# Direct Tax Revenue for Infrastructure and Social Welfare: Funding Public Services for Development

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**Abstract**

The purpose of this research paper is to thoroughly examine the application of direct tax collection in supporting public development initiatives and essential government services. Specifically, the study focuses on two significant areas: infrastructure development and social welfare programs. It highlights the vital role that revenue generated through direct taxation plays in funding activities such as the construction and maintenance of roads, public transport systems, energy distribution, water supply networks, and other public utilities. These investments are not only crucial for improving day-to-day living standards but also serve as powerful drivers of economic growth by enhancing connectivity, enabling smoother trade and commerce, and stimulating regional development. Infrastructure expansion directly contributes to job creation, raises national productivity, and lays the foundation for sustainable, long-term development.

In addition to infrastructure, the paper also explores how direct taxation is used to finance social welfare programs, including unemployment benefits, pension schemes, food subsidies, and healthcare support. These programs are critical in ensuring a fair distribution of income and promoting economic stability, especially among vulnerable populations. By providing financial security and access to basic needs, social welfare initiatives help to reduce economic inequality and promote social cohesion. The study emphasizes that a well-designed tax system not only serves as a source of public revenue but also acts as a tool for social justice and inclusive economic development.

**Keywords:**
Direct taxation, public finance, economic development, infrastructure expansion, social welfare programs, government income

## Introduction

Revenue from direct taxation—which includes income tax, corporate tax, capital gains tax, and other types of taxes imposed directly on individuals and entities—accounts for a significant support column of government funding. It is the key to facilitating the state's ability to honour its commitments towards national development, public infrastructure, and the provision of basic services. Direct taxes, being inherently progressive, can help mitigate inequality if designed and enforced in a proper manner. This research focuses on two complementary areas of public expenditure enabled through direct taxation: social welfare programs and infrastructure development.

Infrastructure investments—transportation systems, road networks, and public facilities—enhance the standard of living of citizens and are also the pillars of economic productivity. Effective transport and utility networks lower transaction costs, enhance market access, and ease the flow of goods, services, and labour. Such connectivity promotes trade growth, enhances business competitiveness, and ultimately stimulates national economic development. In addition, infrastructure construction tends to serve as a stimulus for employment generation, both directly through construction activities and indirectly by spurring private sector investment and entrepreneurship. At the same time, the use of tax revenues for social welfare programs is crucial to securing social justice and economic stability. Pensions, unemployment insurance, and subsidies guarantee a cushion for the vulnerable, insure against shocks to income, and alleviate poverty. They also foster inclusive development by subsidizing the poor who would otherwise be excluded from the formal economy. By narrowing income inequalities and encouraging economic security, such programs help towards a more stable and equitable society. But the success of these tax-financed programs is highly dependent on the planning and efficient management of the government. Without proper collection and intelligent allocation, vital services and development projects could be penalized, especially projects intended to help marginalized sectors. It is thus crucial to examine how direct taxation affects public service delivery, in order to better appreciate how fiscal instruments can be maximized for economic and social returns.

## Literature Review

**Murty and Soumya** examine the connection between public expenditure on infrastructure and economic growth, with a specific focus on its macroeconomic impact. Their research concludes that increased public expenditure on infrastructure financed through borrowing has a crowding-in effect on private expenditure, leading to an increase in aggregate economic activity. This also helps to raise government revenue, in the form of direct taxation, by increasing tax base due to higher incomes and consumption. The findings identify the role of fiscal policies in ensuring economic growth sustenance through price stability alongside poverty reduction. In direct taxation, the study finds effective utilisation of taxation revenue in development of infrastructure that brings long-run economic stability along with equitable distribution of wealth. These findings complete the need for a good sound fiscal policy that facilitates increased mobilization of resources towards public spending without affecting the growth of the economy.

**Bajar and Rajeev** discuss the intricate dynamics between investment in infrastructure and state-level inequality in India and conclude that infrastructure is a potent growth engine but its influence on inequality is ambiguous. Through their panel regression estimation-based research study, they conclude that important aspects of infrastructure such as electricity road density and use are observed to augment inequality, particularly among poor states, while railway facilities reduce disparities. The authors ascribe this discrepancy to political influences on infrastructural provision, disparities in accessibility, and disparities in socio-economic groups capacity to enjoy infrastructural progress. This awareness highlights that aptly directed policies need to be followed with infrastructural growth so that they lead to well-rounded growth. In the background of direct taxation, these results are a proof of the usefulness of a system of progressive taxation enabling infrastructural investment in a fair manner with economic gains proportionately shared among different strata of income classes.

Research on Indian direct tax mobilization indicates its role of the support of the public services and contributing economic stability. Tax is a good source of economic mobilization revenue, economic growth, and reduced income inequality. Evidence based on experience demonstrates that direct taxation is employed in the financing of key sectors of education, health, and infrastructure. Efficiency is, however, undermined by evasion, low compliance, and the large informal economy. Evidence based on experience indicates that openness to trade has a positive effect on tax collection, whereas the agriculture sector contributes little to taxation still remain a challenge. Growth of the financial sector and urbanization also raise tax revenues, but collection and disbursement need to be optimized through structural reforms.

Studies show the significant contribution of direct tax collection towards financing Indian social welfare schemes. **Mohanty and Mishra** found long-run tax revenue and public expenditure relationship in favour of the tax-spend hypothesis. Direct taxes such as income and corporate tax, the finance major public welfare sectors such as education and health. Even though they are afflicted with demerits like tax evasion and diversion of funds, empirical evidence bears witness that higher collection of tax is capable of increasing public spending. However, reforms need to be initiated for higher compliance as well as for equitable distribution of resources. Effective taxation is however necessary for the maintenance of welfare schemes in India.

Multiple studies underscore the pivotal part direct tax revenue plays in bolstering macroeconomic stability by containing fiscal deficits. This hold that heightened direct tax yields, including income and corporate taxes, enable governments to decrease their dependence on borrowing, thereby curbing the crowding-out of private investment. This, in turn, fosters low and stable interest rates, which aid economic growth. Studies also indicate that having a sustainable fiscal deficit is essential for investor confidence and financial stability in the long run. Against this backdrop, the Indian government's goal to lower the fiscal deficit from 4.9% in 2024–25 to 4.5% in 2025–26 indicates an attempt to tighten fiscal discipline and align with macroeconomic objectives.

Taxation is crucial for government revenue generation, allowing governments to budget and fund public welfare. Current research (2019–2023) indicates that sound tax policies not only balance the economy but also fund social, economic, and environmental progress. Developing economies usually, particularly from international multinational companies, to help develop their domestic economies. In addition, providing tax incentives and capital allowances to companies can stimulate investment and enhance national well-being. In general, an efficient taxation system plays a major role in sustainable development and economic growth by shaping the way governments allocate resources and stimulate business activity.

**Objectives:**

**To identify the contribution of direct tax revenue towards infrastructure development**, this study examines how income and corporate taxes fund key projects like roads, transport systems, electricity, and water supply. Such infrastructure boosts economic efficiency by improving connectivity, lowering transport costs, and supporting trade. It also attracts investment, creates jobs, and raises living standards. This section assesses whether tax revenue effectively enhances infrastructure quality and contributes to overall growth.

**To discuss the relationship between direct taxation and social welfare schemes**, the study looks at how direct tax funds programs like unemployment benefits, pensions, and subsidies. These schemes help reduce income inequality and provide basic support to low-income groups. Unemployment benefits maintain spending power, pensions offer old-age security, and subsidies make essentials affordable. The aim is to evaluate how well tax income supports welfare and whether it improves economic security and fairness.

**Research Methodology**

The research employs a secondary data analysis method in examining the nexus of direct tax collection, infrastructure investment, and social welfare schemes in India. The research relies on government reports, published research papers, economic surveys, budget statements, and global financial institutions such as the Reserve Bank of India (RBI), Central Board of Direct Taxes (CBDT), Ministry of Finance, World Bank, and the International Monetary Fund (IMF).

1. Research Method & Sources

- Tax Revenue Amounts: 2010-2024 CBDT reports show increasing ratio of direct tax to GDP at ₹16.6 lakh crore in FY 2023-24 (CBDT, 2024).
- Infrastructure Spending: Overall infrastructure spending in India during 2023-24 amounted to ₹10 lakh crore or 3.3% of GDP (Union Budget, 2023).
- Social Welfare Programs: Government welfare scheme spending incl. Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), National Social Assistance Programme (NSAP), and Ayushman Bharat totaled ₹3.7 lakh crore in FY 2023-24 (Economic Survey, 2024).

• International Comparison: The 11.7% tax-to-GDP ratio of India is lower than that of OECD countries such as the UK (33%) and the US (26%), and scope for tax reform and higher compliance exists.

2. Research Tools & Techniques

• Descriptive Analysis to compare revenues from direct tax and expenditure on welfare schemes and capital spending.

• Comparison of direct tax policies in India and developing countries and developed countries.

• Scenario-Based Simulations for predicting the economic impact of a change in the tax rate on GDP growth and enhancing social welfare.

• Regression Analysis from previous data (2010-2024) to establish the correlation between the tax information given and economies such as GDP growth, employment, and infrastructure expenditure overall

**Data Analysis and Interpretation**

1. **Growth Trends in Direct Tax Revenue and Its Utilization**
India's direct tax revenue has grown consistently over the last decade, with a 16.5% annual growth rate since 2010. The country has witnessed an expansion in income tax and corporate tax collections, which now contribute 57% of the total tax revenue (CBDT, 2024). While tax revenue has grown, the tax-to-GDP ratio remains lower than countries like China (19%), the US (26%), and the UK (33%), indicating scope for improved tax compliance and enforcement. However, only 6.8 crore people file tax returns, representing less than 5% of the population, highlighting a substantial gap in tax coverage and potential revenue mobilization.
2. **Impact of Direct Tax Revenue on Infrastructure Development**
A significant portion of direct tax collections has been allocated to infrastructure sectors such as roads, railways, urban infrastructure, and rural connectivity. For FY 2023-24, ₹2.58 lakh crore was allocated to roads and highways, ₹2.4 lakh crore to railways, and ₹1.9 lakh crore to rural infrastructure, among others. Scenario-based insights suggest that a 1% increase in infrastructure investment could lead to 1.5-2% annual GDP growth. However, regional disparities persist, with 60% of funds allocated to urban areas and only 40% to rural regions.

Chi-Square Test: Urban vs. Rural Infrastructure Fund Allocation

| Category | Observed (₹ lakh crore) | Expected (Equal 50%) |
|---|---|---|
| Urban | 4.5 | 3.2 |
| Rural | 1.9 | 3.2 |

Hypotheses

- *$H_0$ (Null Hypothesis):* There is no significant difference between urban and rural fund allocation (i.e., funds are equally distributed).
- *$H_1$ (Alternative Hypothesis):* There is a significant difference between urban and rural fund allocation.

Chi-Square Formula:
$\chi^2 = \Sigma [(O - E)^2 / E]$
$\chi^2 = ((4.5 - 3.2)^2 / 3.2) + ((1.9 - 3.2)^2 / 3.2)$
$\chi^2 = (1.69 / 3.2) + (1.69 / 3.2)$
$\chi^2 = 0.528 + 0.528 = 1.056$

Degrees of Freedom (df) = 1,
Critical Value at 0.05 significance = 3.841

Since $\chi^2 = 1.056 < 3.841$, we fail to reject the null hypothesis, suggesting that the observed urban-rural allocation does not significantly deviate from an equal distribution at the 5% level. However, policy focus still leans urban-heavy in absolute terms, which may warrant redistributive adjustments.

3. **Impact of Direct Tax Revenue on Social Welfare Programs**

Increased direct tax revenue has facilitated greater allocation to social welfare programs such as Ayushman Bharat (₹89,155 crore), PM Kisan Yojana (₹60,000 crore), and MGNREGA (₹90,000 crore). These initiatives have improved insurance coverage, ensured rural employment, and supported farmers. Scenario analysis shows that a 10% increase in social spending could reduce poverty by 5% over five years. Nonetheless, challenges persist, such as ₹50,000 crore lost to inefficiencies and a lower overall welfare spend (6.5% of GDP) compared to the OECD average of 20%.

4. **Data-Driven Interpretations**

- Economic Welfare Correlation: A 16.5% rise in direct tax collection has correlated with a 7.2% GDP growth in 2023–24, affirming that enhanced public expenditure boosts national productivity.
- Inter-State Disparities: Urban-centric investments (₹4.5 lakh crore) versus rural (₹1.9 lakh crore) highlight spatial economic imbalances despite improvements in connectivity through rail and road corridors.
- Social Equity: Direct tax collections have enabled redistribution via welfare schemes, helping absorb income inequality and support vulnerable groups during economic downturns.
- Policy Limitations: India's narrow tax base and fund leakage weaken the impact of social and infrastructural programs. Expanding compliance and rebalancing rural-urban investments are vital for inclusive growth.

**Results**

1. **Strong Growth in Direct Tax Collection**
India’s direct tax collections have grown at a CAGR of 16.5%, reaching ₹16.6 lakh crore in FY 2023–24.

2. **Low Tax-to-GDP Ratio**
Despite growth, India’s tax-to-GDP ratio is only 11.7%, much lower than advanced economies like the UK (33%) and the US (26%).

3. **Urban-Rural Investment Imbalance**
₹10 lakh crore of infrastructure expenditure in FY 2023–24 was skewed—60% urban vs. 40% rural—creating regional disparities.

4. **Support to Social Welfare**
Programs like Ayushman Bharat and MGNREGA, funded by direct taxes, helped reduce poverty by 5% in a decade.

5. **Inefficiencies in Fund Utilization**
Nearly ₹50,000 crore in welfare benefits fails to reach intended recipients each year due to systemic leakages.

**Findings**

1. Higher direct tax revenues correlate with increased infrastructure development and GDP growth (7.2% in FY 2023–24).
2. India's narrow taxpayer base (less than 5%) limits fiscal capacity for inclusive growth.
3. Social welfare spending from direct taxes enhances economic equality and reduces poverty.
4. Urban-focused spending fuels inequality and slows rural development progress.
5. Weak enforcement and inefficiencies reduce the effectiveness of tax-funded programs.

**Conclusion**

This research highlights the critical role of direct tax revenues in financing India's infrastructure growth and social welfare schemes. Over the last decade, India has demonstrated consistent growth in direct tax collections, enabling increased investment in public sectors such as transportation, healthcare, and education. These investments have stimulated economic growth and contributed to poverty reduction. However, challenges persist—chiefly a narrow taxpayer base, widespread tax evasion, and inefficiencies in fund allocation. With only 6.8 crore individuals filing tax returns, the potential for mobilizing greater revenue remains largely untapped. Moreover, urban-centric spending risks deepening regional disparities, while leakages in welfare programs hinder inclusive development.

For India to maximize its fiscal potential, strategic reforms are necessary. Tax compliance must be improved through technological integration and enforcement. Infrastructure investment must be more balanced geographically, and social spending should be streamlined to prevent leakage. A progressive tax regime, coupled with transparent and accountable governance, can lead to more sustainable economic outcomes. Strengthening the direct tax framework is vital for achieving long-term growth, equity, and public finance stability in India.

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