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India Personal Taxes

A decade of formalisation & compliance

India has seen structural widening of the tax base post-2014

Rise in upfront tax collection has strengthened compliance

India scores well on direct tax/ GDP but scores poorly on tax coverage

*Image generated using ChatGPT

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Strategy

India Personal Taxes - A decade of formalisation & compliance

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India's direct tax system has undergone a structural transformation since 2014, marked by a: (1) sharp broadening of the taxpayer base, (2) compositional shift in collections, and (3) stronger upfront compliance. Over the period FY14-24, individual return filers have grown 2.3x, while the broader taxpayer base, including those paying through TDS without filing returns, has nearly doubled. Personal income tax collections have overtaken corporate taxes, with the former's share rising from 38.1% in FY14 to 53.4% in FY24. Upfront tax capture has strengthened, with TDS collections climbing from INR 2.5trln to INR 6.5trln and advance tax rising from INR 2.9trln to INR 12.8trln over the same period. The introduction of GST in 2017 has further tightened income reporting through invoice-matching and data integration. While India's direct tax-to-GDP ratio has reached 6.6%, ahead of some emerging peers, it is still trailing developed economies. Together, these shifts indicate a structurally narrower space for outright evasion and a more robust compliance architecture than a decade ago.

- **India has seen structural widening of the tax base post-2014:** The number of individual return filers increased from 30.5mn in FY14 to 69.7mn in FY23, while total taxpayers, including those paying tax via TDS without filing returns, rose from 53.8mn to 99.2mn. This expansion is critical as it indicates a systemic reduction in the space available for non-reporting of income. Even if some taxpayers do not file returns, the TDS framework ensures that their income trail is captured. It also reflects both greater formalisation and reduced scope for remaining outside the system, aided by digitisation, AIS/TIS data matching, and restrictions on cash transactions.

- **Personal taxes overtake corporate taxes:** The share of personal income tax in total direct taxes increased from 38.1% in FY14 to 53.4% in FY24, while corporate taxes saw a corresponding decline from 61.9% to 46.6%. This reversal in composition is significant. It suggests that individuals, particularly from salaried and professional segments, are contributing a larger share of the direct tax pool relative to corporates, which historically dominated collections.

- **Rise in upfront tax collection has strengthened compliance:** TDS collections have more than doubled from INR 2.5trln in FY14 to INR 6.5trln in FY24, aided by widened coverage across salaries, professional fees, property transactions, and interest income, alongside tighter digital matching of reported income. Advance tax payments have nearly quadrupled from INR 2.9trln in FY14 to INR 12.8trln in FY24, now contributing ~55% of total direct taxes. This front-loaded payment structure leaves little room for year-end income suppression.

- **GST's ripple effect on income tax compliance:** Since its introduction in 2017, GST has functioned as a structural compliance driver for direct taxation, with spillover effects becoming more pronounced post-2019. The number of active GST taxpayers increased from 12.4mn in 2019 to 14.7mn in 2024, a net addition of 2.3mn entities in 5 years. This growth is not solely attributable to new enterprises; a substantial portion reflects formalisation of businesses that previously operated outside the income tax net. GST's invoice-matching, e-way bill requirements, and input tax credit linkages have created transaction-level digital trails, enabling the income tax department to cross-verify turnover declarations and curb under-reporting.

- **India scores well on direct tax/ GDP but scores poorly on tax coverage:** India's direct tax-to-GDP ratio has improved from 3.2% in FY01 to 6.6% in FY24, placing it ahead of emerging peers like the Philippines (5.5%) and Indonesia (4.4%). However, there is still ample headroom to expand this ratio with developed economies such as Japan (~7.9%), the UK (10.6%) and the US (~13.4%) ahead of India. However, only 6.9% of India's population pays income tax (as of FY23), compared to 24.5% for both the Philippines and Indonesia. Developed economies see coverage of ~50%.

India sees a structural widening of income tax base post 2014

India's income tax system has witnessed a notable widening of its taxpayer base over the past decade, reflecting tangible improvements in compliance and formalisation. The number of individual income tax return filers expanded from 30.5mn in FY14 to 69.7mn in FY23, a growth of ~2.3x. While growth in return filers is partly driven by administrative nudges like mandatory return filing for high-value transactions and digitised return processes, it also reflects the gradual inclusion of previously informal economic participants into the tax net.

The number of individual income tax return filers expanded from 30.5mn in FY14 to 69.7mn in FY23, a growth of ~2.3x

Exhibit 1. Examples of high value transactions getting tracked

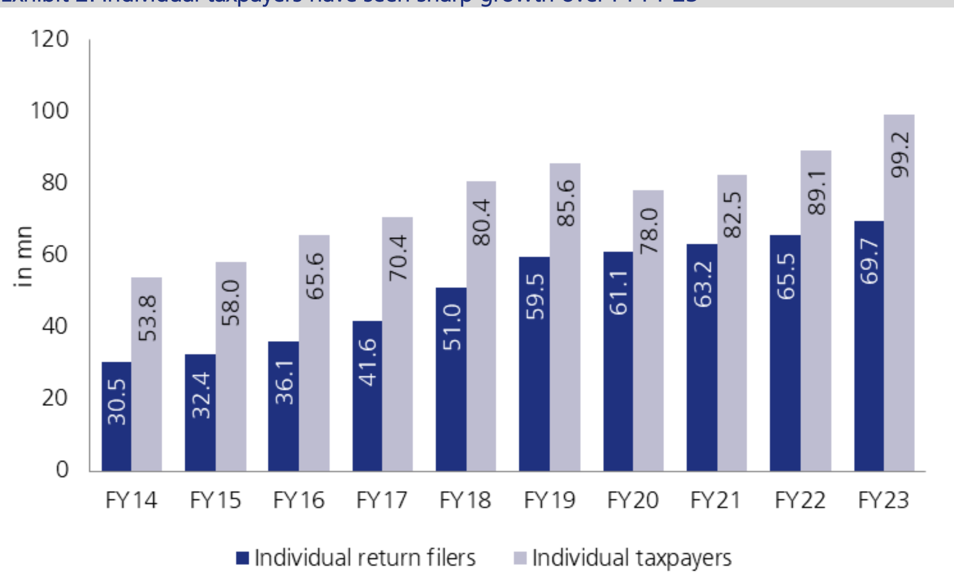
SNo.	Transaction	Threshold (INR)	Reporting Authority
1	Cash payment for purchasing bank draft, pay order, banker's cheque or prepaid instruments	1 mn	Banks or co-operative society
2	Cash deposits in a savings bank account	1 mn	- Banks - Co-operative society - Post Master General
3	Cash deposit/ withdrawal from a current account	5 mn	Banks or co-operative society
4	Sale or purchase of an immovable property	3 mn	The Property Registrar/Sub-registrar must report a transaction exceeding the threshold via Form 61A.
5	Investments in shares, mutual funds, debentures and bonds in cash	1 mn	- Company issuing - Mutual Fund Trustee
6	Buy back of shares from any person (than other shares bought in an open market)	1 mn	Listed Company
7	Payment of credit card bill in cash	1 mn	Banks or co-operative society
8	Payment of credit card bill other than cash	1 mn	Banks or co-operative society
9	- Sale of foreign currency - Crediting FOREX card - Spending in foreign currency	1 mn	Authorized Person under the Foreign Exchange Management Act, 1999
10	Cash deposits in FD or RD account	1 mn	- Bank - Co-operative society - Nidhi Company - NBFC
11	Receipt of cash payment for sale	0.2 mn	Any person liable for audit under section 44AB of the Income Tax Act.

Source: JM Financial

However, the impact is more profound when analysing the total number of individual taxpayers, which includes both return filers and those for whom taxes were deducted at source (TDS) even if they did not file returns. This broader base grew from 53.8mn in FY14 to 99.2mn in FY23, marking a near doubling of the compliant population. This expansion is critical as it indicates a systemic reduction in the space available for complete non-reporting of income. Even if some taxpayers do not file returns, the TDS framework ensures that their income trail is captured, substantially lowering avenues for tax evasion at the entry level.

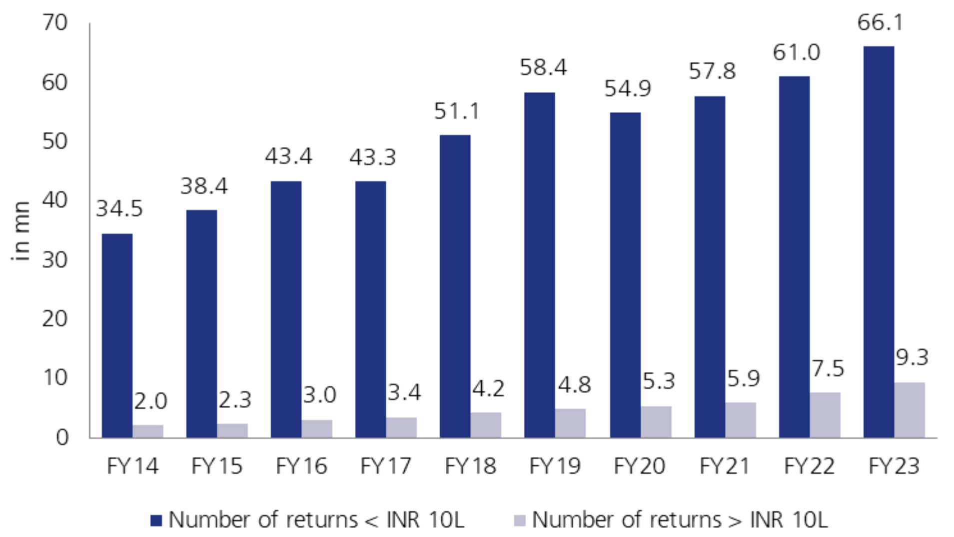
Total number of individual taxpayers (return filers + for whom TDS was deducted) grew from 53.8mn in FY14 to 99.2mn in FY23, marking a near-doubling of compliant population

Exhibit 2. Individual taxpayers have seen sharp growth over FY14-23



Source: Income Tax India, JM Financial

Exhibit 3. Number of individual returns by income



Source: Income Tax India, JM Financial

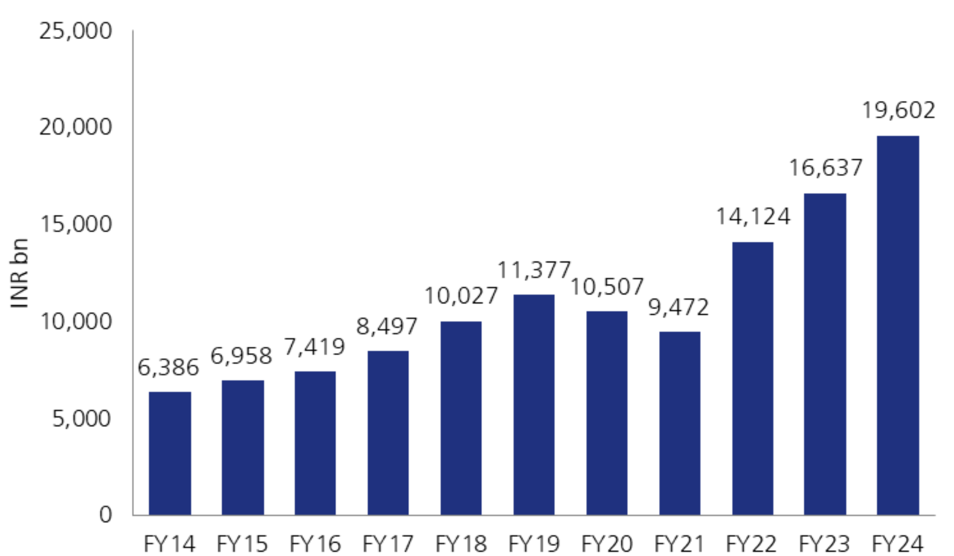
Number of returns filed by individuals with income <INR 10 lakh have grown at a CAGR of ~8% over FY14-23 vs. 18% for individual returns with income >INR 10 lakh

Personal tax collections have overtaken corporate tax collections since FY21

Direct taxes have grown at a CAGR of 12% over FY14-24

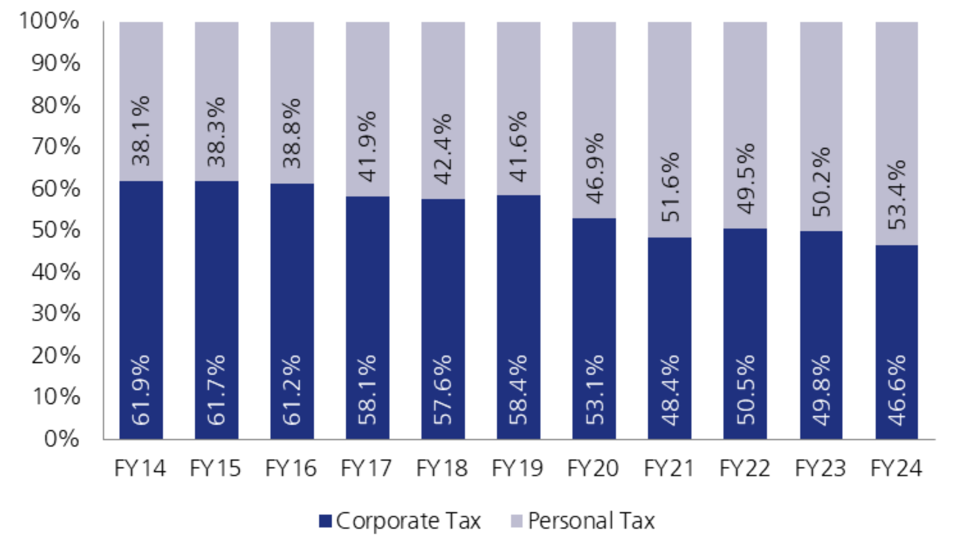
- Direct taxes have grown at a CAGR of 12% over FY14-24 from INR 6.4trln to INR 19.6trln. Composition of direct tax collections has also shifted in line with a widening base. The share of personal income tax increased from 38.1% in FY14 to 53.4% in FY24, while corporate taxes saw a corresponding decline from 61.9% to 46.6%.
- This reversal in composition is significant as it suggests that individuals, particularly from salaried and professional segments, are contributing a larger share of the direct tax pool relative to corporates, which historically dominated collections. Factors driving this shift include enhanced TDS coverage, formalisation of small businesses, increased digital payment footprints, and stricter enforcement measures.
- These trends point towards a structurally stronger compliance architecture. Expanded return filing, broader TDS coverage, and a rising personal tax contribution base are signals that India's tax net is becoming wider.
- While challenges in underreporting and incorrect income declaration remain, the sharp growth in the absolute number of taxpayers indicates that outright evasion, where income remains completely outside the tax system, is now substantially curtailed compared to a decade ago.

Exhibit 4. Net direct taxes collected over FY14-24 (INR bn)



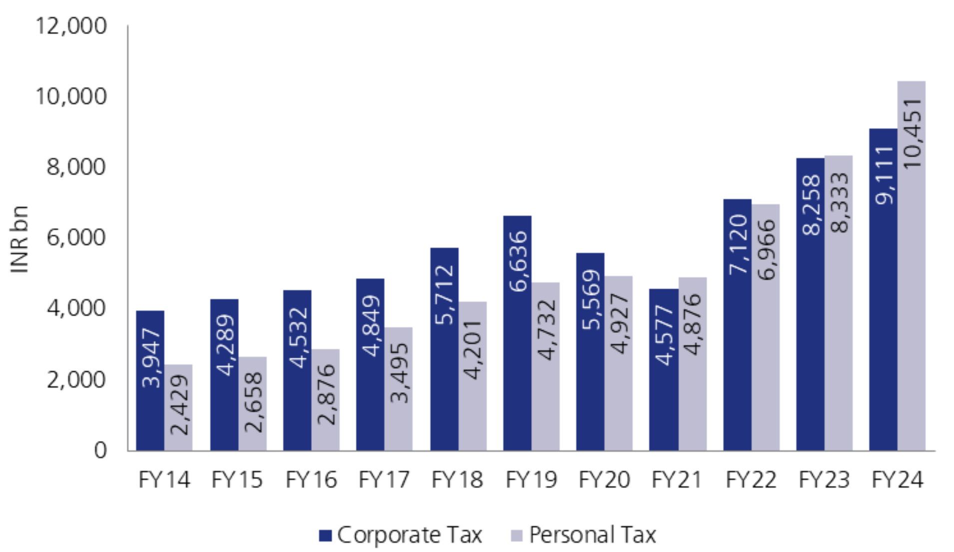
Source: Income Tax India, JM Financial

Exhibit 5. Share of personal tax has surpassed corporate tax since FY21



Source: Income Tax India, JM Financial

Exhibit 6. Corporate tax vs. personal tax collections over FY14-24 (INR bn)



Source: Income Tax India, JM Financial

Over FY14 to FY24 personal income tax has grown at a CAGR of 16% vs. 9% for corporate tax

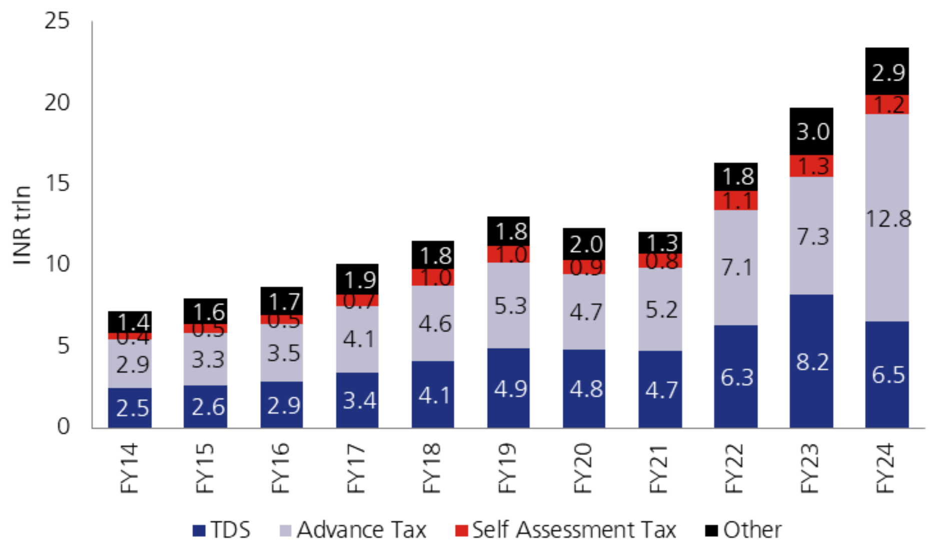
Upfront tax collection strengthens compliance

Over FY14-24, India's direct tax collections have surged from INR 6.4tn to INR 19.6tn, but more telling than the top line growth is the shift in composition, pointing to a structural reduction in tax evasion. TDS collections, the most effective tool for curbing concealment by capturing income at source, have more than doubled from INR 2.5tn in FY14 to INR 6.5tn in FY24, aided by widened coverage across salaries, professional fees, property transactions, and interest income, alongside tighter digital matching of reported income.

TDS collections, the most effective tool for curbing concealment by capturing income at source, have more than doubled from INR 2.5trln in FY14 to INR 6.5trln in FY24

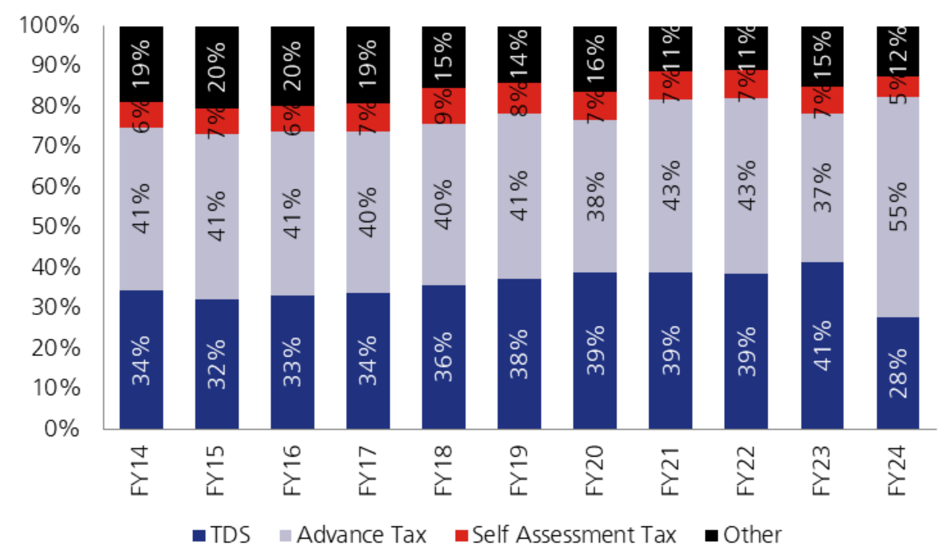
Advance tax payments, a strong indicator of early income recognition, have nearly quadrupled from INR 2.9trln in FY14 to INR 12.8trln in FY24, now contributing ~55% of total direct taxes. This front-loaded payment structure leaves little room for year-end income suppression. Self-assessment tax collections, which reflect voluntary disclosures beyond what is captured through TDS, have risen from INR 441bn to INR 1.2trln over the same period, signalling greater formalisation and reduced scope for under-the-radar income. The shift is no accident; post-2014, policy measures such as data integration across PAN-linked transactions, mandatory reporting of high-value spends, curbs on cash usage, and greater analytics-driven scrutiny have moved enforcement from reactive detection to real-time capture. The result: not just higher collections, but a structurally narrower space for evasion.

Exhibit 7. Gross direct tax collection by type (INR trln)



Source: Income Tax India, JM Financial

Exhibit 8. Contribution of each type to direct tax collection



Source: Income Tax India, JM Financial

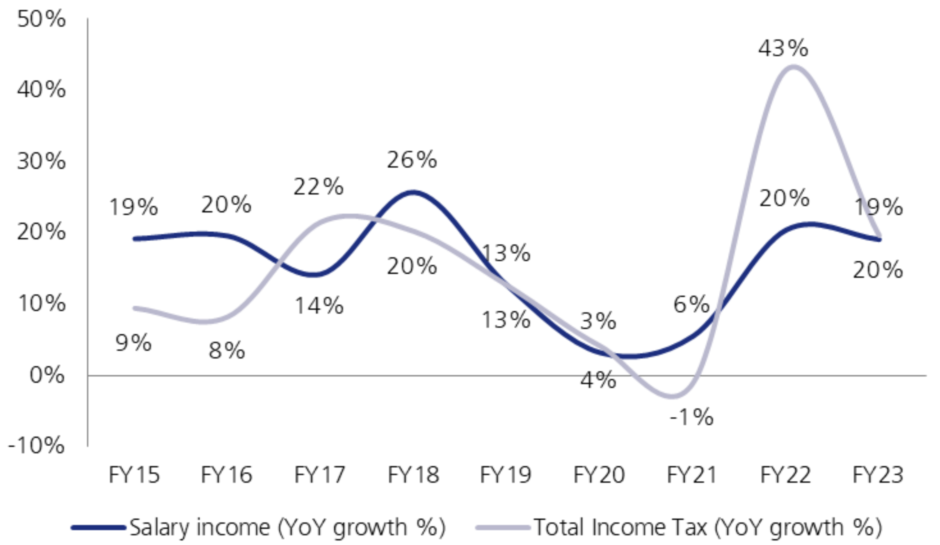
Rise in salary income shows rise in formalisation

- Reported salary income has risen over the past decade, growing from INR 9.8trln in FY14 to INR 35.2trln in FY23, a 3.6x expansion and a 15% CAGR. This growth reflects not only rising wages but also deeper formalisation of the payroll base, driven by digital compliance mechanisms such as TDS expansion, PAN–Aadhar linkage, and electronic salary transfers. This trend becomes clear when mapped against personal income tax collections. Over the same period, personal tax collections rose from INR 2.4trln in FY14 to INR 8.3trln in FY23 at a CAGR of 15%.
- This alignment underscores the pivotal role of salaried taxpayers in sustaining buoyancy in India's direct tax base. Given that salaries are subject to tax deduction at source, scope for under-reporting is limited, making this category a more reliable and predictable contributor compared to business or capital income.
- In essence, the data highlights how salaried taxpayers have emerged as the backbone of India's income tax system. The combination of rising payroll incomes and tighter compliance has not only broadened the tax base but also provided resilience to collections, even through periods of macroeconomic disruption.

Reported salary income has risen over the past decade, growing from INR 9.8trln in FY14 to INR 35.2trln in FY23, a 15% CAGR; over the same period, personal tax collections rose from INR 2.4trln to INR 8.3trln at a CAGR of 15%

- The sustained increase in declared salaries, therefore, serves as a quantitative marker of India's formalisation push and its impact on direct tax buoyancy.

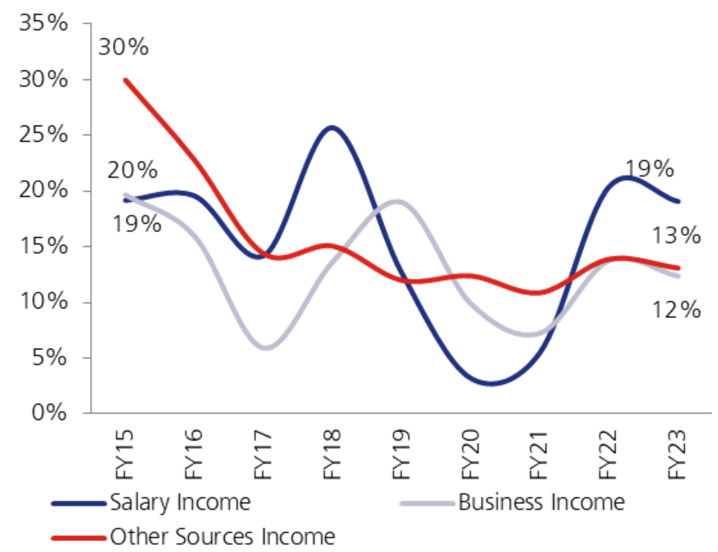
Exhibit 9. Correlation between YoY growth in salary income and personal income tax



Source: Income Tax India, JM Financial

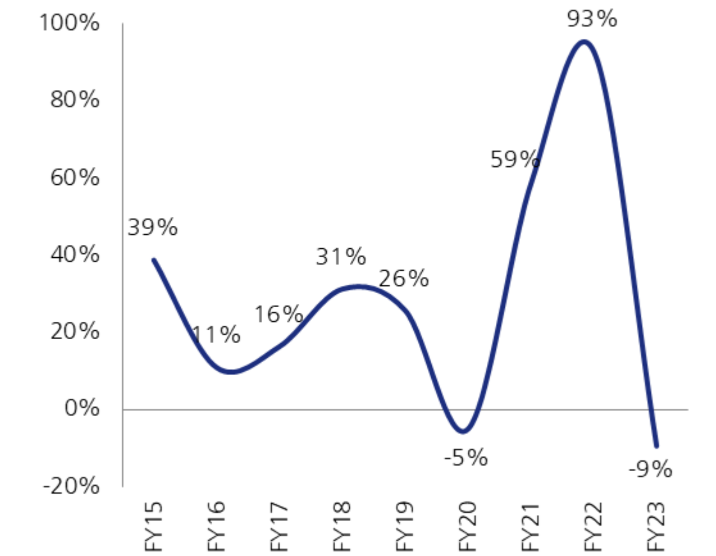
- India's reported incomes show sharp divergences across categories. Salary income has grown unevenly, with strong jumps in FY18 and FY22 but moderation since. Business income remains volatile as well, swinging between high growth and sharp contractions, particularly in FY17 (demonetisation led) and around FY20–21 (Covid led).
- Other sources of income, mainly interest, rent and dividends, have steadily decelerated from >30% growth in FY15 to low-teens in recent years, mirroring lower interest rates and the shift of savings into market-linked assets.
- The most striking change, however, is in capital gains, which surged post-Covid as equity participation and market liquidity accelerated, making them a significant driver of tax buoyancy.
- Together, these trends underscore the growing financialisation of incomes, with salary and business earnings tied to the real economy, while post-pandemic growth in capital gains increasingly shapes the cyclicality of personal income tax collections.

Exhibit 10. YoY growth of salary, business and other income



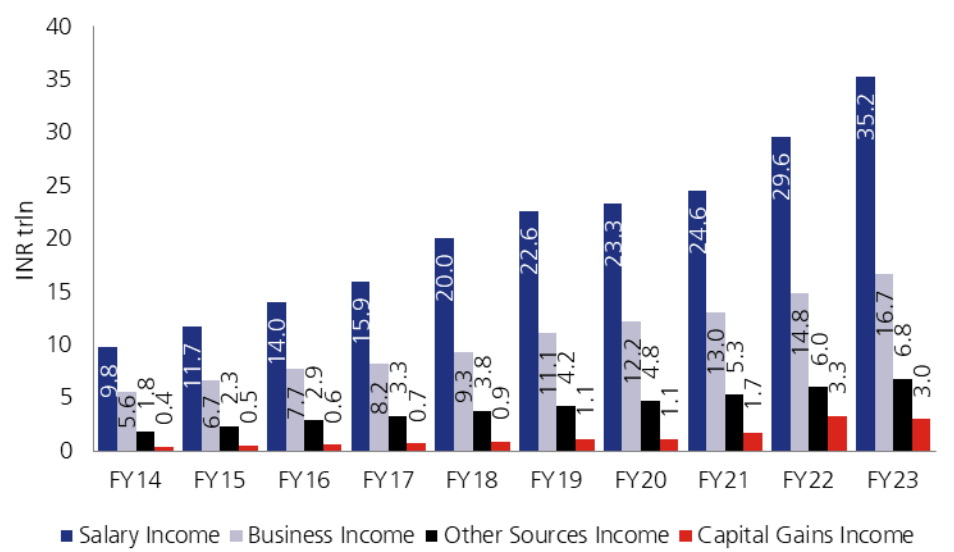
Source: Income Tax India, JM Financial

Exhibit 11. YoY growth of capital gain



Source: Income Tax India, JM Financial

Exhibit 12. Taxable income of individuals by type over FY14-23 (INR trln)



Source: Income Tax India, JM Financial

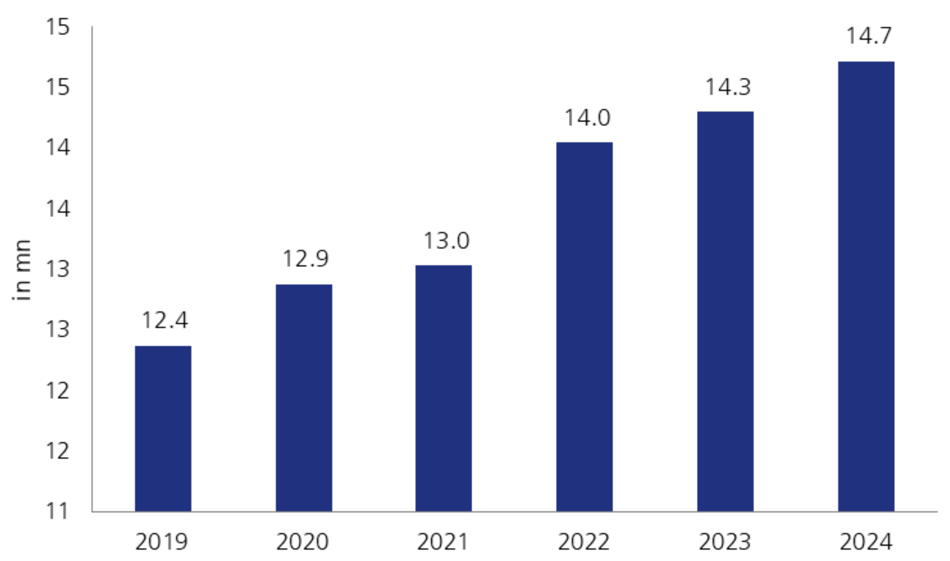
GST's data trail tightens income reporting

Since its introduction in 2017, GST has functioned as a structural compliance driver for direct taxation, with spill-over effects becoming more pronounced post-2019. The number of active GST taxpayers increased from 12.4mn in 2019 to 14.7mn in 2024, a net addition of 2.3mn entities in 5 years. This growth is not solely attributable to new enterprise creation; a substantial portion reflects formalisation of businesses that previously operated outside the income tax net. GST's invoice-matching, e-way bill requirements, and input tax credit linkages have created transaction-level digital trails, enabling the income tax department to cross-verify turnover declarations and curb under-reporting.

The compliance effect is mirrored in the sharp rise in direct tax pre-payments: TDS collections grew from INR 2.5trln in FY14 to INR 6.5trln in FY24, while advance tax surged from INR 2.9trln to INR 12.8trln over the same period, both rising at a pace well above nominal GDP. Such growth indicates more accurate income declaration and reduced cash-based leakage. By integrating indirect and direct tax data flows, GST has materially narrowed avenues for evasion, reinforcing the post-2014 trend of rising voluntary compliance and stronger tax buoyancy.

Since its introduction in 2017, GST has functioned as a structural compliance driver for direct taxation, with spillover effects becoming more pronounced post-2019. The number of active GST taxpayers increased from 12.4mn in 2019 to 14.7mn in 2024, a net addition of 2.3mn entities in 5 years

Exhibit 13. Number of active GST taxpayers by year



Source: GSTN, JM Financial

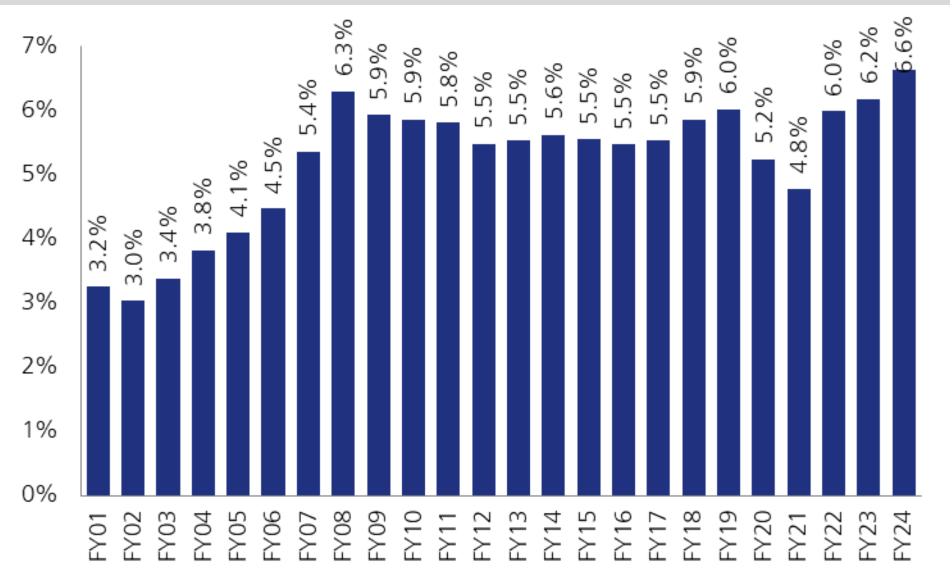
India in the global tax landscape

India's direct tax-to-GDP ratio has improved from 3.3% in FY01 to 6.6% in FY24, placing it ahead of peers like the Philippines (5.5%) and Indonesia (4.4%).

India performs better than emerging peers on amount of taxes…

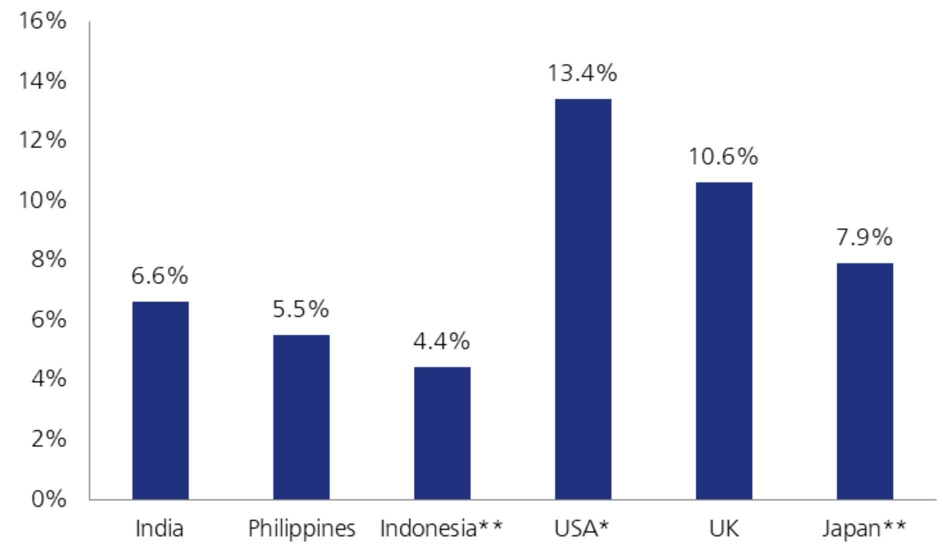
India's direct tax-to-GDP ratio has improved from ~3.2% in FY01 to ~6.6% in FY24, placing it ahead of emerging peers like the Philippines (~5.5%) and Indonesia (~4.4%). However, there is still ample headroom to expand this ratio with developed economies such as Japan (~7.9%), the UK (10.6%) and the US (~13.4%) ahead of India. Direct taxes are underpinned by a much broader and deeper personal tax base in these developed economies.

Exhibit 14. India's direct tax-to-GDP ratio



Source: Income Tax India, JM Financial

Exhibit 15. Direct tax-to-GDP ratios amongst global peers (2024)

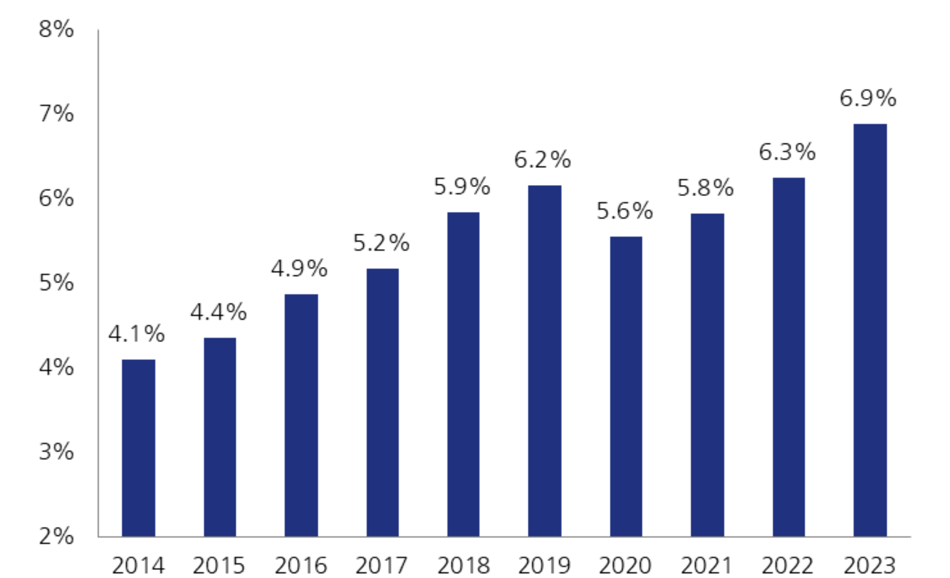


Source: World Bank, Income Tax India, Bureau of Internal Revenue Philippines, Directorate General of Taxes Indonesia, IRS, HM Revenue & Customs UK, National tax Agency Japan, JM Financial; *includes social security contributions; **2023 numbers

…but lags in terms of participation of the population in taxation

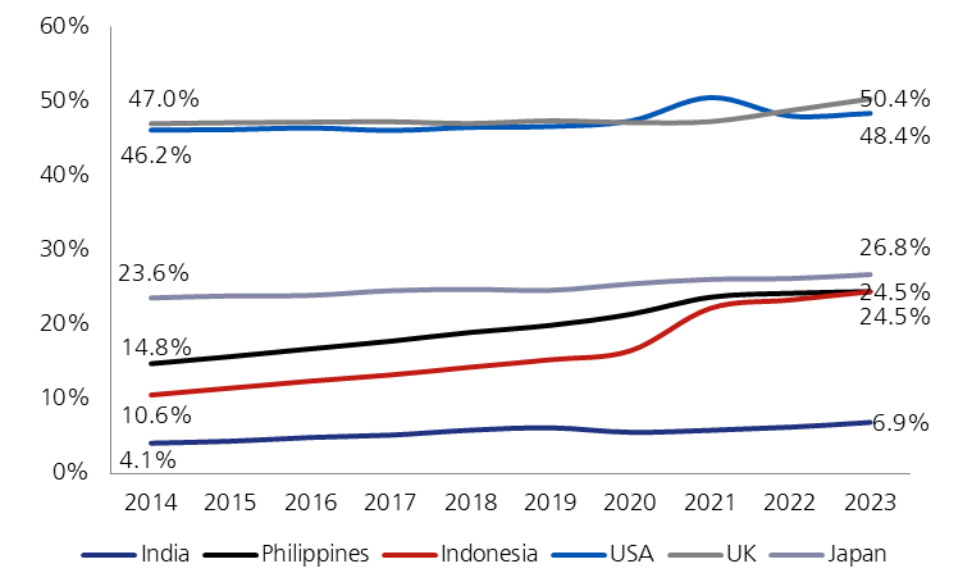
However, only 6.9% of India's population pays income tax (as of FY23), compared to 24.5% for both the Philippines and Indonesia. Developed economies see coverage of 50%. This disconnect between a higher direct tax-to-GDP ratio but lower % of population paying taxes compared to peers is due to a heavy reliance on a small base of formal income earners. A significant share of direct tax collections comes from a relatively small cohort of salaried professionals and large corporates. Further, a large portion of the workforce is employed in the informal sector or engaged in agriculture, which contributes little to personal income tax. India's corporate sector, especially large listed firms, is highly taxed and regulated. Corporate taxes contribute significantly to the direct tax pool, raising the overall direct tax-to-GDP even when individual participation is weak.

Exhibit 16. India – Percentage of the population paying income tax



Source: Income Tax India, JM Financial

Exhibit 17. Global peers - % of population paying income tax



Source: World Bank, Income Tax India, Bureau of Internal Revenue Philippines, Directorate General of Taxes Indonesia, IRS, HM Revenue & Customs UK, National tax Agency Japan, JM Financial

Only 6.9% of India's population pays income tax (as of FY23), compared to 24.5% for both the Philippines and Indonesia. Developed economies see coverage of ~50%

Challenges ahead: Narrowing the final gaps in India's tax net

The last decade has delivered a structural uplift in India's direct tax compliance, but the "final mile" of reform will be harder and slower. The direct tax-to-GDP ratio at ~6.6% in FY24 materially trails the 10–12% range seen in developed economies. Only ~7% of the population pays taxes, leaving a substantial share of economically active individuals outside the net despite broader formalisation. Persistent underreporting in cash-heavy sectors, protracted litigation cycles, and procedural complexity for smaller businesses limit the pace of incremental gains. Delivering the next leg of improvement will require a more targeted, data-driven, and sector-specific strategy.

- **Broadening beyond the core contributor base:** Despite return filers rising from 30.5mn in FY14 to 69.7mn in FY23, tax collections remain concentrated in upper-income segments. Driving compliance among middle-income earners via simplified presumptive taxation and sectoral monitoring could shift the collection profile.

- **Plugging persistent sectoral leakages:** Cash-heavy sectors continue to show gaps between GST turnover and declared income. Advanced GST–direct tax reconciliation and industry-specific audits can tighten reporting.

- **Unlocking revenue from litigation backlogs:** Direct tax disputes remain unresolved, delaying revenue realisation and straining enforcement capacity. Faster dispute resolution frameworks can accelerate inflows and improve taxpayer certainty.

- **Scaling AI-driven enforcement:** The CBDT's Insight platform has expanded third-party data use for risk profiling, but wider integration of banking, GST, property, and securities data—combined with predictive analytics—can help detect underreporting in real time.

APPENDIX I

JM Financial Institutional Securities Limited

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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