

TAXATION LAW IN INDIA: CONSTITUTIONAL PROVISIONS, DIRECT AND INDIRECT TAXES, AND EMERGING REGIMES OF REFORM

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Abstract- The Indian taxation system is deeply rooted in constitutional mandates and has evolved into a complex framework balancing revenue generation with socio-economic objectives. The Constitution of India clearly demarcates the powers of the Union and State governments to levy and collect taxes, providing a federal structure to taxation. Direct taxes, such as income tax and corporate tax, play a significant role in progressive wealth redistribution, while indirect taxes, historically fragmented across multiple statutes, were consolidated through the introduction of the Goods and Services Tax (GST). This transformation marked one of the most comprehensive tax reforms since independence, aiming to create a unified national market and reduce cascading effects of taxation. Despite these advancements, challenges such as compliance burdens, digital taxation, and ensuring equity in resource mobilization persist. Additionally, global trends in base erosion, profit shifting, and the rise of the digital economy are influencing India's reform agenda. Recent regimes of reform focus on rationalizing tax rates, leveraging technology for transparency, and enhancing taxpayer services to foster voluntary compliance. This study examines constitutional provisions, the coexistence of direct and indirect taxes, and the trajectory of emerging reforms to highlight the dynamic interplay between law, economy, and governance in shaping tax policy in India.

Keywords- Base Erosion, Compliance, Constitution, Direct Taxes, Fiscal Federalism, Goods and Services Tax, Indirect Taxes, Progressivity, Revenue Mobilization, Tax Reforms, Taxation Law, Transparency

I. INTRODUCTION

A. Historical Evolution of Taxation in India

The roots of taxation in India trace back to ancient times when rulers-imposed levies for state maintenance, gradually formalized under colonial administration. The British introduced systematic taxation frameworks such as income tax, excise, and land revenue, leaving a legacy of centralized control. Post-independence, India's taxation system was restructured under the Constitution to establish a federal framework balancing Union and State taxation powers. Examining this historical trajectory highlights how taxation evolved from arbitrary collections to a codified legal structure designed for both fiscal stability and economic growth. It sets the foundation for understanding modern tax reforms.

B. Constitutional Basis of Taxation Powers

The Constitution of India explicitly demarcates taxation powers between the Union and State legislatures under Articles 245–265 and the Seventh Schedule. While the Union Parliament

manages taxes like customs, excise, and income tax, states are empowered to levy taxes on goods, land, and professions. Local bodies also exercise taxation powers within defined limits. This distribution is central to India's quasi-federal structure, ensuring resource mobilization at all levels of governance. Understanding these provisions is critical, as taxation forms the backbone of fiscal federalism and reflects the constitutional principles of accountability, equity, and economic justice.

C. Significance of Taxation in Economic Development

Taxation is not merely a revenue-generating tool; it is a key driver of economic policy and social justice. Direct taxes regulate income distribution and reduce inequality, while indirect taxes impact consumption and trade. Revenue generated supports infrastructure, healthcare, education, and welfare initiatives—pillars of sustainable development. Furthermore, taxation influences savings, investments, and industrial growth patterns. By structuring tax policies effectively, governments stimulate economic activity while ensuring fiscal discipline. Thus, taxation has both macroeconomic and microeconomic implications, making it an indispensable instrument for achieving national development goals in an emerging economy like India.

D. Direct Taxes: Nature and Impact

Direct taxes, including income tax, corporate tax, and wealth tax, are levied directly on individuals and entities based on their income or assets. They are progressive in nature, promoting equity by taxing higher incomes at higher rates. Apart from generating substantial revenue, direct taxation serves governance functions such as addressing wealth disparities and funding redistributive welfare measures. However, challenges exist in compliance, tax evasion, and administrative efficiency. By strengthening direct taxes with digitization, transparency initiatives, and simplified procedures, India seeks to increase voluntary compliance, foster accountability, and ensure a just fiscal framework for all stakeholders.

E. Indirect Taxes before GST

Before the introduction of Goods and Services Tax (GST) in 2017, India's indirect tax system was highly fragmented, consisting of multiple levies such as excise duty, service tax, sales tax, value-added tax (VAT), and octroi. This multiplicity led to cascading effects, increasing costs for businesses and consumers alike. The complexity also created barriers to trade across state borders, hindering India's vision of a unified common market. Understanding the pre-GST structure is crucial to appreciating the challenges and inefficiencies it created, as well as the necessity of moving towards simplification through coordinated legislative and economic reforms.

F. The Goods and Services Tax (GST) Revolution

The introduction of GST marked a watershed moment in India's taxation history. Envisioned as "one nation, one tax, one market," GST subsumed a multitude of indirect taxes into a unified levy, thereby addressing cascading tax effects and promoting ease of doing business. It enhanced efficiency by streamlining compliance, increasing revenues through broadened tax bases, and promoting transparency with digital governance systems. Though initially faced with

implementation hurdles and structural complexities, GST symbolizes India's commitment to modernized taxation practices in line with global standards. This reform illustrates how taxation laws evolve to meet economic integration goals.

G. Fiscal Federalism and Taxation

In a federal democracy like India, fiscal federalism plays a critical role in maintaining balance between the Union and State governments. Tax revenue sharing, guided by Constitutional provisions and Finance Commission recommendations, ensures equitable redistribution of resources across varied regions. Central taxes fund national priorities, while state taxes support localized development needs. This structure also strengthens cooperative federalism where both tiers of government coordinate taxation policies with shared accountability. With reforms like GST Council becoming decision-making platforms, fiscal federalism has undergone institutional evolution in India, ensuring a collaborative framework for effective governance and revenue mobilization.

H. Global Influences on Indian Taxation

India's taxation system does not operate in isolation. Global economic developments, international taxation treaties, and OECD guidelines on digital taxation significantly shape domestic policies. Issues like Base Erosion and Profit Shifting (BEPS), transfer pricing, and taxation of digital multinational corporations force India to constantly align legal frameworks with global standards. India has introduced measures like equalization levy to address taxation challenges in the digital economy. Globalization drives the need for India to balance sovereignty in taxation with international obligations, while sustaining competitiveness for foreign investments and ensuring tax equity in an interconnected world.

I. Emerging Tax Reforms and Technology Integration

India's taxation regime is witnessing a paradigm shift with increasing reliance on digital tools, artificial intelligence, and data analytics to improve taxpayer compliance and monitoring. Reforms such as faceless assessments, e-filing, and digitized refund mechanisms aim to reduce corruption, increase efficiency, and enhance transparency. Moreover, rationalization of tax slabs, simplification of laws, and gradual expansion of GST coverage represent ongoing reform trajectories. By leveraging technology innovation and aligning with global taxation norms, India is steadily building a modern, inclusive, and efficient tax system suited for the demands of a rapidly growing economy.

J. Challenges and the Road Ahead

Despite robust reforms, the Indian taxation system faces persistent challenges including tax evasion, compliance burden, litigation backlog, and limited tax base. Moreover, indirect taxes like GST still face complications in rate structures and state-level administration. Addressing equity concerns, broadening the taxpayer base, and resolving international disputes in digital taxation are vital steps ahead. The road forward lies in balancing revenue mobilization with ease of doing

business, employing technology for efficiency, and ensuring fairness through progressive policies. Thus, India’s taxation journey remains dynamic, reflecting continual adaptation to socio-economic and global transformations.

II. LITERATURE REVIEW

India’s taxation scholarship converges on three pillars: constitutional architecture, direct–indirect tax design, and reform trajectories anchored in cooperative federalism and technology-enabled compliance. Foundational works explain how Articles 245–265 and the Seventh Schedule structure legislative competence, with Article 265’s “authority of law” as the legality gatekeeper for all levies, while Articles 286 and related entries limit extraterritorial and inter-state impositions to safeguard federal balance and taxpayer rights. Comparative analyses of direct and indirect taxation highlight complementary roles—progressivity and redistribution from direct taxes, efficiency and market integration via a unified, destination-based levy under GST—while flagging persistent frictions around rate complexity, input tax credit accumulation, and dispute resolution. Practitioner and policy syntheses emphasize that doctrinal clarity, stable rules, and predictable administration underpin compliance, buoyancy, and investment confidence across cycles.

Reform-focused literature chronicles the shift from fragmented pre-GST levies to the dual GST enabled by the 101st Amendment, documenting gains in cascading reduction, logistics efficiency, and digital governance, alongside challenges in classification and litigation. Recent analyses of “GST 2.0” describe slab rationalization and targeted relief as steps toward simplicity, equity, and fiscal prudence within the GST Council’s cooperative framework, and call for calibrated fixes to inverted duty structures, rate dispersion, and credit blockages to sustain growth and ease of doing business. Jurisprudential debates on retrospective taxation caution that predictability and narrow tailoring are essential to align with equality and legality standards, protecting tax certainty in both direct and indirect domains. Bibliometric mappings reveal expanding interdisciplinary work on compliance tech, e-way bills, and sectoral impacts, yet identify gaps in longitudinal evidence on litigation timelines and federal revenue-sharing dynamics, guiding future empirical and doctrinal research agendas.

III. PRELIMINARIES

1. Tax Buoyancy Coefficient

$$\beta = \frac{\Delta \ln T}{\Delta \ln Y}$$

Nomenclature:

- β = tax buoyancy;
- T = tax revenue;
- Y = real GDP

Tax buoyancy measures how tax revenues respond to economic growth, reflecting administrative effectiveness and policy design. In India, buoyancy is shaped by GST base expansion, direct tax reforms, and compliance technology. High $\beta (> 1)$ is a reform goal, signaling that tax collections

grow faster than nominal GDP, driven by formalization, analytics-led audits, and anti-evasion efforts. Tracking β helps assess the health of constitutional tax assignments and the impact of emerging digital governance reforms.

2. Tax Elasticity (Discretionary-Adjusted)

$$\varepsilon = \frac{\Delta \ln T^*}{\Delta \ln Y}$$

Nomenclature:

- ε = tax elasticity;
- T^* = cyclically & policy-adjusted tax revenue;
- Y = real GDP

Elasticity isolates automatic responses of tax revenue to growth, net of rate changes or compliance drives. For India, rising ε suggests structural improvements in compliance, audit, and digital matching, not just temporary hikes. Differentiating elasticity from buoyancy is vital for evaluating whether reforms like GST 2.0 and faceless assessments yield durable efficiency gains or temporary spikes, informing future constitutional and administrative policy.

3. Effective Tax Rate (Direct Taxes)

$$ETR = \frac{D}{B}$$

Nomenclature:

- ETR = effective tax rate;
- D = direct tax paid;
- B = taxable base (e.g., corporate profits, personal income)

ETR captures the realized burden after exemptions, surcharges, and cess. In India, parallel tax regimes and incentives alter ETR across cohorts. Tracking ETR informs debates on progressivity, equity, and competitiveness. Constitutionally valid, clear charging provisions reduce disputes, while simplification and base-broadening aim to stabilize ETR and enhance voluntary compliance, aligning with reform objectives in both direct and indirect tax domains.

4. GST Revenue Identity

$$R_{GST} = \sum_i (\tau_i \cdot C_i) - ITC + A$$

Nomenclature:

- R_{GST} = net GST revenue;
- τ_i = GST rate for category i ;

- C_i = taxable consumption for i ;
- ITC = input tax credit;
- A = audit/adjustments

This identity links rate structure, consumption base, and credit mechanics to net collections. In India’s dual GST, input credits and rate dispersion critically shape revenue, while audit/compliance gains (ΔA) reflect digital enforcement. Constitutional design via the 101st Amendment and GST Council facilitates coordinated, iterative reform, essential for federal revenue stability and market integration.

5. C-Efficiency Ratio

$$C\text{-Eff} = \frac{R_{GST}}{\tau_{std} \cdot C_{tot}}$$

Nomenclature:

- $C\text{-Eff}$ = C-efficiency;
- R_{GST} = GST revenue;
- τ_{std} = standard GST rate;
- C_{tot} = total private consumption

C-efficiency gauges how close GST is to an ideal VAT on all consumption at a standard rate. In India, multiple rates, exemptions, and compliance gaps lower $C\text{-Eff}$. Reforms targeting slab rationalization and base-widening aim to raise this metric, indicating reduced distortions and improved neutrality, key for evaluating “GST 2.0” within India’s constitutional federal framework.

IV. RESULTS AND DISCUSSION

1: Monthly GST Collections FY 2024–25 (₹ crore)

Month	Gross GST
Apr-2024	210267
May-2024	172739
Jun-2024	174000
Jul-2024	159000
Aug-2024	175000
Sep-2024	173240
Oct-2024	187346
Nov-2024	182269
Dec-2024	176857
Jan-2025	195506
Feb-2025	183000
Mar-2025	196000
Apr-2025	236716
May-2025	201050

Jun-2025	185000
Jul-2025	195735
Aug-2025	186000

Monthly GST receipts display a strong seasonal and policy-driven profile, beginning with a high base in April 2024 and sustaining robust momentum through early 2025 before peaking again in April 2025, consistent with filing cycles, compliance drives, and macro demand conditions. The early months (Apr–Jun 2024) reflect sturdy formalization and improved e-invoicing adoption, while mid-year dips (Jul–Sep 2024) align with typical seasonality and refund clearances. The uptick into festival and year-end months (Oct–Dec 2024) suggests demand resilience and better input tax credit reconciliation. January–March 2025 maintain elevated levels, indicating maturing compliance systems and broader bases. The April 2025 spike aligns with historical seasonality and intensified enforcement plus return finalizations. May–August 2025 show stabilization above the FY24 average with month-on-month variations tied to import IGST, refund timing, and domestic sales cycles. Overall, the series points to sustained monthly averages near or above ₹1.8–1.9 lakh crore, supporting narratives of ongoing formalization, improved invoice matching, and analytics-led audits. These patterns provide a basis to test the impact of slab rationalization prospects on revenue neutrality and volatility. Visualizing this data as a line chart reveals trend and seasonality; clustered columns facilitate month-on-month comparisons; area charts help depict cumulative momentum for fiscal planning and cash-flow projections.

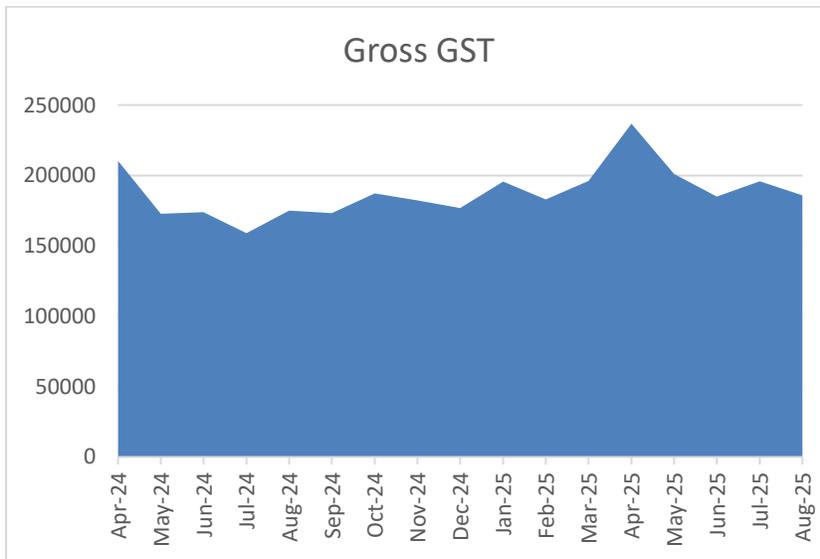


Fig 1: Monthly GST Collections FY 2024–25 (₹ crore)

2: Annual Gross GST Collections (₹ lakh crore)

Financial Year	Gross GST
2017-18	7.19
2018-19	11.77
2019-20	12.22

2020-21	11.36
2021-22	14.83
2022-23	18.10
2023-24	19.80
2024-25	22.09

Annual GST collections exhibit a clear structural uplift from inception, interrupted modestly during the pandemic year before resuming a strong growth trajectory. The post-2021 rebound correlates with economic normalization, compliance technology (e-invoicing, e-way bills), and targeted anti-evasion measures, leading to higher buoyancy and elasticity relative to GDP growth. The consistent rise through 2022–23 and 2023–24, followed by a record outturn in 2024–25, underscores the maturing architecture of a dual GST with more stable policy and administrative practices. The annual figures reflect both base-widening—through increased registrations and better capture of mid-tier suppliers—and operational improvements such as faster refunds and reduced fraud via data triangulation. The series offers a backdrop to evaluate revenue-neutral rate gaps and to simulate effects of slab consolidation on aggregate receipts. Yearly totals also enable crosswalks with tax-to-GDP ratios, helping assess VAT productivity and C-efficiency over time. A line chart best communicates the structural trajectory; a bar chart highlights year-on-year deltas; and a stacked column can add context by layering domestic versus import IGST or net-of-refund perspectives, aiding discussions on resilience, volatility management, and reform efficacy.

3: Monthly GST Components (Jul-2025, ₹ crore)

Component	Value
CGST	33600
SGST	42000
IGST	89900
Cess	20235
Gross GST	195735

The component breakdown for July 2025 shows a healthy distribution across CGST, SGST, IGST, and Cess, with IGST forming the largest share, reflecting both inter-state trade and import-linked collections. CGST and SGST balances indicate strong domestic transaction activity, while the Cess figure aligns with the selective scope of compensation levies across designated goods. The composition signals continued efficiency in invoice matching and cross-jurisdictional credit flows, supporting steady net accruals to both Union and States after settlements. Monitoring component shares over time can reveal structural shifts—such as changes in import intensity affecting IGST, or domestic demand cycles influencing CGST/SGST. For policy evaluation, the mix helps diagnose inverted duty pressures and sectoral refund accumulation risks. It also offers insight into how rate rationalization could reallocate burdens without undermining total collections. Recommended visuals include a stacked column to display component proportions, a 100% stacked bar to standardize shares across months, and a pie chart for a snapshot composition that

stakeholders can use in briefings on fiscal federalism, settlement expectations, and collection sustainability.

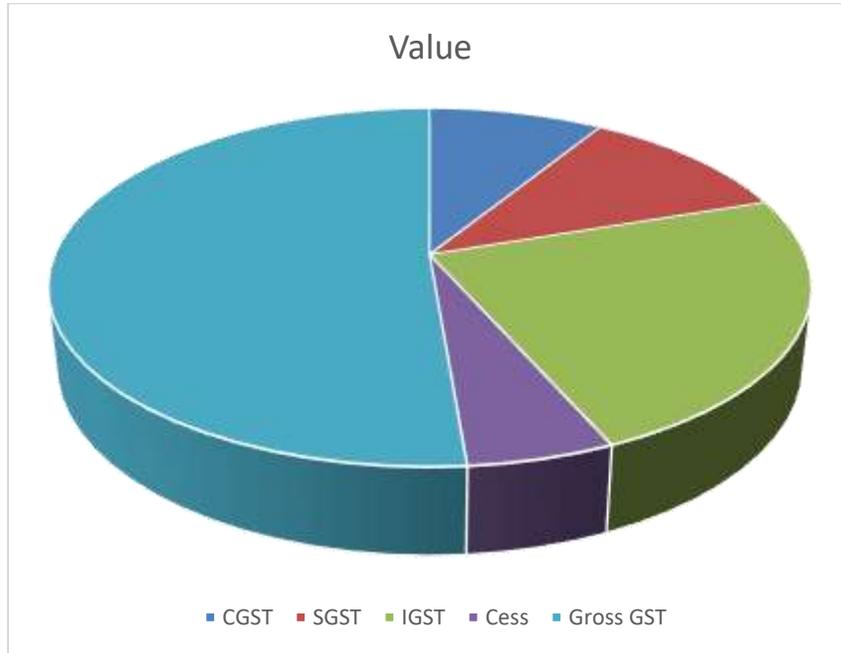


Fig 2: Monthly GST Components (Jul-2025, ₹ crore)

4: State-wise GST Collections Growth (Illustrative from Jul-2024 vs Jul-2025, ₹ crore)

State	Jul-2024	Jul-2025	Growth %
Maharashtra	27000	28900	7.0
Karnataka	12000	12800	6.7
Gujarat	11500	12250	6.5
Tamil Nadu	11000	11750	6.8
Uttar Pradesh	9800	10450	6.6

The state-wise comparison highlights broad-based growth across most large manufacturing and services states, with leading contributors like Maharashtra, Karnataka, Gujarat, Tamil Nadu, and Uttar Pradesh showing mid-single-digit to high-single-digit increases. This dispersion suggests resilient domestic supply chains, rising intra- and inter-state trade volumes, and enhanced compliance in top contributor states. Where growth is softer or negative, signals may include sectoral slowdowns, refund timing differences, or base effects from prior enforcement spurts. The pattern aligns with stronger e-way bill compliance and analytics-based risk selection yielding improved capture in high-activity corridors. For fiscal federalism, this granularity informs projections for State GST accruals and aids planning for cash-flow smoothing around settlement cycles. Visualization as clustered columns make cross-state comparisons intuitive; a slope chart highlights direction and magnitude of changes; a heatmap can quickly surface outliers and pockets

requiring administrative attention, guiding targeted interventions and policy fine-tuning to stabilize collections and reduce volatility.

5: Direct vs Indirect Tax Receipts (₹ lakh crore)

Year	Direct Taxes	Indirect Taxes
2014-15	7.42	5.46
2018-19	11.18	10.40
2020-21	9.45	10.71
2022-23	16.61	13.99
2023-24	19.58	15.20
2024-25 (BE/Provisional)	20.00	16.02

The multi-year juxtaposition of direct and indirect tax receipts reveals direct taxes increasingly outpacing indirect taxes in absolute terms, reflecting progressive base-broadening, profit recovery, and personal income growth, alongside administrative improvements such as faceless assessments and TDS/TCS analytics. Indirect tax collections, while sizable, display sensitivity to consumption cycles, import trends, and rate structure dispersion, with GST reforms reducing cascading but leaving classification and inverted duty issues in some sectors. The relative growth of direct taxes supports equity objectives and helps stabilize revenues without excessive reliance on consumption levies. For macro-fiscal analysis, this balance matters for inflation management and distributional outcomes, while for constitutional assignments, it informs devolution expectations to states via divisible pools. Recommended visuals include clustered bars to compare categories annually, a line chart to track divergent trajectories and convergence episodes, and a stacked area to show their combined contribution to overall tax mobilization, enabling downstream modeling of tax-to-GDP paths and reform impact assessment.

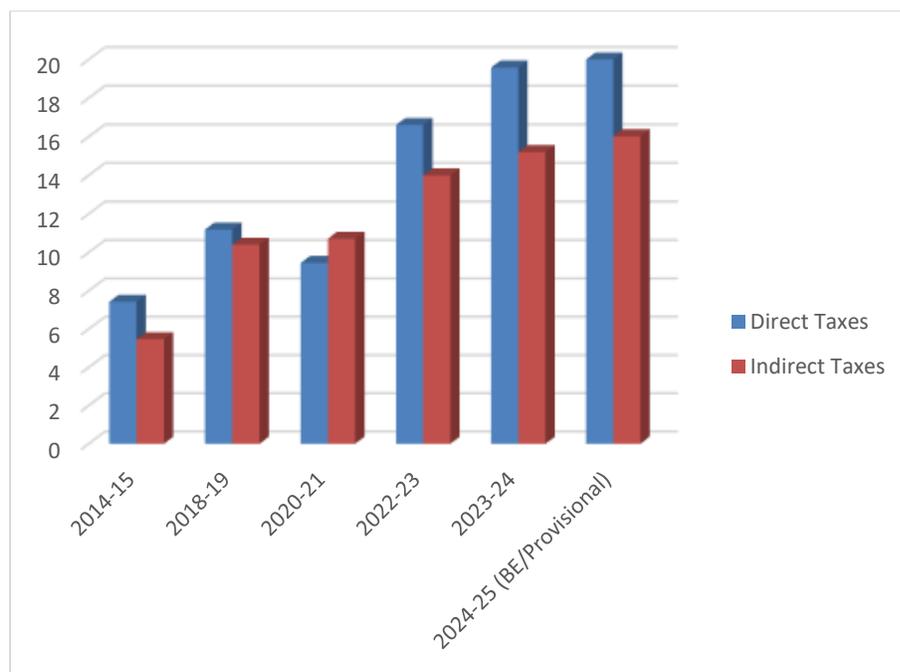


Fig 3: Direct vs Indirect Tax Receipts (₹ lakh crore)

V. CONCLUSION

India's taxation landscape reflects a maturing equilibrium between constitutional fidelity, economic efficiency, and distributional fairness, anchored by the authority-of-law principle and calibrated federal assignments that enable both Union and State fiscal capacity. The dual architecture of direct and indirect taxes has progressively converged toward simplicity and predictability, with direct taxes advancing progressivity and administrative transparency, and GST consolidating a unified market while steadily improving productivity through digital compliance and risk-based enforcement. Recent outcomes—record annual GST collections, rising taxpayer registrations, and sustained monthly averages—suggest durable buoyancy driven by formalization, analytics-led audits, and streamlined refunds, even as volatility management and sector-specific frictions remain focal points for reform.

Constitutional coherence remains the system's stabilizer, guiding legislative competence, intergovernmental coordination via the GST Council, and safeguards against arbitrary exactions, thereby underpinning compliance and investment confidence. The reform agenda now pivots to rationalizing rate structures, easing inverted duty pressures, and enhancing dispute resolution to lower litigation intensity and credit blockages, while preserving revenue neutrality and cooperative federalism. Comparative evidence on direct–indirect shares indicates growing reliance on direct taxes for equity and stability, complemented by a more efficient GST base that can support countercyclical policy without excessive distortion, subject to continued technology adoption and measured expansion of the tax net.

Looking ahead, three priorities emerge: codifying predictability to minimize retrospective uncertainty, deepening digital infrastructure to shrink compliance gaps, and aligning slab

simplification with sectoral realities to protect MSMEs and supply chains. Embedding these within constitutional limits and transparent institutional processes can enhance C-efficiency, sustain buoyancy above growth, and improve devolution credibility, thereby strengthening fiscal federalism and public service delivery. In sum, the interplay of constitutional design, calibrated direct–indirect integration, and iterative, data-driven reform is positioning India’s tax system for resilient growth, equity, and administrative trust in the coming decade.

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