International Journal of Scientific Research in Engineering and Management (IJSREM)
Volume: 10 Issue: 02 | Feb - 2026 SJIF Rating: 8.659 ISSN: 2582-3930

Impact of Taxation Policies of the Union Budget on Economic Growth in India

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Abstract

Taxation is one of the most influential policy instruments through which the government shapes economic behaviour and economic growth. In a developing economy like India, taxation policies announced through the Union Budget play a crucial role in revenue mobilisation, consumption patterns, investment decisions, and long term economic stability. The Union Budget acts as the primary platform where changes in tax rates, exemptions, compliance mechanisms, and structural tax reforms are introduced with the objective of supporting economic growth.

This study examines the impact of taxation policies introduced through the Union Budget on economic growth in India. The focus of the study is specifically on taxation related measures, including direct taxes, indirect taxes, tax compliance initiatives, and tax efficiency indicators. The study analyses how changes in taxation policy influence key economic growth indicators such as gross domestic product growth, tax to GDP ratio, and revenue performance. The research is based on secondary data collected from Union Budget documents, Economic Survey reports, and official tax statistics. The findings indicate that taxation reforms aimed at simplification, compliance, and broadening of the tax base have supported economic growth by creating a stable and predictable fiscal environment. The study highlights that taxation contributes to growth indirectly by strengthening fiscal capacity and reducing uncertainty in the economy.

Key words

Union Budget, Taxation Policy, Economic Growth**,** Tax Compliance India

Introduction

Economic growth remains one of the primary objectives of public policy in any developing economy. In India, the pace and sustainability of economic growth are closely linked to fiscal policy decisions taken by the government, particularly those related to taxation. Taxation serves not only as the main source of government revenue but also as a powerful instrument for influencing consumption, savings, investment, and overall economic activity. The Union Budget plays a central role in

defining taxation policy by announcing changes in tax rates, exemptions, incentives, and compliance measures for each financial year.

Taxation policies affect economic growth through multiple channels. Changes in personal income tax influence disposable income and household consumption, while corporate tax reforms affect business profitability and investment planning.

Indirect taxes influence prices of goods and services and thereby impact inflation and demand conditions. Through the Union Budget, the government attempts to strike a balance between mobilising adequate revenue and promoting economic growth.

In recent years, India has undertaken significant taxation reforms through the Union Budget. Measures such as restructuring of income tax slabs, reduction in corporate tax rates, and rationalisation of indirect taxes were aimed at simplifying the tax system and improving compliance. These reforms were introduced with the expectation that a simpler and more transparent tax system would encourage voluntary compliance, widen the tax base, and support economic growth.

However, the relationship between taxation and economic growth is complex. While lower tax rates may stimulate consumption and investment, they may also reduce government revenue in the short term. On the other hand, higher tax rates may improve revenue mobilisation but discourage economic activity if the tax burden becomes excessive.Frequent changes in taxation policy can also create uncertainty among taxpayers and businesses, affecting long term growth prospects.

Research Methodology

The study adopts a descriptive and analytical research design to examine the impact of taxation policies introduced through the Union Budget on economic growth in India. Descriptive analysis is used to understand changes in taxation policies, while analytical techniques are used to examine their relationship with economic growth indicators.

The study is based entirely on secondary data collected from reliable sources such as Union Budget documents, Economic Survey reports, official tax statistics published by the Government of India, and publications of the Reserve Bank of India. The study period covers recent financial years in order to capture the impact of major taxation reforms.

Key variables considered include direct tax revenue, indirect tax revenue, tax to GDP ratio, number of income tax returns filed, and gross domestic product growth rate. Data has been organised and analysed using trend analysis, comparative analysis, and correlation based interpretation, similar to methods used in Excel

Review of Literature

The relationship between taxation policy and economic growth has been widely examined in economic literature. However, most studies differ in their conclusions depending on the structure of taxes, level of compliance, and stage of economic development. In the Indian context, taxation reforms announced through the Union Budget have received increasing attention due to their potential impact on revenue mobilisation and growth.

Datt and Sundharam (2019) examined the role of direct taxes in influencing consumption and income distribution. Their study highlights that changes in personal income tax affect disposable income and thereby consumption demand, which is a key driver of economic growth. While their findings explain the theoretical link between taxation and growth, the study does not analyse taxation reforms announced through successive Union Budgets. As a result, the policy specific impact of budget driven tax changes on economic growth remains unexplored.

Mishra and Puri (2020) focused on corporate taxation reforms and observed that reductions in corporate tax rates improved business confidence and investment intentions. Their study suggests that a competitive tax structure can encourage private investment and support economic growth. However, the study primarily examines investment behaviour and does not evaluate whether corporate tax reforms led to sustainable revenue growth or improved tax compliance. The present study attempts to extend this analysis by linking corporate tax reforms with overall tax revenue performance and economic growth indicators.

The Economic Survey of India provides an annual assessment of taxation reforms, particularly indirect tax restructuring. According to Government of India (2022), the introduction of Goods and Services Tax simplified the indirect tax system and reduced tax cascading. The survey reports improvement in indirect tax collections and compliance over time. However, the analysis in the Economic Survey mainly focuses on revenue efficiency and does not explicitly assess how indirect tax stability contributes to economic growth. This study builds on the survey findings by examining the growth implications of indirect tax reforms.

Studies published by the Reserve Bank of India emphasise tax buoyancy and efficiency as key components of fiscal sustainability. RBI (2021) observed that improved tax compliance and digitalisation strengthened revenue mobilisation without increasing tax rates. While these studies highlight fiscal stability, they do not directly analyse the impact of taxation efficiency on economic growth. The present

study addresses this gap by linking tax to GDP ratio and compliance trends with growth outcomes.

International studies by the World Bank (2020) argue that a broad based tax system with lower rates and fewer exemptions supports long term economic growth in developing economies. Although these studies provide useful insights, they are based on cross country analysis and do not account for country specific taxation reforms introduced through annual budgets. This limits their applicability to the Indian context.

From the review of existing literature, it is evident that while taxation is recognised as an important determinant of economic growth, most studies either focus on individual taxes or analyse fiscal policy in general. There is limited research that comprehensively examines taxation policies announced through the Union Budget and their combined impact on economic growth in India. The present study attempts to bridge this gap by analysing direct taxes, indirect taxes, tax compliance, and revenue efficiency together in relation to economic growth.

Data Analysis

This section presents a comprehensive analysis of the impact of taxation policies introduced through the Union Budget on economic growth in India. The analysis is based on secondary data collected from Union Budget documents, Economic Survey reports, and official tax revenue statistics published by the Government of India. The collected data has been organised, tabulated, and interpreted using analytical techniques such as trend analysis, comparative analysis, and simple correlation analysis, similar to methods commonly used in Excel and SPSS. The focus of the analysis is on direct taxes, indirect taxes, tax compliance, tax to GDP ratio, and their relationship with economic growth.

Direct Tax Revenue and Economic Growth

Direct taxes, which include personal income tax and corporate tax, form a major source of government revenue. Over the years, the Union Budget has introduced several reforms in direct taxation, such as revision of income tax slabs, increase in exemption limits, and reduction in corporate tax rates. These reforms were aimed at improving compliance, increasing disposable income, and encouraging investment.

Table 1 Direct Tax Revenue and GDP Growth

Financial Year	Direct Tax Revenue in ₹ lakh crore	GDP Growth Rate in percent
2018 19	11.37	6.5
2019 20	10.50	4.0
2020 21	9.47	minus 6.6
2021 22	14.10	9.1
2022 23	16.64	7.2

The table shows that direct tax revenue declined during periods of economic slowdown, particularly during 2020 21 when economic activity was severely affected. However, a sharp recovery is observed in subsequent years. This increase occurred despite reductions in tax rates, indicating that improved compliance, expansion of the tax base, and digitalisation of tax administration played a significant role. The recovery in direct tax revenue coincides with improvement in GDP growth, suggesting a positive association between efficient direct taxation and economic growth.

Indirect Tax Revenue Performance

Indirect taxes are an important component of the tax system and have a direct impact on prices and consumption. The introduction of Goods and Services Tax significantly transformed the indirect tax structure in India. Continuous efforts through the Union Budget to simplify rates and strengthen compliance mechanisms have influenced indirect tax performance.

Table 2 Indirect Tax Revenue Performance

Financial Year	Indirect Tax Revenue in ₹ lakh crore
2018 19	10.04
2019 20	10.54
2020 21	10.71
2021 22	12.20
2022 23	13.80

The data indicates a steady increase in indirect tax revenue over the study period. Even during years of economic disruption, indirect tax collections remained relatively stable. This reflects improved compliance, increased formalisation of the economy, and effectiveness of indirect tax reforms. Stable indirect tax revenue supports economic growth by ensuring revenue certainty and reducing fiscal stress.

Tax to GDP Ratio Analysis

Tax to GDP ratio is a key indicator of tax efficiency and revenue mobilisation capacity of an economy. An improving ratio indicates better tax collection without increasing tax burden excessively.

Table 3 Tax to GDP Ratio

Financial Year	Tax to GDP Ratio in percent
2018 19	10.2
2019 20	9.9
2020 21	9.8
2021 22	10.5
2022 23	11.0

The table shows a decline in the tax to GDP ratio during the slowdown period, followed by a steady improvement. The increase in recent years reflects better tax compliance and efficiency rather than higher tax rates. An improved tax to GDP ratio strengthens fiscal capacity and supports economic growth by enabling government expenditure without excessive borrowing.

Analysis of Tax Compliance Trends

Improving tax compliance has been a major objective of taxation reforms announced through the Union Budget. Measures such as digital filing, data integration, and simplified procedures were aimed at widening the tax base.

Table 4 Growth in Number of Income Tax Returns Filed

Assessment Year	Number of Returns Filed in crore
2018 19	6.85
2019 20	6.74
2020 21	6.48

2021 22	7.28
2022 23	7.78

The increase in returns filed in recent years indicates improved compliance and expansion of the tax base. Higher compliance enables revenue growth without increasing tax rates, which supports sustainable economic growth.

Relationship Between Tax Revenue and Economic Growth

To further strengthen the analysis, a correlation based interpretation was applied to examine the relationship between total tax revenue and GDP growth. The analysis indicates a positive association between growth in tax revenue and economic growth, particularly in the post reform period. While taxation alone does not drive growth, stable and efficient tax systems create a favourable environment for investment and consumption.

Overall Interpretation

The combined analysis of direct taxes, indirect taxes, tax to GDP ratio, and compliance trends clearly indicates that taxation policies introduced through the Union Budget have played a supportive role in economic growth in India. Reforms focusing on simplification, transparency, and compliance have strengthened revenue performance and reduced uncertainty. The findings suggest that taxation contributes to economic growth indirectly by ensuring fiscal stability and encouraging productive economic activity.

Discussion

The findings of the study provide strong evidence that taxation policies introduced through the Union Budget influence economic growth in India primarily through revenue efficiency, compliance behaviour, and fiscal stability. Unlike studies that treat taxation as a purely revenue generating mechanism, this study highlights its broader role as a behavioural and structural policy instrument.

The increase in direct tax revenue despite reductions in tax rates supports the argument made by Mishra and Puri (2020) that tax efficiency and compliance are more important than high tax rates for sustainable revenue mobilisation. The findings suggest that digitalisation of tax administration and simplification of procedures have improved voluntary compliance. This confirms the observations of the Reserve Bank of India (2021), which emphasised compliance driven revenue growth. However, the present study goes further by linking improved compliance with economic recovery and growth trends.

The stable performance of indirect taxes after structural reforms supports the findings of the Economic Survey of India (2022), which reported improved revenue efficiency after simplification of the tax structure. The present study extends this finding by showing that stability in indirect tax revenue reduces fiscal uncertainty and supports consumption and business activity. This highlights the indirect role of taxation in supporting economic growth through price stability and predictability.

The improvement in tax to GDP ratio observed in recent years aligns with international findings reported by the World Bank (2020), which suggest that broad based taxation systems strengthen economic growth in developing economies. However, unlike cross country studies, the present research demonstrates this relationship in the specific context of Union Budget taxation reforms in India.

The analysis also indicates that taxation does not directly generate economic growth but acts as an enabling mechanism. This supports the view expressed by Datt and Sundharam (2019) that taxation influences growth through behavioural responses rather than direct output expansion. The present study contributes to the literature by showing that predictable and transparent taxation policies encourage consumption, investment, and compliance, which collectively support long term economic growth.

Overall, the discussion highlights that growth oriented taxation reforms must focus on stability, simplicity, and compliance rather than frequent rate changes. The findings reinforce the importance of taxation as a policy tool that supports economic growth indirectly by strengthening the fiscal foundation of the economy.

Conclusion and Scope for Future Research

The present study examined the impact of taxation policies introduced through the Union Budget on economic growth in India, with specific focus on direct taxes, indirect taxes, tax compliance, and tax efficiency. The findings of the study indicate that taxation policies play a critical role in supporting economic growth by improving revenue mobilisation through an expanded tax base rather than through higher tax rates. Reforms in income tax and indirect tax structure have strengthened tax compliance and enhanced the efficiency of tax collection.

The study highlights that simplified tax structures and predictable taxation policies encourage voluntary compliance among taxpayers. Measures such as rationalisation of tax rates, reduction of exemptions, and digitalisation of tax administration have reduced compliance burden and tax evasion. Improved compliance has led to higher tax revenue collections without increasing tax rates, which supports economic growth by ensuring stable and reliable public revenue.

The analysis also suggests that taxation policies influence economic growth indirectly by shaping taxpayer behaviour. Lower and stable tax rates improve consumption behaviour, while transparent corporate tax policies enhance investment confidence. The study confirms that effective taxation policy design focuses on efficiency, compliance, and stability rather than frequent rate changes or short term revenue targets.

The scope for future research is significant. Future studies may examine the impact of taxation policies on specific taxpayer groups such as small businesses, salaried individuals, and large corporations. Sector wise analysis of taxation impact can provide deeper insights into how tax reforms affect different segments of the economy. Further research using advanced econometric models and primary data can help establish causal relationships between taxation reforms and economic growth. Such research would support evidence based tax policy formulation in India.

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