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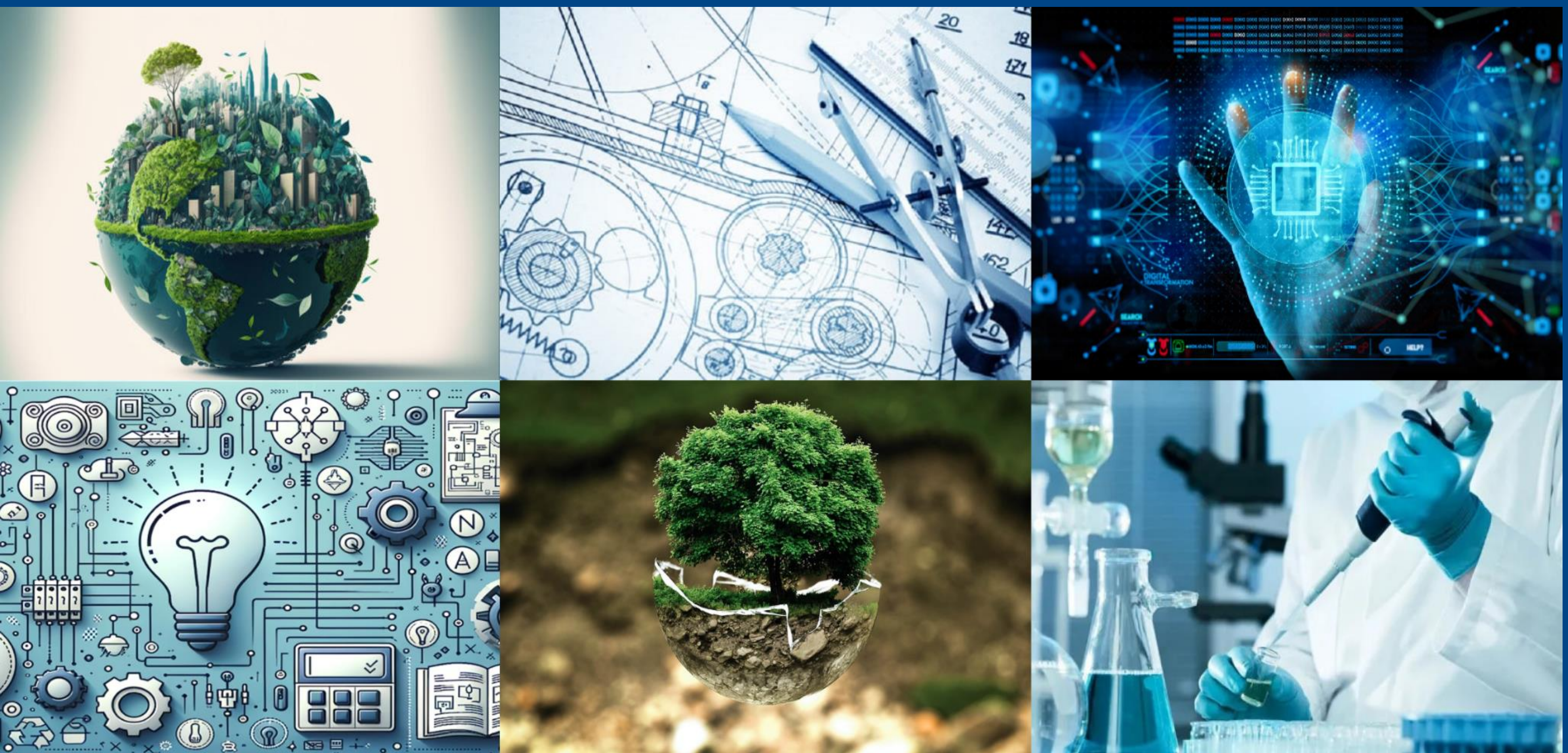

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Impact of Taxation on Economic Growth: A Comparative Study of Direct and Indirect Taxes

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ABSTRACT: Taxation has a significant role to play in the evolution of a country's thrift by influencing investment, consumption, and government revenue. This research examines the consequence of indirect taxes and direct taxes on economic growth through comparative analysis of diverse tax systems within different economies. Direct taxes, such as income tax and corporate tax, directly influence disposable income and business profitability, while indirect taxes, counting value-added tax and excise duties, influence consumer prices and demand patterns. The research scrutinize how these tax types add to or obstruct economic growth by investigating actual data from developed and developing countries. The research examines the impact and productivity of direct and indirect duty to achieve economic reliability and advancement with tendency analysis and econometric shaping. The findings drop light on the agreement between economic productivity and tariff revenues elevate, giving the appropriate taxation regulation that could stimulate sustainable economic growth over the long run. These results can be employed by policymakers in formulating tax frameworks that find equilibrium among efficiency, fairness, and economic growth. Through its provision of comparative view regarding taxation structures and macroeconomic results, this research contributes to the wealth of past work.

KEYWORDS: Taxation, Economic Growth, Direct Taxes, Indirect Taxes, Fiscal Policy, Revenue Generation, Tax Efficiency.

I. INTRODUCTION

In the last 20 years, tax systems across the globe have undergone tremendous alterations due to reforms in many countries with varying ideologies and levels of development. Tax systems in countries with varying types of economic systems and levels of development have undergone tremendous transformations. Depending on the development plan and big ideology, the causes of these changes have diverse from country to country, as has the degree of belief in them. The need for a market economy to stay competitive in the world has been the immediate cause of tax improve in most approaching economies. India's Goods and Services Tax (GST) was finally implemented on July 1, 2017, after a decade-long odyssey.

Taxes play a great role in the generation of government revenue, investment, and consumption, all of which influence economic growth. Economists and policymakers have debated over time how taxes influence economic growth, particularly how effective direct and indirect taxes are. VAT and GST are examples of indirect taxes that are owing on the consumption of goods and services, as opposed to direct taxes, like income tax and corporation tax, which are charged on individuals and companies based on their incomes.

Taxes and economic development have been the subject of some empirical studies with differing success. Direct taxation, some claim, discourages economic performance through deterring entrepreneurial and investment efforts (Mendoza, Razin, & Tesar, 1994). Others believe that since indirect taxation does not explicitly discourage production efforts, indirect taxes can even be more successful despite being regressive (Martinez-Vazquez & McNab, 2000). This relationship is compounded by the quality of tax administration, tax compliance levels, and the extent of tax evasion; therefore, there is a need for comparative research on the impacts of direct and indirect taxation on economic development in different countries.

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Employing a data-driven approach, the present research attempts to examine the relative effects of direct and indirect taxes on economic development. The research aims to have a comprehensive knowledge of the optimal taxation system that fosters economic development by exploring existing literature in high-impact journals listed in Scopus, Web of Science (WOS), and other peer-reviewed articles and examining cross-country empirical data. The research will also consider context factors affecting the interaction between growth and taxes, including the level of fiscal development, the aspect of governance, and the fiscal approach.

It is expected that the findings of the study will contribute to ongoing debate regarding reforming tax policy, particularly for developing countries wanting to maximize the generation of revenues without sacrificing economic dynamism. This paper tries to contribute policy recommendations that may guide governments in designing tax systems that favour sustainable economic development without sacrificing social justice by drawing theoretical concepts together with empirical information.

II. LITERATURE REVIEW

1. **Neog, Y., & Gaur, A. K. :-** This study consider the long-run and short-run relationships between tax structures and state-level economic expansion in India from 1991 to 2016. Using panel regression methods, the authors find that income tax and goods –service tax skeptically affects economic growth, while property and capital agreement taxes have a significant positive brunt. The study advise that action makers should focus more on property taxes and reduce income taxes to foster faster growth in Indian states.

2. **Hakim, T. A. (2020) :-**Investigating the holding of direct and indirect taxes on economic growth and total tax revenue in 51 countries from 1992 to 2016, this study employs a dynamic panel generalized method of moments (GMM) evaluation. The decision indicate that direct taxes are significantly and negatively enforced with economic growth, while indirect taxes have a positive but inconsequential impact. Additionally, direct taxes contribute positiveness to total tax revenue related to indirect taxes, suggesting that while direct taxes may hinder economic growth, they are more efficient in revenue collection.

3. **Empirical Evidence by RBI (2020):-** The Reserve Bank of India offers empirical evidence on the effect of taxation on GDP, indicating that an evenly balanced tax structure, with efficient implementation and compliance, directly adds to economic growth by boosting revenue mobilization and public sector investment.

4. **Vintilă, G., Gherghina, Ș. C., & Mitan, A. (2023):-** This research investigates the accord between direct taxation and economic growth across EU countries. Utilizing panel data regression analysis, the study finds that higher personal and corporate income tax rates are negativeness correlated with economic growth. The authors suggest that reducing direct tax rates could stimulate economic activity and enhance growth within the EU.

5. **Macek, R., & Janků, J. (2021):-** Analysing OECD countries, this study assesses how distinct types of taxes influence fiscal growth. The findings indicate that corporate income taxes have the most detrimental effect on growth, chased by personal income taxes. Consumption taxes appear to be less harmful. Every study recommends tax policy adjustments favoring indirect taxes to promote economic expansion.

6. **Dackehag, M., & Hansson, Å. (2022): -**This empirical analysis the effect of income taxation on economic growth in 25 affluent OECD countries. The results suggest that both personal and corporate income taxes negatively shock growth, with corporate taxes exhibiting a more pronounced effect. The study advocates for tax policy amend that lower income tax rates to stimulate economic performance.

7. **Lee, Y., & Gordon, R. H. (2020): -**Revisiting the relation between tax arrangement and economic growth, this study finds that countries with lower corporate tax rates experience higher growth rates. The authors argue that reducing corporate taxes can lead to increased investment and economic expansion.

8. **Arnold, J. M., Brys, B., & Vartia, L. (2021):-**This paper discusses optimal tax policies for fostering economic recovery and growth. It emphasizes that shifting the tax burden from direct to indirect taxes can enhance economic performance by encouraging work and contribution while maintaining revenue neutrality.

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9. **Gemmell, N., Kneller, R., & Sanz, I. (2022):-** Investigating the growth effects of various tax rates in OECD countries, this study concludes that higher income tax rates are identical with lower economic growth, whereas expenditure taxes have a less adverse impact. The authors suggest that tax structures favouring indirect taxes may be more conducive to growth.

10. **Das and Saha (2019) analysis:** Das and Saha examine the effect of GST implementation on Indian GDP growth, indicating that although initial shocks were witnessed, GST has the potential to simplify tax compliance, increase revenue collection, and make a positive improvement to long-term economic success.

Objective

1. To compare the growth rate of direct tax and indirect tax of India.
2. To determine the accord between the collection of both taxes and the growth of the economy.
3. To study the relation between tax revenue and economic growth.

III. RESEARCH METHODOLOGY

The research employs a comparative research design in investigating the implications of direct and indirect taxes in India. With this design, it is possible to analyse thoroughly the two tax forms by drawing comparisons on their impact on all aspects of the economy, including growth, raising revenue, and distributional outcomes. By comparing both the tax systems, the study aims to place into perspective the merits and demerits of each system. Such a framework provides greater insight into how each tax influences economic growth and fiscal policy in India. The findings will provide the policymakers with valuable suggestions for framing an effective tax structure.

The research is graphical and logical
Descriptive: It is a depiction of direct and indirect taxes and how they are used to create income.
Analytical: It investigate the relationship between GDP growth and taxation, utilizing statistical analysis to explain the data gathered.

IV. DATA COLLECTION

The study is based on secondary data, implying that it does not collect fresh data but uses already available sources. The primary sources are Government documents (such as Union Budget paper, Reserves Bank of India report), Scholarly journals and research articles on tax policies, Fiscal policy publications containing official statistics and tax reforms, GST newsletters, economics survey and Indian Government budgets

3.1 Data Analysis Techniques

The study utilizes qualitative and quantitative analysis in determining the consequences of tax revenue on economic growth. The statistical tools utilized are:

3.2 Statistical Technique:

Correlation Analysis: Identifies if there is any connection between income from direct taxes and indirect taxes and GDP growth.
Trend Analysis: Discusses the changes in tax revenue over time.
Graphical Representation: Uses tables and charts to portray comparisons and trends.

3.3ComparativeAnalysis: Compares the growth in tax revenue for the period between 2014 to 2024.Evaluates the interest of total tax revenue, GDP, and structure of direct and indirect taxes.

3.4 Data Analysis and Finding

The correlation between tax revenues and GDP growth is an important indicator of the economic well –being of a nation since taxation has a direct impact on government revenue, investment, and public expenditure. This research examines the correlation among total tax revenues, direct taxes, and indirect taxes with GDP growth between 2014 and 2024. Knowledge of these correlation assistant in estimating how taxation policies drive economic growth, fiscal stability, and business evolution. Direct taxes, as well as income and corporate tax, tend to have a greater leverage

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on GDP since they mirror high earnings and investments. Indirect taxes, such as GST and customs duty, are related to consumption and demand in the market, impacting revenue stability. Positive interaction between tax revenue and GDP indicates that economic expansion contributes to increased tax collection, which enhances government coffers. Economic declines lower tax revenue, restricting fiscal policies. interrogating these figures support policymakers to craft well-balanced tax rules that promote healthy growth. Tax policies can be aligned with economic goals by the government to ensure maximum revenue realization while promoting economic strength.

Correlation abide a statistical value that quantifies the relationship between two variables. It shows if there is an increase or decrease in one variable and either an increase or a decrease in another.

- **Positive correlation** is when one variable boost as the other also rises.
- **Negative correlation** is when one variable boost as the other falls.
- **No correlation** is when there is no pattern between the two variables.

Correlation Coefficient (r)	Strength of Relationship	Interpretation
0.0 to 0.1	Very Weak or No Correlation	Little to no relationship between variables.
0.1 to 0.3	Weak Positive Correlation	A small positive relationship. As one variable increases, the other slightly increases.
0.3 to 0.5	Moderate Positive Correlation	A moderate positive relationship. Variables tend to increase together, but not perfectly aligned.
0.5 to 0.7	Strong Positive Correlation	A strong positive relationship. As one variable increases, the other increases significantly.
0.7 to 1.0	Very Strong Positive Correlation	A very strong positive relationship. As one variable increases, the other almost perfectly increases.
-0.1 to -0.3	Weak Negative Correlation	A small negative relationship. As one variable increases, the other decreases slightly.
-0.3 to -0.5	Moderate Negative Correlation	A moderate negative relationship. As one variable increases, the other decreases.
-0.5 to -0.7	Strong Negative Correlation	A strong negative relationship. As one variable increases, the other decreases significantly.
-0.7 to -1.0	Very Strong Negative Correlation	A very strong negative relationship. As one variable increases, the other almost perfectly decreases.

Financial Year	Direct taxes	Indirect Taxes	Total Taxes	GDP Growth Rate
2014-15	6,95,792	5,43,215	12,39,007	10.45%
2015-16	7,41,945	7,11,885	14,54,180	8.25%
2016-17	8,49,713	8,61,515	17,11,228	13.23%
2017-18	10,02,738	9,15,256	19,17,994	11.30%
2018-19	11,37,718	9,37,322	20,75,040	10.46%
2019-20	10,50,681	9,53,513	20,04,194	6.29%
2020-21	9,47,176	10,74,809	20,21,985	-1.22%
2021-22	14,12,422	12,89,662	27,02,084	19.34%
2022-23	16,63,686	13,81,935	30,45,621	14.21%
2023-24	19,60,166	14,95,853	34,56,019	9.60%

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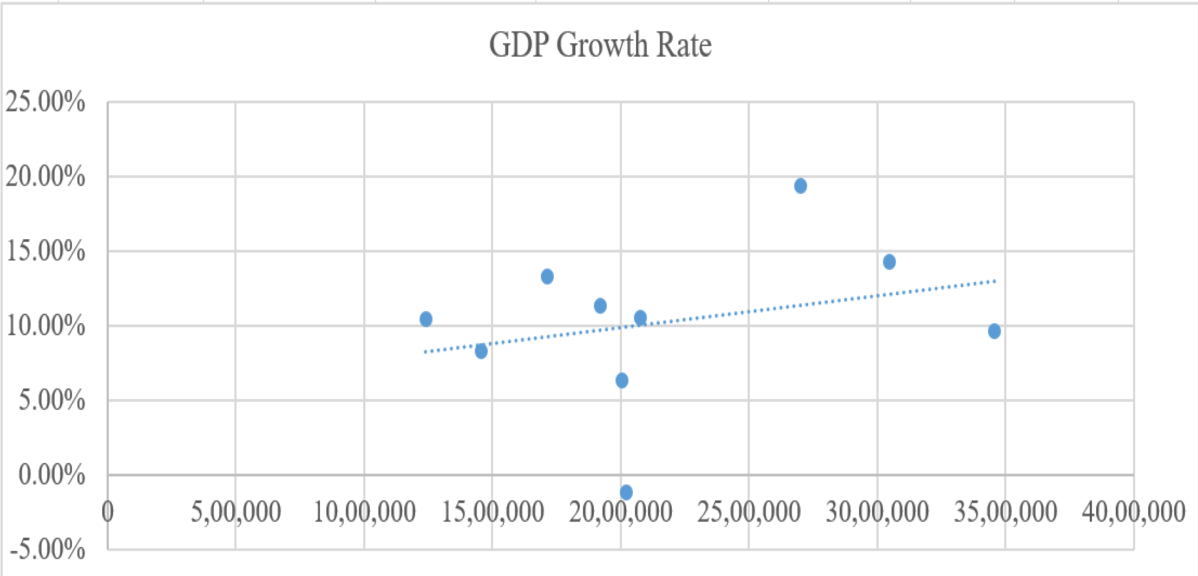
Therefore, we investigate how changes in revenue from taxes are associated with changes in the rate of GDP growth. Correlation Overview Utilizing Statistical Analysis of correlation, the correlation between tax revenues and the amount of GDP growth was evaluated.

3.5 Interpretation of correlation values



- **Total Taxes and GDP Growth Rate (0.2778):**

The 0.2778 correlation coefficient between total tax revenues and GDP growth indicates a weak favorable connection, which is that tax income rise as GDP expands but the relationship is not strong. This means that other economic variables, including investment levels, consumer spending, international trade conditions, and government procedures, have a higher influence on GDP growth.

	Total Taxes	*GDP Growth Rate*
Total Taxes	1	
GDP Growth Rate	0.277804159	1

- **Direct Taxes and GDP Growth Rate (0.3156):**

Direct taxes are positively associated to the growth rate of GDP at a moderate level. This means that corporation and income taxes increase when the growth rates of GDP increase. This implies that elevated individual and corporate incomes have a better correlation with the growth of the thrift.

	GDP Growth Rate	*Direct taxes*
GDP Growth Rate	1	
Direct taxes	0.315584772	1

➢ **Indirect Taxes vs. GDP Growth Rate (0.2166):**

There is a weak favorable correlation between indirect taxes (like Goods and Services Tax) and GDP growth. This means that however consumption and expenditure drive GDP growth, their outcome is not as direct as that of direct taxes.

	GDP Growth Rate	Indirect Taxes
GDP Growth Rate	1	
Indirect Taxes	0.216597186	1

3.6 Policy Implications

- ✓ **Direct Tax Compliance Focus:** Policymakers must ensure that they make direct tax compliance a top focus and widen the tax base as it is stronger correlated with growth.
- ✓ **Economic Diversification:** As there is not high correlation, focusing only on the tax revenues as a driver for economic projections would be insufficient. Fostering various growth levers such as investment, innovations and infrastructural development becomes imperative.
- ✓ **Revenue Balanced Tax Policies:** Having balanced direct and indirect tax policies could support long-term economic growth as well as revenue stability.

The correlation analysis shows that direct taxes have one stronger connection with GDP growth than indirect taxes and total taxes. While the relationships are positive, they are comparatively weak, suggesting that economic performance is influenced by sever al factors. Further research may investigate casual mechanisms and the impact of exogenous variables on the tax -GDP relationship.

3.7 FINDINGS

The research analyses the aftermath of direct and indirect taxes on India's GDP expansion between 2014 and 2023 based on a comparative research design with descriptive and analytical methods. Using secondary data from government publications and academic literature, it adopts statistical techniques such as correlation and trend analysis. Outcome indicate that direct taxes (corporate tax and income tax) accept a higher positive correlation along GDP growth (0.3156) than indirect taxes (GST and customs duty) at 0.2166, although total tax revenue correlates weakly with GDP (0.2778). Although there is a general upward trend in tax revenue, economic recessions, like the one in 2020, resulted in declines. The study recommends that policymakers increase direct tax compliance, diversify economic growth drivers, and achieve a balanced tax policy to ensure revenue stability and long-term economic resilience.

IV.CONCLUSION

Taxation has a significant function in determining the economic growth of a democracy through its impact on investment, consumer spending, and government income. In this research, the brunt of direct and indirect taxes on fiscal growth have been analyzed with respect to their different effects on GDP growth. Direct taxes like income tax and corporate tax abide likely to have a more direct and stronger link with economic growth since they directly impact investment choices, employment, and disposable incomes. Indirect taxes like GST and excise duties impact economic activity mainly through consumption but have a comparatively weaker link with GDP growth.

Although taxation is important to raise government revenue, its structure and effectiveness will gauge its overall effect on economic growth. A balanced tax system can increase compliance, enhances government revenue, and help create a conductive business and consumption environment. Excessive tax burdens, especially in the form of direct taxation, can deter investment and lower disposable income, hence hindering economic growth. In the same vein, too much dependence on indirect taxes will create inflationary pressure and subject the poor to an unequal burden.

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The results of this research emphasize the importance for policymakers to find a balance between direct and indirect taxation in support of sustainable economic development. Taxation procedures to be used to expand the tax base, increase compliance, and reduce distortions that would critically affect economic productivity. Also, policies such as tax incentives for companies, progressive tax regimes, and good implement systems can assist in maximizing tax revenue while maintaining economic stability. Subsequent research may further examine the casual association between economic growth. A subsequent research may further examine the casual association between economic growth and taxation by including more macroeconomic variables like inflation, fiscal balances and international trade policies. Comparative analysis among various economies or states within a nation may yield valuable lessons on best practices in tax policy making. Through careful design of tax structures that are fair, efficient, and growth-oriented, governments can establish an enduring economic system that promotes long-term development and prosperity.

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