



# International Journal of Multidisciplinary Research in Science, Engineering and Technology

*(A Monthly, Peer Reviewed, Refereed, Scholarly Indexed, Open Access Journal)*



**Impact Factor: 8.206**

**Volume 8, Issue 4, April 2025**



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# Understanding The Effectiveness of India's Tax Policy Framework

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**ABSTRACT:** India's tax policy framework plays a crucial role in shaping the country's economic growth, business environment, and fiscal stability. This research explores the effectiveness of India's tax policies by analyzing their impact on revenue generation, compliance, economic efficiency, and equity. While reforms like the introduction of GST and corporate tax reductions have aimed at simplification and competitiveness, challenges such as tax evasion, litigation, and policy uncertainty persist. By examining both successes and gaps, this study aims to provide insights into how India's tax structure can be made more effective, transparent, and growth-oriented in the long run.

This research delves into the effectiveness of India's tax policy framework, evaluating its impact on economic growth, revenue generation, and social equity. The study examines the Goods and Services Tax and its transformative role in streamlining India's indirect tax system and fostering a unified national market. The analysis incorporates theoretical perspectives on tax reform, emphasizing the significance of a simplified tax structure in bolstering economic efficiency and formalizing the informal sector.

Employing a mixed-methods approach, the research combines a comprehensive literature review with primary data gathered through surveys and interviews with taxpayers, tax consultants, and government officials.

Effective data-sharing between direct and indirect tax authorities as well as tightened compliance monitoring have contributed to robust monthly GST collections to the tune of over INR 1 trillion (USD 12,820 million) for over ten months in a row. Moreover, improvements in the customs law and procedures such as faceless assessments in a digitised environment, simplification of import-export procedures in terms of the World Trade Organization (WTO) Trade Facilitation Agreement have pushed India's ease of doing business ranking upwards.

All these initiatives have had tangible outcomes. However, to achieve sustained revenue growth that is needed to fuel the country's progress towards a USD 5 trillion economy and towards achieving the climate goals that it has set out for itself The Indian income tax policy has been a cornerstone of the nation's economic framework, shaping growth and development across industries. However, over the years, its complexity has raised significant concerns among taxpayers, businesses, and global investors.

The findings reveal that GST has led to increased government revenue and formalization of the informal sector, although it has also caused short-term disruptions for businesses.

**KEY WORDS:** Tax Policy, Revenue Generation, Economic Efficiency, Compliance, Fiscal Stability, Tax Reforms

## I. INTRODUCTION

Taxes are the backbone of any nation's development. Governments worldwide impose taxes to fund critical projects, including infrastructure, public education, military advancements, law enforcement, and more. India has a well-developed tax structure with clearly demarcated authority between Central and State Governments and local bodies. The authority of the government to levy tax in India is derived from the Constitution of India, which allocates the power to levy taxes to the Central and State governments. In India, the tax system is designed not only to generate revenue but



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also to foster economic stability, promote equity, and drive national progress. In last 10-15 years, Indian taxation system has undergone tremendous reforms. The tax rates have been rationalized and tax laws have been simplified resulting in better compliance, ease of tax payment and better enforcement.

Types of Taxes in India. The Indian tax system primarily consists of two types of taxes: Direct Taxes and Indirect Taxes.

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The study on the potential association between tax structure and growth performance has gathered a great deal of attention from policymakers, academicians and regulatory circles for several reasons. First, the developing and emerging economies require a large volume of tax revenues for the smooth and efficient functioning of the state at both the national and sub-national levels. Globalization has laid down the foundation for Goods and Service Tax (GST) in many developing countries. Due to competition, developing countries are also facing the difficulties to maintain existing tax revenues. Second, tax collection and structure of it create distortionary impacts in the economy through tax burden. Thus, the positive and negative impact of tax made the tax-growth' relationship more complex and the structure of taxation has a definite role in the development process of an economy.

In a budget constraint economy like India, investigation of tax-growth relationship enables us to formulate the suitable policy measure for the more inclusive and equitable growth process. The budget crisis is usually resolved through the cut-down of public spending or/and an increase in tax revenues. Rapid reduction in spending or increase in taxes is harmful to long-run growth performance. Thus, the concern of the government lies with the problem of fiscal consolidation with sustainable growth performance where tax policies are vital.

Changes in tax policy also change in the tax structure in the economy and India witnessed these changes at both levels of governments. This analysis primarily concerned with tax structure rather than to tax levels (usually measured as a tax-GDP ratio). The main advantage of tax structure analysis is that it provides revenue-neutral tax policy changes which remove the difficulties related with the question of how aggregate tax revenue changes relates with expenditure changes.

Although raising tax revenues calls for the rich to be taxed more heavily than the poor, however in practice it rarely happens as rich tax payers command immense power and can manipulate process of tax reforms. This is the reason behind many developing countries, contribution of personal income tax is very small in the overall taxes.

### II. REVIEW OF LITERATURE

1. Bensha C. Shaji Christabell Joseph (2025)  
This paper focuses on how India's corporate tax system changed after the abolition of the Dividend Distribution Tax (DDT). It examines how companies and shareholders are taxed, the impact on businesses, and how India compares with global tax systems. The study suggests policy changes to reduce double taxation and improve efficiency.
2. Arjun, Bibhuti Ranjan Mishra & Aviral Kumar Tiwari  
This paper analyzes how fiscal policies affect environmental degradation in India. It examines carbon emissions from 1990 to 2021, showing how government policies impact pollution levels. The research supports the Environmental Kuznets Curve (EKC) theory, suggesting economic growth initially harms but later improves environmental quality.
3. Tushar Ranjan Barik\* and Priyanka Ranawa (2024)  
This paper explores how tax policies shape India's automobile sector. It examines how tax regulations evolve to support industry growth and competitiveness. Using qualitative research, it identifies gaps in corporate tax policies and provides recommendations to improve taxation for auto manufacturers in India.



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4. Dr. Yusaf Harun K and Revathi J (2024)  
This paper evaluates how well India's Goods and Services Tax (GST) system functions. It analyzes revenue data from 2019 to 2023, comparing tax collection across different regions. The study highlights GST's success in improving tax compliance while suggesting ways to enhance revenue efficiency and economic stability.
5. Adinew Erkeno<sup>1</sup>, K. Lubza Nihar<sup>2</sup>, B. Padma Narayan (2024)  
This paper examines how global tax systems, including India's, are evolving. It reviews various modernization strategies, with a focus on GST as an effective taxation model. The study highlights how streamlined tax systems reduce evasion, improve compliance, and simplify administration to keep pace with economic changes.
6. Hrushikesh Mallick (2020)  
This paper investigates how governance quality and digital infrastructure impact tax revenue collection in India from 1990 to 2018. It finds that despite technological advancements, tax evasion remains a major problem. The study emphasizes the need for stronger enforcement and better integration of digital tools in taxation.
7. Saurabh Chandra and Bhumika Muchan (2025)  
This paper examines recent tax changes, including GST and corporate tax revisions, and their effects on different sectors like agriculture, industry, and services. It discusses tax compliance challenges and highlights how India's current tax system still faces hurdles in supporting long-term economic progress.
8. Iti Dandona<sup>a</sup>, Praveen Kumar Tomara<sup>b</sup>, Sandeep Kumar Gupta<sup>b</sup>, Subhash Kumar Verma (2024)  
This paper studies the effects of GST on state tax revenue and GDP growth. It tracks GST collections across different states, revealing variations in revenue patterns. The study finds that while GST initially increased tax revenue, some states saw a decline in collections in 2024, requiring policy adjustments.
9. Vikas Kumar and Kulbhushan Chande (2024)  
This paper explores how tax incentives attract Foreign Direct Investment (FDI) to India. It finds that while tax breaks influence investors, factors like political stability and infrastructure also matter. The study suggests a more comprehensive strategy to strengthen India's position as a top investment destination.
10. Arun Kumar Deshmukh<sup>1</sup>, Ashutosh Mohan<sup>1</sup>, Ishi Mohan<sup>2</sup> (2022)  
This paper analyzes India's transition to GST and its impact on tax administration and economic performance. Using a case-study approach, it finds that GST has expanded the tax base but faces challenges in increasing the tax-to-GDP ratio. The study suggests further policy improvements to optimize GST effectiveness.
11. Soumita Ghose<sup>1a</sup>, Aseem Mahajan<sup>1b</sup> and Soumitra Shankar Datta<sup>2,3c</sup> (2022)  
This paper explores India's efforts to regulate tobacco use through taxation and public policies. It examines conflicting government regulations, industry influence, and enforcement challenges. The study suggests stronger policies to balance economic interests with public health concerns.
12. Pitresh Kaushik and Mohsen Brahmi and Shubham Kakran and Pooja Kansra (2024)  
This paper predicts future tax revenue using a grey forecasting model. It analyzes direct tax trends and estimates that by 2030, direct taxes will surpass indirect taxes in contribution. The study provides insights to help policymakers plan better tax strategies and improve fiscal management.

### III. OBJECTIVES

1. **Recognize the Structure of India's Tax System:** This goal is to learn about the basic structure of India's tax system, which includes both direct taxes like corporate tax and income tax and indirect taxes like GST and customs fees. It is easier to analyze how the tax system functions and how it contributes to revenue creation when these elements are understood.



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- Analyze the Impact on the Economy:** This entails examining the ways in which tax laws affect firms, investment choices, consumer behavior, and the expansion of the economy as a whole. It also entails researching the ways in which taxes support public welfare initiatives and government revenue.
- Identify Key Challenges:** This objective aims to highlight common issues within India's tax system, such as tax evasion, high compliance costs, and administrative inefficiencies. By identifying these challenges, the research can shed light on factors that hinder the effectiveness of the tax framework.

### IV. RESEARCH METHODOLOGY

#### Research design

**Type of Research:** The research takes a mixed-methods design, integrating both quantitative and qualitative methods of research.

**Quantitative Research:** Employed to gather numerical data in the form of organized surveys to study trends, patterns, and statistical correlations.

**Qualitative Research:** Consists of a review of literature and expert views to derive in-depth understanding of the effectiveness of tax policies in India.

**Objective:** To assess the efficiency of India's tax policy system, determine challenges, and recommend solutions for improvement.

#### Primary Data Collection:

**Instrument:** A formal questionnaire was created to obtain replies from participants. The questionnaire contained closed-ended and open-ended questions to measure quantitative and qualitative information.

**Sample Size:** 50 participants, comprising salaried persons, entrepreneurs, students, and tax professionals.

**Distribution:** The survey was circulated online via sites such as Google Forms to provide accessibility and ease of response.

**Variables Measured:** Tax policy awareness, simplicity of compliance, satisfaction with GST, perception of tax fairness, and strategies for minimizing tax evasion.

#### Sampling Technique:

**Target Population:** The research focused on individuals and professionals dealing with India's tax system, such as taxpayers, business owners, and students.

**Sampling Method:** Convenience Sampling was applied to choose participants who were easily accessible and willing to answer the survey.

#### Inclusion Criteria:

Participants aged 18 years and older.

Participants with different income levels and occupations. Respondents with some familiarity with India's tax policies.

### V. DATA ANALYSIS

Survey responses were analyzed to assess awareness, satisfaction, perceived effectiveness, and suggestions for reform.

Key Metrics:

Indicator	Response (%)
Familiar with Tax Policy	60% (very familiar)
Aware of GST	84%
Tax system is equitable	36% (yes), 40% (no)
Satisfied with GST Implementation	56% (30% very + 26% satisfied)
Believe tax promotes growth	50%
Acknowledge tax evasion problem	50%



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### Descriptive Statistics and Interpretation

A numerical summary of select variables is shown below:

Variable	Mean	Standard deviation	Min	Max
Age (Years)	24.6	7.8	18	56
Income (₹ in lakh)	6.3	9.2	<5	>50
Policy Understanding (1–5)	3.8	0.9	1	5
Compliance Ease (1–5)	3.6	1.1	1	5
Tax Equity Perception (1–5)	3.2	1.3	1	5

### Interpretation:

- The majority of respondents were young (under 25), with moderate income.
- Most rated tax understanding and compliance above average.
- Perceptions of equity varied widely, suggesting mixed views on fairness.

### Regression Analysis

**Objective:** To assess if **income level** predicts **satisfaction with India's tax policy**.

- **Dependent Variable:** Satisfaction Score (1 to 5)
- **Independent Variable:** Annual Income (₹)

### Regression Equation:

$$\text{Satisfaction} = 3.95 + (-0.024 \times \text{Income})$$

- **Slope:** -0.024 (slightly negative)
- **Intercept:** 3.95
- **R<sup>2</sup>:** 0.09 (9% of satisfaction variance is explained by income)

### Interpretation:

There is a weak negative relationship between income and satisfaction—higher-income groups may be slightly less satisfied, possibly due to perceived inequities or loss of deductions.

### Hypothesis Testing

Hypotheses:

- **Null Hypothesis (H<sub>0</sub>):** Income has no effect on satisfaction with tax policies.
- **Alternative Hypothesis (H<sub>1</sub>):** Income significantly affects satisfaction with tax policies.
- **Test Used:** Linear regression significance test
- **p-value:** 0.18 (>0.05)
- **Conclusion:** Fail to reject the null hypothesis. There is **no statistically significant relationship** between income and satisfaction with India's tax policies in the sample.

## VI. CONCLUSION

The research highlights the positives and negatives of India's tax policy framework. Though there have been landmark reforms like GST, the tax system is still riddled with problems such as tax evasion, compliance burden, and administrative inefficiencies. Some of the major findings are:

- **Positive Aspects:**  
GST has been extensively acclaimed for reducing the complexity of the indirect tax system and augmenting government receipts. Most respondents considered the tax policies simple to comprehend and thought they encourage economic growth.  
Efficiency in tax administration was positively rated by most respondents.



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- **Challenges:**  
Tax evasion is still a major problem, with 50% of respondents admitting its existence. The equity of the tax system across income levels was doubted, with 40% thinking it is not fair. Though GST rollout has been generally successful, discontent among 20% of the respondents shows scope for improvement.
- **Recommendations:**  
Simplify Tax Laws: Tax laws and procedures can be simplified to enhance compliance and curtail evasion. Stricter Penalties: Enforcing stricter penalties for tax evasion can discourage non-compliance.
- **Leverage Technology:** Greater application of technology in tax administration can make it more efficient and transparent.  
Public Awareness Campaigns: Raising awareness among taxpayers regarding their obligations and the positive aspects of voluntary compliance can create a voluntary culture of tax payment. Address Equity Concerns: Policymakers must aim to make the tax system more equitable, especially in favor of low and middle-income groups.
- **Future Research:**  
Additional research can examine the effects of digital taxation, how tax incentives help attract foreign investment, and how to make environmental considerations part of tax policy. Finally, even though the tax policy framework of India has come a long way over the past few years, ongoing reforms and specific steps are necessary to meet prevailing challenges and provide for sustained economic growth and fiscal solvency.

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