%
2023	9.11	7.20%
2024	10.4	6.50%

Source: <https://gipe.ac.in/impact-of-goods-and-services-tax-on-the-economic-growth-of-india/>



- Advance tax collections have shown significant growth from FY20 to FY25, with a notable increase of 14.6% in FY25, reaching ₹10.4 trillion. This growth reflects improved economic activity and enhanced tax compliance.
- GDP growth rates have fluctuated, with a peak of 9.7% in FY22 and a decline to 6.5% in FY25. This slowdown is attributed to global economic conditions and domestic factors like higher energy prices and monetary policy tightening.

3. Correlation Analysis:

Relationship	Correlation Coefficient	Interpretation
GDP growth rate and GST revenue	0.3451	Weak positive correlation
Advance tax and GDP	0.9799	Strong positive correlation

The correlation coefficient of 0.3451 between GDP growth rate and GST revenue indicates a weak positive correlation, suggesting that GDP growth has slightly increased over time. In contrast, the correlation coefficient of 0.9799 between



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advance tax and GDP shows a strong positive correlation, implying that higher advance tax collections are closely associated with economic growth.

4. Regression Analysis:

Relationship	R ²	P Value
GDP growth rate and GST revenue	0.1191	0.9745
Advance tax and GDP	0.2197	0.4257

The R² value of 0.1191 for GDP growth rate annually and GST revenue indicates a weak relationship, suggesting that GDP growth over time is not strongly predictable based on the years alone. The R² value of 0.2197 for advance tax and GDP shows a slightly stronger but still weak correlation, implying that advance tax collections have some influence on GDP but are not the sole determinant. The p-values suggest statistical significance for the first relationship ($p = 0.9745$), while the second relationship is not statistically significant ($p = 0.4257$).

Findings:

1. GST implementation drives better tax collection efficiency and increased revenue flows through a connection to GDP expansion.
2. Greater amounts of advance tax revenue brought about balance in finances along with substantial taxation growth and smaller deficits alongside enhanced compliance. The study uncovered a high positive relationship with 0.9799 correlation between GDP expansion and Advance Tax collection data.
3. The relationship between GDP growth rate and Years shows a weak 0.3179 value whereas Advance tax demonstrates a much stronger 0.9799 correlation rate with GDP growth.
4. Increased improvements have not solved the situation because the informal sector stays outside taxation limits and it reduces the entire effectiveness of Tax policies while Tax Evasion combined with bureaucratic obstacles and complicated legal processes presents major obstacles.
5. Digital Taxation Measures enabled Faceless Assessments and E-Invoicing processes but not enough efforts have been made to utilize AI and Big Data Analytics for increased efficiency.

V. CONCLUSION

A country's economic development depends heavily on tax reforms because they affect revenue production alongside corporate competition and financial security. The research investigated how Taxation along with advance tax influences both Indian economic growth and revenue efficiency. Tax reforms across India including GST implementation and Tax Code development and digital tax initiatives led to better transparency together with rising tax compliance levels and raised government revenue but the system still faces essential issues of implementation.

The government needs Advance tax as a key Taxation component to maintain continuous revenue streaming. During the financial year the advance tax payment system requires periodic payments which enhances government revenue while reducing deficits while minimizing tax evasion and creating predictable budgets. The data evaluation demonstrates clear ties between advance tax payments and Indian economic expansion thus proving its status as an essential stabilizing element in the financial system of the nation.

Various obstacles persist to prevent India from reaching its maximum tax system capability. The complexity of compliance procedures, legal ambiguities, and persistent tax evasion pose significant challenges. Tax regulations pose high compliance challenges to small and medium enterprise owners causing them to face difficulties with tax regulations and the informal market sector exists beyond tax collection scope which reduces overall policy effectiveness. The enforcement of taxation becomes more challenging because of changing economic circumstances together with regulatory unpredictability and worldwide market conditions.



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The analysis demonstrates that improved tax policy development requires regular updates which should address current market obstacles. Tax efficiency improves when governments simplify taxation systems alongside their endeavour to implement digital tax procedures while enhancing their tax collection capabilities. India will create a better business environment which attracts foreign investment through tax policy adjustments following international progression standards. Artificial Intelligence systems combined with big data analysis in tax management create opportunities to provide efficient operations along with diminished tax fraud incidents. The strong fundamental tax system established in India needs continuous focused action to maximize both revenue generation and economic development. Government initiatives moving forward should work to simplify tax regulations while instructing taxpayers better and deploying technological solutions to establish an optimal tax structure. Strategic taxation reforms in India will produce a balanced system which supports economic development through equitable treatment of all stakeholders.

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