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India's Evolving Income Tax System: An Analysis of Direct Tax Collection Trends, the New Tax Regime and Digital Tax Administration in India

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ABSTRACT :

India's income-tax system has undergone significant changes in recent years, particularly through the expansion of digital tax administration and the gradual shift towards the new tax regime under Section 115BAC of the Income-tax Act, 1961. The present study examines recent trends in direct-tax collections and selected changes in individual taxation. The study is based on secondary data obtained from the Central Board of Direct Taxes (CBDT), the Income Tax Department and Government of India documents.

The quantitative analysis covers FY 2023–24 to FY 2025–26, while the policy analysis focuses on changes applicable from AY 2024–25 to AY 2026–27. Percentage growth, comparative analysis and trend analysis are used. Net direct-tax collection increased from ₹19.60 lakh crore in FY 2023–24 to ₹22.26 lakh crore in FY 2024–25 and further to ₹23.40 lakh crore in provisional FY 2025–26 data. The new tax regime became the default regime from AY 2024–25, while the Section 87A rebate was increased for eligible resident individuals from AY 2026–27. The study indicates a movement towards simplified taxation, digital administration and information-based compliance.

Keywords: Income Tax, Direct Tax, New Tax Regime, Section 115BAC, Section 87A, Tax collection, Digital Tax Administration, India

1. Introduction

Income tax is an important source of government revenue and an instrument of fiscal policy. India's income-tax system has experienced considerable transformation through electronic filing, pre-filled information, online services, data integration and technology-assisted compliance. A major recent development is the expansion of the new tax regime under Section 115BAC. From AY 2024–25, the new regime became the default regime for eligible taxpayers, while prescribed options to choose the old regime continued.

For AY 2026–27, the new-regime rate structure was further revised and the Section 87A rebate was increased for eligible resident individuals. At the same time, official CBDT data show sustained growth in direct-tax collections. These developments make it relevant to examine the recent direction of India's income-tax system in terms of revenue mobilisation, tax-policy reform and digital administration.

2. Statement of the Problem

India's income-tax system is characterised by rising direct-tax collections and continuing structural changes in individual taxation. The coexistence of the old and new regimes means that tax outcomes can vary according to income composition, deductions and exemptions. The study therefore examines recent collection trends and selected policy changes using official secondary data.

3. Objectives of the Study

1. To analyse the recent trend in India's direct-tax collections.
2. To examine major changes in the individual income-tax structure under the new tax regime.
3. To identify the implications of these changes for tax administration and taxpayer compliance.

4. Hypotheses of the Study

- **H₀₁:** There has been no significant growth in India's net direct-tax collections during the period under study.
- **H₁₁:** There has been significant growth in India's net direct-tax collections during the period under study.
- **H₀₂:** The recent changes in the new tax regime have not materially simplified the structure of individual income taxation.
- **H₁₂:** The recent changes in the new tax regime have materially simplified the structure of individual income taxation.

The hypotheses are examined through official trend data and comparative policy analysis. The study does not claim a causal relationship between tax-policy changes and revenue growth.

5. Review of Literature

Government tax publications indicate a continuing movement towards technology-supported compliance and digital taxpayer services. The Income Tax Department identifies the new regime as the default regime for eligible taxpayers from AY 2024–25. Subsequent policy changes have revised the new-regime slabs and the Section 87A rebate. CBDT collection statistics also indicate sustained growth in direct-tax revenue. The present study combines these institutional developments into a concise secondary-data analysis.

6. Research Methodology

6.1 Research Design

The study adopts a descriptive and analytical research design.

6.2 Nature and Sources of Data

The study is based entirely on secondary data obtained from the Central Board of Direct Taxes, Income Tax Department, Ministry of Finance, Union Budget documents and other Government of India publications.

6.3 Period of Study

The quantitative revenue analysis covers FY 2023–24 to FY 2025–26. The policy analysis covers AY 2024–25 to AY 2026–27.

6.4 Analytical Tools

Percentage growth, comparative analysis, trend analysis and graphical presentation are used. Complex statistical techniques are avoided because the revenue series contains only a small number of annual observations.

7. Trend of Direct-Tax Collections in India

Financial Year	Gross Direct-Tax Collection (₹ crore)	Refunds (₹ crore)	Net Direct-Tax Collection (₹ crore)	Growth
2023–24	23,38,421	3,78,255	19,60,166	—
2024–25	27,02,974	4,76,743	22,26,231	13.57%
2025–26*	28,11,936	4,71,531	23,40,406	5.12%

Source: Central Board of Direct Taxes, Government of India. *FY 2025–26 figures are provisional.

Net direct-tax collection increased from ₹19.60 lakh crore in FY 2023–24 to ₹22.26 lakh crore in FY 2024–25, representing 13.57% growth. The provisional FY 2025–26 figure further increased to ₹23.40 lakh crore. The trend indicates sustained growth, although collection levels are affected by several factors including economic activity, profitability, compliance, advance-tax payments and administrative efficiency.

8. Graphical Presentation of Net Direct-Tax Collection

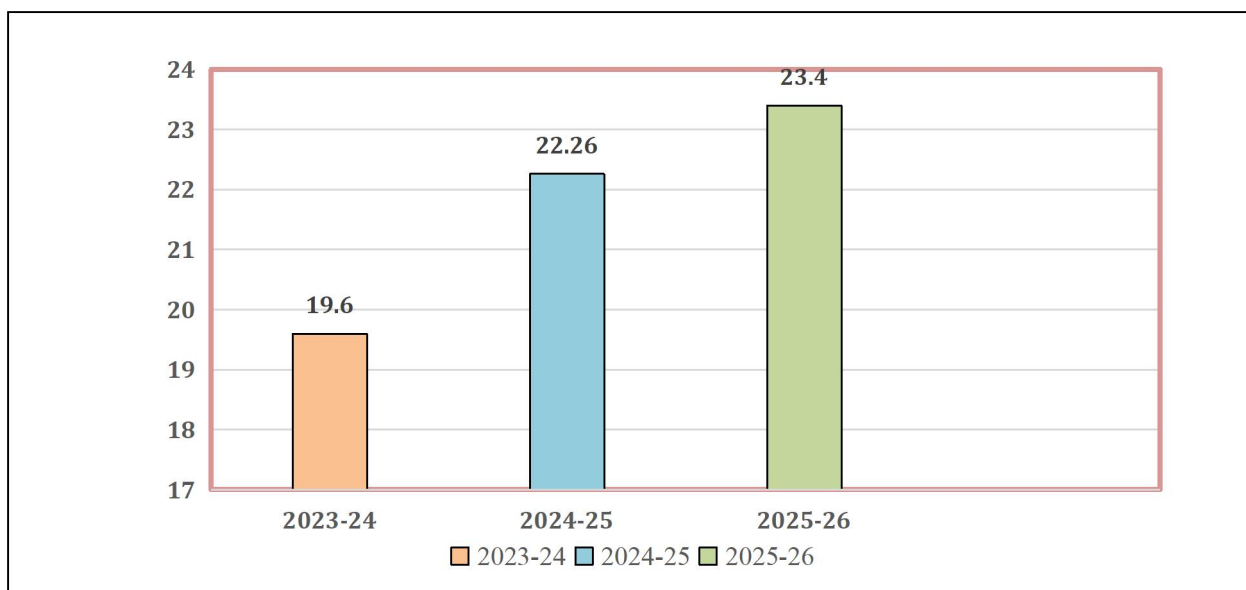


Figure 1: Trend in Net Direct-Tax Collection (₹ lakh crore)

Interpretation: The graph shows a continuous upward movement in net direct-tax collections during the study period. The largest annual increase occurred between FY 2023–24 and FY 2024–25, while growth moderated in FY 2025–26 based on provisional data.

9. Component-Wise Direct-Tax Collection

Component	FY 2023–24 (₹ crore)	FY 2024–25 (₹ crore)	Growth
Corporate Tax	9,11,055	9,86,719	8.30%
Non-Corporate Tax	10,10,948	11,82,875	17.01%
Securities Transaction Tax	34,192	53,296	55.87%
Other Taxes	3,972	3,341	–15.88%
Total Net Collection	19,60,166	22,26,231	13.57%

Source: Central Board of Direct Taxes.

Interpretation: Non-corporate tax collections increased faster than corporate tax collections during FY 2024–25. Securities Transaction Tax recorded the highest percentage growth among the listed components, although its absolute contribution was much smaller.

10. New Tax Regime: Major Current Changes

The new tax regime under Section 115BAC is a central feature of India's individual income-tax framework. From AY 2024–25, it became the default regime for eligible taxpayers, while prescribed options to choose the old regime continued. For AY 2026–27, the new regime provides the following slab structure.

Total Income	Tax Rate
Up to ₹4 lakh	Nil
₹4 lakh–₹8 lakh	5%
₹8 lakh–₹12 lakh	10%
₹12 lakh–₹16 lakh	15%
₹16 lakh–₹20 lakh	20%
₹20 lakh–₹24 lakh	25%
Above ₹24 lakh	30%

Source: Income Tax Department, Government of India.

For AY 2026–27, the Section 87A rebate in the new regime was increased to ₹60,000 for eligible resident individuals whose taxable income does not exceed ₹12 lakh, subject to applicable provisions.

11. Comparison of Selected Features

Feature	Earlier New Regime	AY 2026–27
Default regime	Yes from AY 2024–25	Yes
Basic nil-rate slab	Up to ₹3 lakh	Up to ₹4 lakh
Highest slab threshold	Above ₹15 lakh	Above ₹24 lakh
Highest marginal slab rate	30%	30%
Section 87A rebate	₹25,000	₹60,000
Income threshold for new-regime rebate	₹7 lakh	₹12 lakh

Source: Income Tax Department, Government of India.

Interpretation: The comparison indicates a broadening of lower-rate bands and an increase in the income threshold relevant to the Section 87A rebate. Tax outcomes can nevertheless differ for taxpayers who make substantial use of deductions and exemptions under the old regime.

12. Tax Administration and Digital Transformation

Digitalization has become an important component of income-tax administration through electronic return filing, online verification, pre-filled information, digital communication, online rectification and refund processes, data matching and technology-assisted compliance. Technology-supported administration can reduce paperwork and improve information availability. At the same time, taxpayer awareness, data security, privacy and effective grievance-resolution mechanisms remain important.

13. Analysis of Tax Collection Growth

Indicator	FY 2023–24	FY 2024–25	FY 2025–26*
Net Direct Tax (₹ crore)	19,60,166	22,26,231	23,40,406
Year-on-year growth	—	13.57%	5.12%
Absolute increase (₹ crore)	—	2,66,065	1,14,175

Source: Author's calculation from CBDT data. *FY 2025–26 figures are provisional.

Interpretation: The absolute increase was approximately ₹2.66 lakh crore between FY 2023–24 and FY 2024–25 and approximately ₹1.14 lakh crore between FY 2024–25 and FY 2025–26, based on provisional data. The trend remains positive, although annual growth moderated.

14. Findings of the Study

1. Net direct-tax collections increased during the study period.
2. Non-corporate tax recorded stronger growth than corporate tax during FY 2024–25.
3. The new tax regime became the default regime for eligible taxpayers from AY 2024–25.
4. The AY 2026–27 structure broadened lower-rate bands and increased the Section 87A rebate for eligible resident individuals.
5. Income-tax administration is increasingly dependent on digital filing, information integration and technology-assisted compliance.

15. Suggestions

1. Strengthen taxpayer awareness through simple comparative calculators and taxpayer-specific explanatory material.
2. Continue simplifying return filing, deductions, exemptions and compliance procedures.
3. Strengthen transparent digital administration with accessible clarification, correction and grievance-resolution mechanisms.

16. Limitations of the Study

1. The study is based on secondary data from government and authorized institutional sources.
2. The quantitative analysis covers a short period and includes provisional FY 2025–26 data.
3. The study does not use individual-level taxpayer data and therefore does not determine tax outcomes for every taxpayer category.

17. Scope for the Future Research

1. Compare tax liabilities under the old and new regimes across different income groups using taxpayer-level data.
2. Examine the relationship between digital tax administration and voluntary compliance.
3. Investigate the impact of tax-policy simplification on household savings, investment and consumption.

18. Conclusion

India's income-tax system is undergoing a significant structural and administrative transition. The recent period has witnessed sustained growth in direct-tax collections alongside changes in the taxation framework for individual taxpayers.

Net direct-tax collections increased from ₹19.60 lakh crore in FY 2023–24 to ₹22.26 lakh crore in FY 2024–25 and further to ₹23.40 lakh crore in provisional FY 2025–26 data. At the policy level, the new tax regime under Section 115BAC became the default regime for eligible taxpayers from AY 2024–25. The AY 2026–27 changes further modified the rate structure and increased the Section 87A rebate for eligible resident individuals.

The evidence indicates movement towards simplification, digital administration and information-based compliance. However, tax outcomes remain dependent on individual circumstances, particularly deductions and exemptions. Future tax administration should balance revenue mobilisation, simplicity, taxpayer convenience, and transparency and compliance efficiency.

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