

**PERSONAL INCOME TAX IN INDIA: TRENDS AND ISSUES FOR
THE PERIOD 2012-22**

Dissertation submitted to
St. Teresa's College (Autonomous)
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CERTIFICATE

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DECLARATION

I, ANNAPURNA A KAMATH, hereby declare that the Project titled “**PERSONAL INCOME TAX IN INDIA: TRENDS AND ISSUES FOR THE PERIOD 2012-22**” submitted by me for the Master of Arts Degree in Economics is my original work and this work has not been previously formed the basis for the award of other Academic qualification, fellowship of other similar title of any other University or board.

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LIST OF ABBREVIATIONS

IT	- Income Tax
PIT	- Personal Income Tax
CAGR	- Compound Annual Growth Rate
AY	- Assessment Year
FY	- Financial Year

CHAPTER 1
INTRODUCTION

1.1. INTRODUCTION

Payment of Income Tax represents a significant aspect of most citizens in India. Every year, taxpayers are in a rush to collect information about their sources of income, and file their IT Returns due to fear of tax penalties. The important questions in this context are what is income tax, how it all started and what is its present relevance?

Income tax is a sort of direct tax that individuals are obligated to pay on the money they make. The government imposes it in order to raise money for public spending, to provide the nation with better infrastructure, and to pay for different services and programmes.

Income tax has a long-standing history. Its roots can be traced back to centuries-old cultures, civilisations spread across different places. The very idea of income tax developed and became prevalent even in the Ancient and Mediaeval Periods. These diverse ancient civilizations had diverse taxation systems. However, they were mostly based on commerce or property rather than income.

An Organised form of Income tax began to emerge in the 16th and 17th centuries. England enacted the first known income tax in 1694 to raise money for financing the country's war with France.

The 19th century saw the beginning of the modern income tax as it is known today. Income tax was established as a permanent levy in Great Britain in 1842.

Over the course of the 19th and 20th centuries, the concept of income tax extended to various regions of the world. In order to pay for the American Civil War, the first federal income tax was implemented in 1861. Many other nations adopted income taxes in a similar fashion to pay government spending and solve social and economic issues.

This is evident from the fact that aside from a few countries like Bermuda, The Bahamas, and Monaco, nearly all nations have included Income tax as a part of their tax structure. However, the taxation policy followed by each nation reveals robust cross-country differences.

Thus, Income tax plays a relatively major role in boosting the economy and hence is of vital importance to any country.

1.2. REVIEW OF LITERATURE

Considering the significance of income taxation for the development of any economy across the globe; various institutions, Scholars, Academicians have studied its trends, progressivity, impact on economic growth, tax burden on citizens and various economic aspects connected to it. Thus, the literature covers international and national books, articles, journals, reports, publications. These have been carefully reviewed and briefly incorporated here:

Benedek, M. D., Benitez, J. C., & Vellutini, C. (2022).¹ The study shows that Personal Income Tax (PIT) is a major revenue source in Advanced Economies (AEs), as it has contributed an average of 8.6 percent of GDP in revenue in 2019, and has made a significant impact on income redistribution. But PIT has far less of an influence on revenue and redistribution in Low-income developing countries (LIDCs) and Emerging Market economies (EMEs), with an average revenue of 2.1 and 3.1 percent of GDP in 2019, respectively. This is mostly due to the fact that in LIDCs and EMEs, the PIT has primarily targeted a very small subset of the population, typically those who work for the government or a select few major multinational corporations. In these nations, a sizable portion of the self-employed, who work in agriculture or the unorganised sector, are frequently not subject to PIT taxes. The study demonstrates that between 1990 and 2019, LIDCs and EMEs had a 110 percent and a 48 percent rise in PIT-to-GDP revenue, respectively. This indicates a notable improvement in Personal Income Tax revenue generation. It is discovered that this increase was predominantly fueled by economic trends and to a small extent by modifications to Tax system. They also discovered that LIDCs increased their tax-to-GDP ratios by largely depending on a wide range of tax instruments rather than only the PIT. The working paper concludes on the note that PIT has made a considerable impact on decreasing inequality.

¹ Benedek, M. D., Benitez, J. C., & Vellutini, C. (2022). *Progress of the personal income tax in emerging and developing countries*. International Monetary Fund.

Gerber, Liu, Klemm, Mylonas. (2018).² have addressed progressivity from several perspectives. It shows how the tax structure impacts progressivity. Moreover, the paper thoroughly examines the relationship between progressivity of personal income tax and growth. According to this Paper, the progressivity of personal income taxes has been declining over the last three decades. In the 1980s and 1990s, progressivity fell sharply and has since been mostly stabilised. The decline in high income tax rates across the global economy is in line with this trend. However, there has been a little turnaround for advanced economies. According to the available data, progressivity is higher in OECD member nations.

Utilising the more accessible Pigou-style measurements, the study finds that progressivity tends to be strongest at lower income levels. Additionally, it presents a country-by-country examination of the variations in progressivity by family type and economic level. The paper concludes how in actuality, tax systems may be much less equitable than these indicators show, because wealthier persons frequently have more access to tax breaks. The wealthiest have multiple ways to avoid payment of taxes.

Furthermore, the wealthy have more resources to devote to tax preparation, as well as higher incentives to do so. Thus, tax evasion is seen to be particularly prevalent at the top level of the income distribution. It can be inferred unequivocally from the research that progressivity has diminished over the previous several decades. Unfortunately, this fall in progressivity does not appear to have boosted economic growth.

Torres, C., Mellbye, K., & Brys, B. (2012).³ discuss historical and cross-country trends in statutory PIT rates. The income thresholds at which PIT rates apply are taken into consideration. Changes in the statutory components of the tax system influences the average and marginal tax rates. Policymakers often utilise these changes to directly lessen the tax burden on labourers and their income. The study also examines trends in the disparity between the statutory, average, and marginal personal income tax rates. It seeks to examine how employee social security contributions influence the highest marginal personal tax rates.

² Gerber, C., Klemm, M. A. D., Liu, M. L., & Mylonas, V. (2018). *Personal income tax progressivity: Trends and implications*. International Monetary Fund.

³ Torres, C., Mellbye, K., & Brys, B. (2012). Trends in personal income tax and employee social security contribution schedules.

According to the report the most noticeable trend between 2000 and 2010, in OECD nations, was the decrease in top PIT rates. This trend was mirrored by decreases in the top rate income threshold.

Jalan, G K. (2019).⁴ studies the trends and patterns in India for almost 28 years. The study highlights that only 3 percent of the population in the country submitted returns in the 2010–11 fiscal year. But this number is minuscule when compared with other nations like New Zealand. The study concludes that there has been a substantial increase in income tax collection as a result of the reforms efforts undertaken by the government.

Amit Kumar Singh, Lovleen Gupta, & Rohit Kumar Shrivastav. (2017).⁵ outlines patterns and trends in India's income tax. The analysis found that the entire tax burden for the fiscal year 2004–2005 was 28.67%. However, only 71.33% of it was accessible to consumers. In the fiscal year 2015–16, the overall tax burden decreased to 18.67%, while the amount of income available for consumption increased to 81.33%. The growth rate in the first slab reveals an upward tendency from the fiscal years 2004–2005 to 2010–2011 to a level of 3300%. Following that, it continued to drop, from 3300% to 3100% to a lower level of 2900% in the fiscal year 2015–16. The second 20% tax bracket has a rising trend. The growth rate for the third tax bracket, which is 30%, has decreased from 7.4% to 62.96%. The said results are used to conclude that the government is attempting to improve the standard of living in the country by lowering the tax liability of tax payers.

Rajeshwari, K., & Mary, M. T. C. (2014).⁶ gives a detailed perspective of how income tax revenue has increased significantly. The primary reasons cited for this rise are changes in tax policy, better tax compliance, the streamlining of the tax system, enhancements in tax administration via the increased use of technology. The implementation of the structural tax reforms, in India, have tremendously raised the tax-to-GDP ratio. Immense effort was put in to reduce income tax disparity.

⁴ Jalan, G K. (2019). Impact of Income tax on the revenue of Government of India

⁵ Singh, A. K., Shrivastav, R. K., & Gupta, L. (2017). An analysis of trends and patterns of income tax in India. *VISION: Journal of Indian Taxation*, 4(1), 40-50.

⁶ Rajeshwari, K., & Mary, M. T. C. (2014). The trend and pattern of income taxation in India. *International Journal of Business and Administration Research Review*, 2(5), 118-124

This study further covers topics such as the history of income tax, its structure, the costs the Indian government incurs to collect taxes, and the direct tax to GDP ratio.

Gupta, R. (2013).⁷ An effort has been made in the current article to explain the personal income tax system in India. One of the study's goals is to gauge the evolution of India's personal income tax system. The study assesses the current situation and potential developments for the current income tax system. The ultimate objective of the study is to make relevant recommendations for a fair personal income tax system. The study provides a brief analysis of the problems caused by the high tax burden on low- and middle-income individuals. The researcher comes to the conclusion that more reforms in the personal income tax structure are still required, including raising the exemption thresholds, reducing tax rates, realigning the various income tax slabs, and streamlining the entire tax process to encourage people to comply with the law.

Gupta, A. (2009).⁸ vividly describes Evolution, structure and importance of personal income tax and the trends in buoyancy and elasticity of personal income tax in India. High tax revenue responsiveness to changes in national income is a sign of a sound tax system. Tax elasticity and tax buoyancy are two metrics used in the study to gauge this responsiveness. The paper seeks to analyse the estimated coefficients of buoyancy. The trends in personal income tax explains that the tax reforms undertaken have had a positive effect on the growth of personal income tax. The main reasons for this rise in the personal income tax's responsiveness to revenue are as follows: reduction in the top marginal rate, the reduction of tax slabs,, expanding the coverage of tax assesses in terms of PAN, TDS, and TIN. All these efforts have simplified the tax structure and increased compliance.

Das-Gupta, A., Lahiri, R., & Mookherjee, D. (1995).⁹ have done a comprehensive study on the factors that affected income tax collections and tax compliance in India for the period 1965–1993. The study discusses how tax structure has had a considerable impact on income tax collections and tax compliance.

⁷ Gupta, R. (2013). Personal income tax structure in India: An evaluation. *Pacific Business Review International*, 5(7), 1-6.

⁸ Gupta, A. (2009). The trends and responsiveness of personal income tax in India. *IGIDR Proceeding*.

⁹ Das-Gupta, A., Lahiri, R., & Mookherjee, D. (1995). Income tax compliance in India: An empirical analysis. *World Development*, 23(12), 2051-2064.

India's performance pertaining to income tax for the period under consideration was below the average of nations with comparable GDP per capita. The study requires the nation to improve income tax collection in India to worldwide levels and for this a fundamental change has to take place in tax administration.

Kumar, D., Roy, V .(2020).¹⁰ The paper provides for a comparison of change in income tax slabs and tax rates for assessment year 2019-20 and 2020-21. Further the paper pictures which assessment year has been more beneficial.

1.3. STATEMENT OF THE PROBLEM

“The hardest thing to understand in this world is Income Tax.”

-ALBERT EINSTEIN

India has one of the most intricate Personal income tax laws in the world. Hence any analysis relating to Personal income tax necessitates a thorough foundation of the basics.

The Review of the literature offers a detailed perspective on the evolution of income tax. Additionally, it covers concepts of progressivity, impact on economic growth, tax burden, trend in tax collection and other economic aspects pertaining to income taxation. There is a need to analyse the role of Personal Income tax in the overall income tax system of the country.

However, an organised trend analysis of the number of taxpayers, tax slabs, tax rates has not been undertaken. How well the country's income tax system adjusts to the changes and addresses the various issues emerging in the world and domestic economy can only be determined by an examination of these trends.

The percentage of Indians who pay personal income tax is minuscule. India actually had more income taxpayers than China up until 1993. Since then, however, the situation has totally turned around. For China income tax is a mass tax. It is a concern whether India is falling behind other nations in terms of personal income tax.

¹⁰ Kumar, D., Roy, V. (2020). Comparative Study on Income tax Planning in slab rate 2019-20 & 2020-21. *Inspira-Journal of Commerce, Economics & Computer Science (JCECS)* January-March,, pp. 113-119

Another major challenge that India faces is tax evasion that has led to low contribution of income tax to total tax revenue. Taxpayers often make false claims for exemption especially under the heading of agricultural income as there is no tax on agriculture income in India.

The aim of this study is to analyse the income tax data and get acquainted with the lesser-known areas of income taxation in the country. An analysis of the trend in the number of taxpayers, tax slabs and tax rates and revenue collection could be utilised in shaping an apt income tax structure to address the issues.

1.4. SIGNIFICANCE OF THE STUDY

Personal Income tax in the 21st century assumes a crucial strategic role in the global economy. Governments all across the globe rely heavily on income tax for funding. It enables governments to finance a range of infrastructure and public services, including social welfare, transport, defence, and healthcare initiatives.

Governments would find it difficult to fulfil their financial responsibilities and offer citizens' basic needs without income tax. Moreover, Income tax is an instrument for fiscal policy management and economic stabilisation.

Although Personal income tax isn't specifically specified as a goal within the SDGs, it can help with a number of the objectives in various ways.

Progressive tax systems like income tax, which impose greater rates of taxation on individuals and corporations with higher incomes, can aid in reducing economic disparities. The money made can go towards infrastructure improvement, social welfare programmes, and projects that try to close the gap between various socioeconomic groups. Redistributing wealth within a society is made easier by income tax.

Income tax laws can also assist women's economic empowerment and participation in the workforce by offering tax benefits or incentives. Income tax is a key factor in promoting social and economic progress.

Income tax money can be used to fund infrastructure projects, programmes for education and healthcare, research and development, and other initiatives that advance a country. Income tax supports these programmes by bringing in investments, fostering a business-friendly climate, and improving residents' quality of life in general.

Income tax provides a way for people and corporations to uphold their social obligations and support societal wellbeing. Individuals who pay income taxes help to maintain the nation's finances and advance society as a whole. It encourages the idea of citizenship and the comprehension that all members of society have a shared obligation to support the government's operations.

Systems of income taxation also contribute to international cooperation and partnerships. To minimise double taxation, developing fair and transparent taxation systems, encouraging international commerce and investment, and stopping tax evasion and avoidance, nations frequently sign tax treaties and accords. These agreements promote investment flows, and support the expansion and stability of the world economy.

Income taxes help governments develop strong institutions by giving them the funds they need to uphold the rule of law, provide access to justice, and carry out effective governance. It encourages openness and accountability while assisting public institutions in operating effectively.

Overall, income tax is a crucial part of public finances since it enables greater societal and economic goals. The Present study seeks to analyse the income tax data for 2011-20. The results from such a study could be utilised in building a well structured income tax system that ensures that governments generate the optimum revenue for promoting economic stability, addressing income inequality, and supporting social and economic development.

1.5. OBJECTIVES OF STUDY

1. To study the trends in India's Personal income tax slabs, their respective tax rates, number of taxpayers and tax collections for the period 2012-2022.
2. To analyse the issues in the personal income tax system during this period.

1.6. THEORETICAL FRAMEWORK

The theoretical framework of income tax can vary across countries and is influenced by social, economic, and political elements present in each one. However, there is no doubt that it is based on the principles of taxation and the objectives of a good tax system. The Income Tax Act and its various amendments lay down the theoretical foundation for income tax in India.

Equity is a fundamental principle of the income tax system in India. The concept of horizontal equity states that people with the same economic conditions ought to get the same treatment when it comes to taxes. It suggests that everybody with the same income, independent of other variables like their source of income or personal traits, should pay the same amount of tax.

The Indian income tax system utilises a progressive tax structure with several income tax slabs and rates to achieve horizontal justice. Individuals within the same tax slab are subject to the same tax rate, ensuring equal treatment for individuals with similar income levels.

By imposing a substantially larger burden on high-income persons and offering tax relief for lower-income individuals, this progressive tax structure seeks to create a fair distribution of the tax burden and minimise income inequality.

The goal of horizontal equity is to do away with any artificial disparities and guarantee that taxpayers with similar economic conditions receive the same treatment. However, if there are exemptions, deductions, or special provisions that provide taxpayers with equal earnings an alternative treatment, horizontal equity may be contested.

Vertical equality acknowledges that people with various income levels ought to get varied tax treatment. It strives to guarantee that people with higher earnings contribute a bigger percentage of their income as taxes and takes into consideration the ability-to-pay concept. By taking into consideration the individual's capacity to pay, it seeks to establish an equitable allocation of the tax burden.

Progressive tax rates are used to implement vertical equity in the Indian income tax system. People with greater incomes pay a bigger percentage of their income in taxes because they are subject to higher tax rates. With a relatively heavier burden on those with higher earnings and tax relief for those with lower incomes, this progressive tax structure is in line with the idea of vertical equity.

The Indian income tax system includes progressive tax rates as well as exemptions, deductions, and credits intended to solve issues with vertical equity.

Administrative factors including tax compliance, enforcement, and collection techniques are also taken into account to ensure principle of simplicity.

Another important principle of the Income Tax Act of 1961 is revenue creation. An economic concept known as the Laffer curve shows how tax rates and tax receipts are related. It implies that there is a tax rate that maximises revenue at an ideal level, after which additional tax rate rises may result in a decrease in revenue.

The theoretical framework provides a conceptual basis for designing and implementing income tax policies in order to achieve country specific economic and social objectives.

1.7. CONCEPTUAL FRAMEWORK

Financial year and Assessment year: In India, the income tax system operates based on specific financial years and assessment years. The financial year (FY) in India is the time frame from April 1 through March 31 of the following year. The fiscal year is another name for it. The fiscal year 2021–2022, for instance, begins on April 1 and ends on March 31.

The assessment year (AY) is the year that comes just after the financial year in which money is earned. Taxpayers must file their income tax returns for the income they received in the prior fiscal year within this year.

For instance, the financial year 2021–2022 and the assessment year 2022–2023 are equivalent. Taxpayers must submit their income tax returns during the assessment year in order to disclose their income, take advantage of deductions and exemptions, and determine their tax obligations. The income earned during the relevant financial year is included in the income tax return for a certain assessment year.

Tax Return Filing and Assessment: Individuals are obliged to file income tax forms in which they list their income, deductions, and tax liabilities. To ensure that the data presented in the tax returns is accurate and full, the income tax authorities conduct assessments. For failing to comply with the law or underreporting your income, you may face fines and interest.

Tax base: The many forms of income that are subject to taxes are referred to as the tax base. Wages, salaries, business earnings, rental income, investment income, and capital gains are common examples of income which is taxed.

Taxable Income: India bases its assessment of income tax obligations on the idea of taxable income, which is derived by deducting allowable deductions and exemptions from gross income. The Act outlines detailed guidelines for tax deductions.

Deductions, exemptions, and credits are frequently offered by income tax systems in order to promote particular behaviours or offer relief to particular taxpayer groups. These provisions might include tax breaks for specific costs (like mortgage interest), exclusions for certain revenue (like interest on tax-free municipal bonds), and tax credits for things like childcare, education etc.

Residential status: The Indian income tax system distinguishes between resident and non-resident individuals for tax purposes. The individual's physical presence and other factors listed in the Income Tax Act are used to determine the individual's residential status. Residents are taxed on their global income.

On the other hand non-residents are taxed only on their income earned in India. The Indian income tax system distinguishes between resident and non-resident individuals for tax purposes.

Taxpayer: An individual is referred to as a "Taxpayer" if they have either submitted a return of income for the pertinent Assessment Year (AY) or, in the instance of an individual who has had tax deducted at the source for the relevant Financial Year but has not filed a return of income.

Tax Slabs and Rates: The income tax in India is structured into different tax slabs, each having its own tax rate. The government updates the tax slabs and rates on a regular basis through the Union Budget. The rates are often higher for people with higher income levels, reflecting the progressive nature of taxation.

Taxation of Different Income Sources: The Indian income tax system takes into account a variety of income sources, including salaries, business profits, capital gains, house property income, and income from other sources. Specific provisions and rules for calculation and taxation may apply to each source of income.

Tax Deducted at Source (TDS): The Indian income tax system includes a Tax Deducted at Source (TDS) system, under which some organisations (including employers and financing institutions) are obligated to deduct tax from payments made to people. TDS is a useful tool for guaranteeing tax compliance and revenue collection.

1.8. RESEARCH METHODOLOGY

The study attempts to gauge the income tax trends in recent years and also identifies the various roadblocks in achieving the country's targets with regard to income tax. It also delves into the various initiatives to broaden the taxable capacity of India. The present study will be descriptive as well as analytical in nature for interpreting the topic in a comprehensive way.

Area of study: The study covers the whole of the country India.

Period of study: The research is conducted for the period of 2012-2022 and data collected pertains to ten years, starting from April 2012 till March 2022.

Source of data: The study is based on both secondary data (CBDT releases, Income tax portal, CAG reports, Economic survey, PIB website) and various other newspaper articles and journals.

Statistical tools: The secondary data is interpreted with the aid of tools like percentages, changes in percentage, Compound Annual Growth Rate (CAGR), graphs including bar diagrams, line diagrams, area graphs etc.

In order to generate policy decisions regarding tax rates, slabs, revenue growth, exemptions, and deductions, it is relevant to take into the point of view of both government and taxpayers. Governments focus on continuously improving the income taxation capacity, while taxpayers are concerned about their ability to bear the tax burden. Hence, several economic concepts like the taxable capacity, laffer curve theory, ability to pay principle can be utilised for this purpose. Assessing the ability to pay and estimating the exact shape and position of the curve is quite challenging and is therefore beyond the scope of present study.

However, a range of factors are addressed in the study to get a general idea on the peak of laffer curve:

- Taxpayer Base and behaviour.
- Efficiency and effectiveness of Tax Administration.
- Tax Compliance and Tax Evasion.
- Design of Tax Policies.
- Economic Factors.
- Tax Avoidance and Tax Planning.

Several indicators that provide insights into the relative income capacity of taxpayers have also been taken into account:

- Income Levels.
- Socioeconomic Factors like education level and employment status.
- Regional Disparities.

Consideration of these factors can help ensure efficient tax collection, adequate revenue generation, and equitable tax burdens for individuals and entities in India.

Formulas used:

- $Percentage = (Given\ value \div Total\ value) \times 100$
- $Compound\ Annual\ Growth\ Rate\ (CAGR) = [(F \div B) \wedge (1 \div t)] - 1$
where F = Final Value, B = Beginning Value, t = Time (in years)
- Change in Value = Current Value - Base Value
- Percentage change in Value = Current Value - Base Value \div Base Value

1.9. SCHEME OF THE STUDY

Chapterisation of the Study is organised under four chapters in the following manner:

❖ Chapter 1 - Introduction

It includes introduction, review of Literature, objectives of the study, present relevance, methodology, theoretical framework and limitations of the study.

❖ Chapter 2 - Personal Income Tax in India - An Overview

The chapter provides a synopsis of its evolution, the reasons for its implementation, importance, Income tax Act, Income tax Department and its functions, Role of CBDT.

❖ Chapter 3 - Trends in India's Personal Income Tax during 2012-2022

The chapter analyses the time series data for the time period of 10 years and provides for trends and issues in income tax.

❖ Chapter 4 - Findings, Recommendations and Conclusions

This chapter discusses the results obtained and provides policy suggestions.

1.10. LIMITATIONS OF THE STUDY

The study focuses only on personal income tax. Concepts like deductions, exemptions, and surcharges are outside the purview of study.

Some data are yet to be released or are unavailable for the period under review. The analysis is based upon data available at that point of time.

CHAPTER 2
PERSONAL INCOME TAX IN
INDIA - AN OVERVIEW

2.1 EVOLUTION OF PERSONAL INCOME TAX

2.1.1 Ancient India

A peek into Ancient Indian scriptures like the Manusmriti and Arthashastra is useful for obtaining information regarding taxes and economic management. These works do not contain any reference to Personal income tax. The economy was characterized by a barter system and income had no role in the lives of people. The idea of personal income tax as it is understood today, emerged considerably later in history, during British rule.

2.1.2 Prior to Independence.

The British colonial authority established an income tax system before the nation's independence in 1947. In 1860, the British colonial authorities imposed the first income tax in India. The contemporary income tax system was established with the passage of the Indian Income Tax Act in 1886. The Act established a thorough tax framework, which included the division of income into several headings and the calculation of taxable income.

The tax was primarily levied on individuals and businesses based on their income. Both Indians and British people living in India had to pay income tax. Both categories were subject to basically equal tax rates and rules.

Depending on the income levels, there were different income tax rates. There were at first two primary tax schedules for both Individuals and businesses. In addition to salaries, company earnings, property income, and agricultural revenue were all subject to the income tax. However, compared to other types of income, agricultural revenue was subject to certain exemptions and had reduced tax rates.

There were certain exclusions and deductions offered by the income tax system. For instance, deductions were permitted for costs made in order to generate revenue, such as business costs.

The British colonial government handled the administration of income tax. To assess and collect taxes from both people and corporations, income tax officers were hired. Tax assessments were done based on the claimed income, and tax returns had to be filed. Even in those days the income tax system had provisions for relief from double taxation. Tax treaties and agreements were established between India and certain countries to prevent individuals from being taxed twice on the same income.

1918 saw the adoption of a new income tax. The Indian Income Tax Act of 1918 amended numerous key provisions while repealing the earlier law. Another new statute was approved in 1922 to replace it once more. The Income-tax Department's organisational history begins in the year 1922. The Income-tax Act of 1922 provided the various Income-tax agencies with a clear name for the first time. Up until 1961, the Income Tax Act of 1922 was in effect.

Income tax system in India has evolved significantly since independence.

2.1.3 Income tax system after independence

The nation's average income levels were relatively low on the eve of India's independence in 1947. During the period, the Indian economy was mostly agricultural, and the vast majority of people worked in agriculture or associated fields. The industrial sector was very small and undeveloped, and the bulk of the population resided in rural regions. Furthermore, there was a considerable economic gap between various societal groups, with the distribution of income being extremely skewed.

Despite low income levels, personal income tax was implemented in independent India for a number of reasons.

India's independent government implemented personal income tax in an effort to create a progressive tax structure that would encourage fiscal justice and lessen economic inequality. Despite the fact that income levels were low at the time, it was considered a long-term strategy to build a fairer and more equal society since it was anticipated that incomes would rise with time.

India looked to several industrialised nations that already had personal income tax systems in place, as role models for its own economic and social advancement.

When India became independent and chose a planned economic development strategy that placed a strong emphasis on government involvement and resource mobilisation for social welfare and industrialisation.

India's independence brought with it a number of difficulties for the country's infrastructure, social welfare initiatives, and economic expansion. To meet these demands and finance nation-building projects, the government needs financial resources. It was believed that personal income tax was a crucial source of funding for these needs.

Even though earnings were modest in the early years of independence, it was expected that as India's economy grew, so will incomes. The government wanted to establish a system that could support future economic growth and collect a broader tax base as earnings climbed by enacting personal income tax early on.

The Indian Income Tax Act of 1922 was superseded by the Income Tax Act of 1961 following India's independence in 1947. The foundation of India's present income tax structure is this act. It resulted in the establishment of The Central Board of Direct Taxes (CBDT), along with a number of other reforms, including the introduction of the idea of residential status, capital gains taxes etc.

India's income tax system is constantly changing, and the government keeps introducing changes and adjustments to enhance its efficacy and efficiency while fostering social welfare and economic development.

2.2. ACT GOVERNING PERSONAL INCOME TAX IN INDIA

The main piece of law controlling the taxation of income in India is the Income Tax Act of 1961. It was passed in order to harmonise and update the country's income tax laws as well as to establish a comprehensive framework for their assessment and collection. The Act is applicable to any person, company, and entity that makes money in India.

Individuals in India, including residents and non-residents, are subject to personal income tax under the Income Tax Act. Different tax rates apply to these different slabs. These tax rates are subject to modification whenever the government makes changes.

In accordance with an individual's yearly income, the income tax rates are separated into slabs. Because the rates are progressive, higher income levels result in higher tax rates. For instance, the income tax rates and brackets for the fiscal year 2021–2022 (assessment year 2022–2023): From INR 2.5 lakh to INR 5 lakh, there is no tax. From INR 5 lakh to INR 10 lakh, there is a 20% tax. 30% above INR 10 lakh. A 4% health and education cess is also added to the total amount of tax that must be paid.

The Income Tax Act enables people to make a number of exemptions and deduction claims in order to lower their taxable income. Popular tax deductions include those for contributions to charitable organisations, payments of life insurance premiums, medical insurance premiums, and investments in certain financial instruments (such as Public Provident Fund, National Savings Certificates, and Equity-Linked Saving Scheme).

People are expected to submit their income tax returns to the appropriate tax authorities, including their yearly gross income, deductions, and taxes paid. Typically, tax returns must be filed by July 31 of the assessment year. Penalties and interest may apply for non-compliance or failure to file tax returns.

The Income Tax Act also requires that some organisations, including employers, banks, and other financial institutions, deduct tax at source (TDS) when paying people. The government receives the deducted tax and deposits it there on the taxpayer's behalf.

People are obliged to receive a special identification number called a Permanent Account Number (PAN) in order to expedite income tax-related activities, such as tax return filing and payment. It acts as a crucial form of identification for Indian tax reasons.

The Annual/Union Budget which is a thorough financial summary that describes the government's budgetary goals and income projections for the current fiscal year, which runs from April 1 to March 31. The budget includes all of the government's numerous departments, plans, and initiatives.

The Finance Act is a piece of law enacted to fulfill the financial plans mentioned in the Annual Budget. It includes tax provisions, such as changes to current tax laws and the addition of new tax measures. For successful implementation of budget plans, the Finance Act is normally enacted prior to the start of the new fiscal year.

The government makes changes to the income tax legislation during the Annual Budget, including adjustments to tax rates, tax slabs, deductions, exemptions, and other measures. These proposals are then incorporated into the Finance Act, which becomes the law governing income tax for the relevant financial year. The Finance Act is applicable to all taxpayers and transactions involving taxes once it is adopted. The regulations relating to income tax are only a small portion of the more extensive financial policies that are described in the Annual Budget and put into effect by the Finance Act.

2.3 FUNCTIONS OF INCOME TAX DEPARTMENT

The Indian government's Income Tax Department is in charge of overseeing and executing the nation's income tax regulations. It is governed by the Department of Revenue, Ministry of Finance. The Income Tax Department's main duty is to collect income tax from people, companies, and other entities that are liable to pay tax based on their income. This involves determining how much income tax is owed and collecting it.

The Income Tax Department performs assessments to determine a person's or an organization's tax due. Taxpayers' income tax returns are checked for correctness and completeness. If there are any errors or inconsistencies, notifications may be issued for additional inquiry or audit.

To help people comply with the income tax regulations, the department offers a variety of taxpayer services. This includes making it easier to file income tax returns, offering advice on tax-related issues, issuing taxpayer identity cards (PAN cards), and resolving questions and complaints from taxpayers.

The Income Tax Department works to encourage tax compliance by regularly inspecting, auditing, and investigating taxpayers to look for signs of tax evasion and make sure they are paying their taxes. When there is a suspicion of tax evasion, it conducts enforcement measures including issuing fines, starting legal action, and carrying out search and seizure operations.

The department plays a crucial role in informing taxpayers of their privileges and duties under the tax laws. In order to increase taxpayer education and encourage voluntary compliance, it runs outreach programmes, workshops, and awareness campaigns.

The Income Tax Department also handles issues relating to international taxes, such as tax treaties and the sharing of tax-related information with other jurisdictions, in light of the expanding global character of economic operations.

The Income Tax Department advises the government on issues pertaining to tax policy development. It is essential in the creation of tax rules and regulations, making suggestions for revisions, and carrying out government-passed legislative changes.

2.4 ROLE OF THE CENTRAL BOARD OF DIRECT TAXES (CBDT)

CBDT is India's top administrative body in charge of managing all direct taxes, including personal income tax. It performs as a statutory body for the Indian government's Department of Revenue and Ministry of Finance. The creation, implementation, and administration of income tax regulations are all heavily influenced by the CBDT.

It offers feedback and suggestions to the government on issues including tax rates, tax slabs, exemptions, deductions, and other personal income tax-related rules.

The CBDT participates in the development and application of personal income tax policy. When it comes to making changes to the Income Tax Act of 1961, the CBDT is a key player. It recommends legislative adjustments to solve new problems, streamline tax procedures, and adapt the tax code to changing economic situations.

To give direction and interpretive instructions on many elements of personal income tax, the CBDT distributes circulars, notices, and clarifications. These circulars help taxpayers, tax experts, and tax authorities comprehend and put the Income Tax Act's requirements into practise.

The Income Tax Department provides taxpayer services under the CBDT's supervision. It creates policies and programmes to improve taxpayer services, such as streamlining tax filing processes, facilitating e-filing, and resolving issues with taxpayers.

The administration and direction of the Income Tax Department is within the purview of the CBDT. It creates rules and guidelines, defines general goals for tax administration, and keeps track of how well tax officials are doing their jobs.

In the domain of personal income tax, the CBDT develops policies and regulations to encourage tax compliance and combat tax evasion. To make sure that tax rules are being followed correctly, it gives tax authorities guidance on how to conduct assessments, audits, and investigations.

The CBDT also takes into consideration international tax issues involving personal income tax. It engages in talks and debates on tax treaties with other countries, makes it easier for people to share tax information, and makes sure that international tax laws are followed.

Although the CBDT plays a vital role in personal income tax administration, the field-level tax authorities are in charge of carrying out the day-to-day activities. The Income Tax Department is the operational branch that carries out and oversees the day-to-day application of the income tax legislation.

The Income Tax Department is the operational entity in charge of enforcing and administering income tax regulations, whereas the CBDT is the policy-making and supervisory authority. Together, the two entities make sure that India's income tax system runs smoothly.

2.5 EXEMPTION OF AGRICULTURAL INCOME FROM INCOME TAX

Agricultural income is typically excluded from income tax as per law in India. In India, it has long been the practice to exclude income from income tax if it comes from the agricultural sector. Given the agricultural sector's major importance to the economy and the means of subsistence for millions of people, it represents a historical strategy to prioritise and safeguard it.

Any revenue received from agricultural land and agricultural activities such as rent or the sale revenue of agricultural products is agricultural income. Revenue obtained from non-agricultural activities, such as the processing of agricultural products, is not regarded as agricultural revenue and may be taxed.

Both individuals and Hindu Undivided Families (HUFs) are exempt from the requirement. This exemption does not apply to other legal bodies like corporations and partnerships.

Agricultural income may be subject to clubbing laws and taxed appropriately if it is obtained by an individual through a partnership business or an association of persons (AOP) and the individual has a significant stake in the partnership or AOP.

Although agricultural income is not subject to income tax in and of itself, it is considered for calculating the relevant tax slab rate for non-agricultural income. Based on the entire income of an individual or HUF (including agricultural revenue), the tax slab rates for non-agricultural income are computed.

Due to many factors that have their roots in the historical and socioeconomic framework of the nation, agricultural income is not taxed under personal income tax in India. Indian agriculture has historically contributed significantly to the country's economy and employed a sizable number of the people. The government wants to assist and encourage farmers and advance agricultural development given the nation's predominantly rural background.

Limited financial capacity of farmers is another reason. The agriculture industry frequently experiences income instability owing to a variety of causes including weather, pests, and market swings. The income of a farmer may be erratic and unreliable. Taxing agricultural revenue might be burdensome for farmers who may already be struggling financially, particularly during times of crop failure or other adversity.

India's agricultural industry is made up of a large number of small-scale farmers with dispersed landholdings. Accurately assessing and calculating a farmer's revenue can be difficult owing to issues including varying planting patterns, a lack of sufficient paperwork, and unofficial transactions. Agriculture income taxation would need a sophisticated and large administrative framework.

State governments are generally in charge of taxing agricultural revenue. To help farmers and encourage agricultural expansion, the majority of Indian states do not charge income taxes on income from agriculture.

In recent years, there have been proposals about taxing agricultural revenue, mainly to address concerns with income inequality and widen the tax base.

A tax system that exempts agricultural income from income tax may be unfair. Persons with large agricultural income may be paying no income tax, while those with non-agricultural income are entirely responsible for paying it. Individuals in other industries who are taxed may view this as unfair and it is considered as an uneven allocation of the tax burden by some people.

The exclusion of agricultural revenue may provide opportunities for tax avoidance and evasion. There were cases that reported on how non-agricultural income had been filed incorrectly as agricultural income in order to benefit from the tax exemption. The integrity of the tax system may be compromised, and the government may suffer revenue losses as a result.

Many countries tax agricultural income, including those with similar agricultural sectors and challenges as India. It can bring India's taxation system more in line with international standards.

Any adjustments to how agricultural revenue is taxed, however, would need legislative reforms and rigorous analysis of the possible effects on farmers and the agricultural industry as a whole.

CHAPTER 3
TRENDS IN INDIA'S PERSONAL
INCOME TAX DURING 2012-2022

The assessment of the trends in personal income tax forms the crux of this research study. The present chapter analyses this core part under two sections. The former section gives an idea of the income tax system prior to the year 2012, while the later section analyses the years from 2012 to 2022.

3.1 BACKGROUND - HISTORICAL TRENDS

Various reports and studies have used the historical data to discover the trends in direct tax collections and number of taxpayers prior to 2012, available from various publications of the Central Board of Direct Taxes and the CAG reports.

A look into the personal income tax system before 2012 reveals that the income tax base in India was quite tiny. The number of taxpayers always hovered in between 1 to 2 crore until 1990. Early in the 1990s, there were considerable economic reforms in India, and there were initiatives to broaden the tax base and boost tax compliance. Even though there has been a steep increase in the number of taxpayers since then, there were far fewer income tax filers than there are now.

The following table is helpful in getting a glimpse of the increase in the number of taxpayers from 2006-11. The individual taxpayer base has increased from 30.9 million in 2006-07 to 33.2 million in 2010-11, an increase of 7%. The taxpayer base did decline from its highest point of 33.7 million in 2009-10 to 33.2 million people in 2010-11.

Table 3.1: Number of Taxpayers for 2006-2011

Year	Individual taxpayers (in millions)
2006-07	30.9
2007-08	33.1
2008-09	32.3
2009-10	33.7
2010-11	33.2

Source: CAG Reports

The time series data of tax revenue unfolds the amount of personal income tax revenue over the years. In 2000-01 the personal income tax collections was Rs. 35696 crore, while it was just 6731 crores Rs in 1991. This represents a huge leap of almost five times the increase in the initial collections of 1991.

Income tax rates and slabs have undergone several changes during the period. Initially, India had a pathetic tax rate of 97.75 per cent which remains the highest personal income tax rate till date. The presence of 11 tax slabs further complicated the matter. Tax rates were first sought to be adjusted during 1949-50 to bring about some beneficial tax rate modifications in the nation. Several adjustments were made to the income tax rates in 1974–1975 with the top income tax rate being reduced from 97.75% to 75% and all income tax brackets were characterised by lower taxes.

There were now only four instead of eight income tax slabs in 1985-86. The number of tax slabs was lowered from four to three in 1992. The year 1997 replaced the previous rates of 15, 30, and 40% with 10, 20, and 30%.

After a five-year hiatus, the income slab was modified in 2010–11. Individuals making up to Rs. 1.6 lakh would pay no taxes, those making between Rs. 1.6 lakh and Rs. 5 lakh would pay 10%, those making between Rs. 5 lakh and Rs. 8 lakh would pay 20%, and those making beyond Rs. 8 lakh would pay 30%.

These trends can be explained by the various government initiatives and programs introduced to widen the tax base and ensure tax compliance in India. Governments established various tax deductions. For instance, deductions were allowed for costs associated with education, healthcare, mortgages, charity contributions, and retirement savings. To lessen the tax burden on particular groups or for particular reasons, governments developed tax credits.

There have been initiatives to streamline tax filing and lessen taxpayers' administrative obligations. This includes programmes like pre-filled tax forms, computerised filing systems, and enhanced taxpayer assistance.

To give taxpayers choices for computing their taxes, several governments developed alternative tax systems. In certain places, for instance, a flat tax rate system was implemented, allowing taxpayers to opt to pay taxes as a fixed proportion of their income. Some important initiatives are listed below

- Introduction of Voluntary Disclosure Scheme in 1951
- The Wealth tax Act, Gift-tax Act, introduced
- Constitution of CBDT in 1963, 1964
- Schemes like Summary Assessment, departmentalisation of accounts introduced
- 1987 L.K. Jha Committee set up for simplification and rationalisation of tax laws.
- Benami Transactions Prohibition Act 1988 introduced.
- New PAN introduced in 1994
- Legal measures to widen tax base on certain economic indicators introduced in selected cities in 1997
- Presumptive tax scheme discontinued.
- Voluntary Disclosure Scheme 1997 introduced.
- Minimum Alternate Tax introduced.
- The National Computer Centre (NCC) was set up in Delhi.

3.2 ASSESSING THE TRENDS FOR 2012-22

The Indian economy during the period from 2012 to 2022 witnessed both challenges and positive developments. India witnessed a mix of growth rates during this period. In the earlier years, the economy faced some challenges, with growth rates slowing down due to factors such as global economic uncertainty, domestic policy constraints, and structural issues. This impacted income growth. However, in subsequent years, there were signs of recovery and improvement in growth rates. Poverty levels in India saw a general trend of decline. The labor market faced challenges, particularly in the initial years, with job creation not keeping pace with the growing workforce.

Inflation is a significant concern during this period, especially in the earlier years. Demonetisation, financial inclusion and digitalization were prominent features. The Indian government undertook structural reforms in various sectors, including agriculture, labor like GST. The COVID-19 pandemic led to disruptions in various sectors and labor market.

The 10 years data relating to Personal Income tax revenue is obtained from the time series data released by the Income Tax Department. The Personal Income Tax in the table given below also includes securities transaction tax which is a tax relating to share transactions.

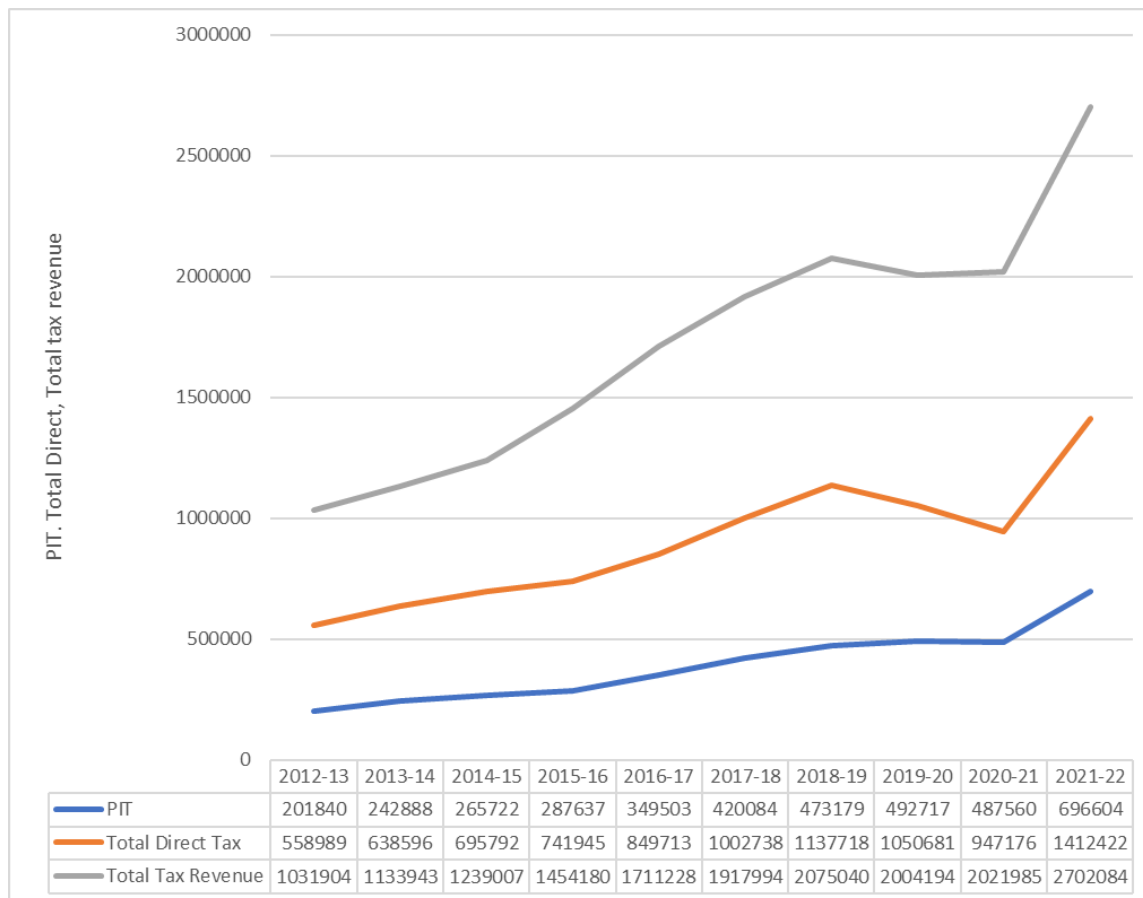
Table 3.2: Personal Income Tax Revenue for 2012-22

Financial Year	Personal Income tax (Rs. crore)	Total Direct tax collection (Rs. crore)	Total tax Revenue(Rs. crore)	PIT to Total Direct Tax Revenue (%)	PIT to Total Tax Revenue (%)
2012-13	2,01,840	5,58,989	10,31,904	36.11	19.55
2013-14	2,42,888	6,38,596	11,33,943	38.03	21.42
2014-15	2,65,772	6,95,792	12,39,007	38.20	21.45
2015-16	2,87,637	7,41,945	14,54,180	38.77	19.78
2016-17	3,49,503	8,49,713	17,11,228	41.13	20.42
2017-18	4,20,084	10,02,738	19,17,994	43.91	21.90
2018-19	4,73,179	11,37,718	20,75,040	46.00	22.80
2019-20	4,92,717	10,50,681	20,04,194	46.90	24.58
2020-21	4,87,560	9,47,176	20,21,985	51.47	24.11
2021-22	6,96,604	14,12,422	27,02,084	49.32	25.78

Source: Income Tax Department

For an in depth analysis the above data has been depicted in the form of a line graph.

Figure 3.1: Trend in Personal Income Tax



Source: Income Tax Department (Secondary Data)

It is possible to imbibe from the graph that personal income tax has shown a steady increment for the study period except for the year 2020-21 which saw a dip in the tax revenue. The Personal income tax amount for the financial year 2012-13 was Rs. **2,01,840 crore**, while it was Rs.**2,42,888 crore** in 2013-14 indicating 20.33 percent increase. However, the growth percentage was limited to 9.42 percent and 8.22 percent for the next two years. Since then there has been a substantial increase in the tax collections with 21.50 percent increase from the last year.

The increase in 2018-2019 and 2019-20 was only 12.6% and 4.12 percent respectively. There was decline in the revenue to Rs 487560 crores for the year 2020-21 due to covid pandemic as economic activity as such came to a standstill.

The significant tax mop-up in the subsequent year indicates that the economy has recovered from its epidemic lows thanks to an increase in personal income.

The CAGR of Personal Income tax computed for the period is 13.19% depicting the cumulative performance of PIT. Initially PIT contributed 36% and 19.5% to Direct Tax and Total Tax Revenue in the country. Except for the year 2021-22, the PIT to Overall Direct Tax Revenue Ratio has increased. PIT to Total Tax Revenue has shown an upward trend excluding the year 2015-16. This signifies the growing relevance of personal income tax in the overall tax system of the country.

Table 3.3: State- wise distribution of Direct tax Collection

States	FY 2016-17 (in Rs.crore)	FY 2021-22*(in Rs.Crore)
Andhra Pradesh	36,241.34	56,663.27
Arunachal Pradesh	169.38	233.34
Assam	4,709.99	5,688.45
Bihar	6,519.42	7,396.60
Jharkhand	4,546.72	7,031.06
Goa	2,248.96	2,879.41
Gujarat	38,808.27	71,642.27

Haryana	20,312.64	37,729.33
Himachal Pradesh	2,458.67	3,072.86
Karnataka	85,920.98	168,678.09
Kerala	13,779.42	19,562.02
Madhya Pradesh	15,768.55	18,137.83
Chhattisgarh	3,678.98	7,782.70
Maharashtra	314,056.27	524,497.65
Manipur	128.36	310.5
Meghalaya	791.71	1,063.86
Mizoram	111.7	90.14
Nagaland	160.33	292.7
Odisha	9,339.21	15,587.24

Punjab	10,320.01	15,981.11
Rajasthan	20,182.09	25,215.64
Sikkim	261.35	384.1
Tamil Nadu	60,077.95	88,438.33
Tripura	264.52	424.19
Uttar Pradesh	29,309.60	34,719.83
Uttarakhand	2,735.68	4,208.44
West Bengal	35,175.89	53,774.61
Telangana	3,452.85	27,184.95
Delhi	108,882.50	177,824.22

Source: Income tax Department (Secondary Data)

The above table can be used to point to the regional disparity in the personal income tax collection. Maharashtra and Delhi contribute hugely (7.13% and 12.59% in the FY 2021-22, respectively) to the Direct taxes while States like Mizoram, Nagaland, Sikkim have poor performance. This trend is true for the entire time period.

The number of taxpayers are the entities that contribute to the country's tax collection, Hence, they should be the focus of analysis. They might or might not be submitting returns, though. There is a good chance that taxpayers are not filing their returns. Some salaried taxpayers may use TDS to pay their taxes, but they could forget to submit a return.

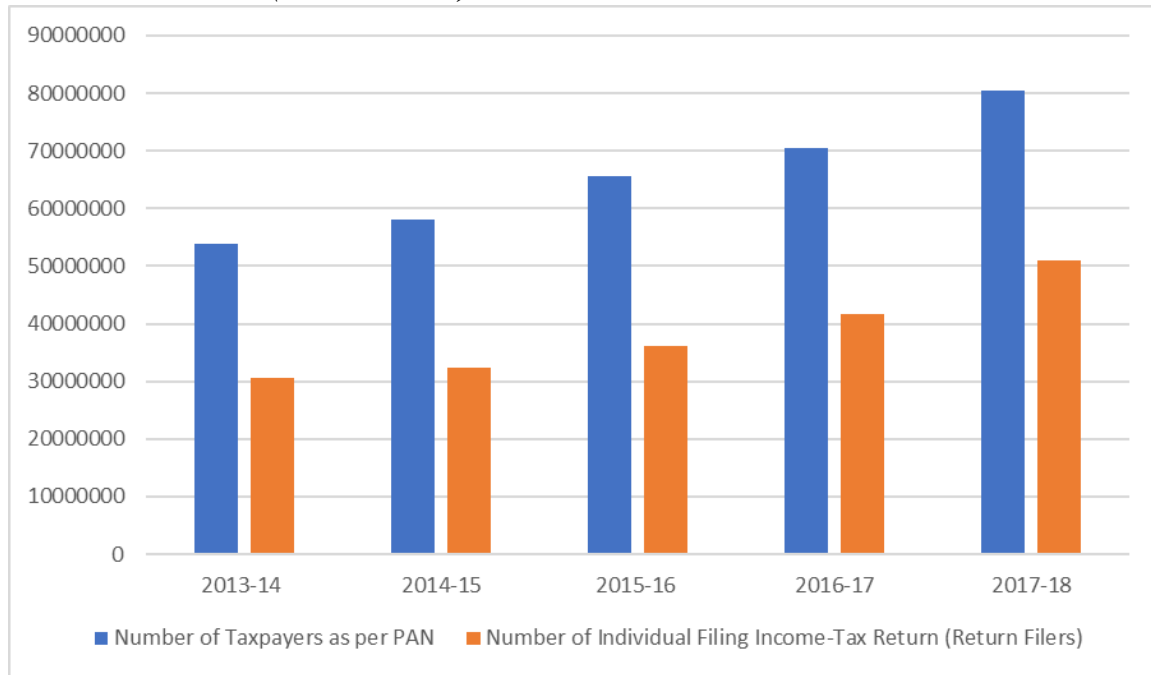
The effectiveness of income taxes is heavily dependent on the number of filers rising steadily over time. Government programmes to combat tax evasion, citizen tax attitudes, economic expansion, and other relevant factors should influence variations in the number of filers.

Table 3.4: Number of Individual Taxpayers and Number of Persons Filing Income-Tax Return (Return Filers)

Year	Number of Taxpayers as per PAN	Number of Individual Filing Income-Tax Return (Return Filers)
2013-14	5,38,05,146	3,04,97,487
2014-15	5,79,70,144	3,23,72,285
2015-16	6,55,55,912	3,61,38,618
2016-17	7,04,45,510	4,15,93,816
2017-18	8,04,45,511	5,09,89,970

Source: Income Tax Department (Secondary Data)

Figure 3.2: Number of Individual Taxpayers and Number of Persons Filing Income-Tax Return (Return Filers)



Source: Income Tax Department (Secondary Data)

According to the figure, both variables are growing in numbers. The Annual Compound Growth rate for both are 8.38% and 10.83%. This means that the number of Persons Filing Income-Tax Return have increased at a higher pace than the increase in the number of taxpayers. Year -wise comparison shows that the number of taxpayers exceeds the number of Persons Filing Income-Tax Return.

The FY 2013-14 registered 53,805,146 and 30,497,487 number of individual taxpayers and Return filers. But the huge leap of 80,445,511 and 4,95,76,555 in mere 5 years is commendable. Since fiscal 2011–2012, there has been a 25% growth in the number of taxpayers; in the fiscal year 2014–2015, there were 5 crore tax payers, up from 4 crore registered income tax payers three years prior.

Data on the total number of taxpayers for the fiscal year 2018–2022 is not yet officially published.

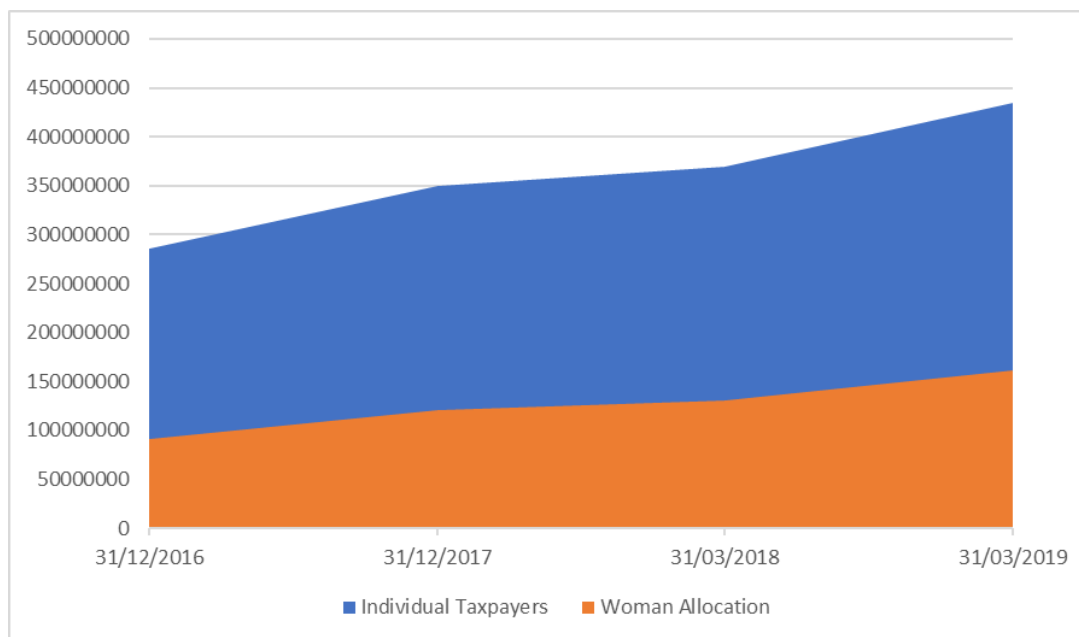
Table 3.5: Gender Disparity in PAN allocation

PAN Allotment up to	Individual Taxpayers	Woman Allocation	Percentage of women allocation
31/12/2016	28,57,79,344	9,12,33,571	31.92
31/12/2017	35,00,85,561	12,12,39,706	34.63
31/03/2018	36,94,73,536	13,04,07,112	35.30
31/03/2019	43,52,48,341	16,17,21,007	37.16

Source: Income Tax Department (Secondary Data)

9.3 million (34 percent) of the 27.6 million Permanent Account Number (PAN) cards issued to individuals in Financial Year 2013–14 were granted to women. Up to 31/03/2019, PAN allocation was 43,52,48,341, with a total female allocation of 16,17,21,007 which represents 37 percent. It is evident from the figure given below that the percentage of women allocated for PAN has increased which is a positive trend.

Figure 3.3: Woman Allocation in PAN Allotment



Source: Income Tax Department (Secondary Data)

To address inflation, India periodically revised the income tax slabs and tax rates to adjust for inflation.

Table 3.6: Income tax slabs for individuals

Financial Year	For individuals	Income	Tax rate
2012-13	<i>Less than 60 years</i>	up to Rs. 2,00,000	No tax
		between Rs. 2,00,001 and Rs. 5,00,000	10%
		between Rs. 5,00,001 and Rs. 10,00,000	20%
		above Rs. 10,00,000	30%
	Above 60 but less than 80 years	up to Rs. 2,50,000	No tax
		between Rs. 2,50,001 and Rs. 5,00,000	10%
		between Rs. 5,00,001 and Rs. 10,00,000	20%
		above Rs. 10,00,000	30%
	aged 80 years or above (super senior citizens)	up to Rs. 5,00,000	No tax
		between Rs. 5,00,001 and Rs. 10,00,000	20%

		above Rs. 10,00,000	30%
2013-14	<i>Less than 60 years</i>	up to Rs. 2,00,000	No tax
		between Rs. 2,00,001 and Rs. 5,00,000	10%
		between Rs. 5,00,001 and Rs. 10,00,000	20%
		above Rs. 10,00,000	30%
	Above 60 but less than 80 years	up to Rs. 2,50,000	No tax
		between Rs. 2,50,001 and Rs. 5,00,000	10%
		between Rs. 5,00,001 and Rs. 10,00,000	20%
		above Rs. 10,00,000	30%
	aged 80 years or above (super senior citizens)	up to Rs. 5,00,000	No tax
		between Rs. 5,00,001 and Rs. 10,00,000	20%
		above Rs. 10,00,000	30%
	2014-15	<i>Less than 60 years</i>	up to Rs. 2,50,000

		between Rs. 2,50,001 and Rs. 5,00,000	10%
		between Rs. 5,00,001 and Rs. 10,00,000	20%
		above Rs. 10,00,000: 30%	30%
	Above 60 but less than 80 years	up to Rs. 3,00,000	No tax
		between Rs. 3,00,001 and Rs. 5,00,000	10%
		between Rs. 5,00,001 and Rs. 10,00,000:	20%
		above Rs. 10,00,000	30%
	aged 80 years or above (super senior citizens)	up to Rs. 5,00,000	No tax
		between Rs. 5,00,001 and Rs. 10,00,000	20%
		above Rs. 10,00,000	30%
2015-16	Less than 60 years	up to Rs. 2,50,000	No tax
		between Rs. 2,50,001 and Rs. 5,00,000	10%
		between Rs. 5,00,001 and Rs. 10,00,000	20%

		above Rs. 10,00,000: 30%	30%
	Above 60 but less than 80 years	up to Rs. 3,00,000	No tax
		between Rs. 3,00,001 and Rs. 5,00,000	10%
		between Rs. 5,00,001 and Rs. 10,00,000:	20%
		above Rs. 10,00,000	30%
	aged 80 years or above (super senior citizens)	up to Rs. 5,00,000	No tax
		between Rs. 5,00,001 and Rs. 10,00,000	20%
		above Rs. 10,00,000	30%
	2016-17	Less than 60 years	up to Rs. 2,50,000
between Rs. 2,50,001 and Rs. 5,00,000			10%
between Rs. 5,00,001 and Rs. 10,00,000			20%
above Rs. 10,00,000: 30%			30%

	Above 60 but less than 80 years	up to Rs. 3,00,000	No tax
		between Rs. 3,00,001 and Rs. 5,00,000	5%
		between Rs. 5,00,001 and Rs. 10,00,000:	20%
		above Rs. 10,00,000	30%
	aged 80 years or above (super senior citizens)	up to Rs. 5,00,000	No tax
		between Rs. 5,00,001 and Rs. 10,00,000	20%
		above Rs. 10,00,000	30%
2017-18	Less than 60 years	up to Rs. 2,50,000	No tax
		between Rs. 2,50,001 and Rs. 5,00,000	5%
		between Rs. 5,00,001 and Rs. 10,00,000	20%
		above Rs. 10,00,000: 30%	30%
	Above 60 but less than 80 years	up to Rs. 3,00,000	No tax
		between Rs. 3,00,001 and Rs. 5,00,000	5%

		between Rs. 5,00,001 and Rs. 10,00,000:	20%
		above Rs. 10,00,000	30%
	aged 80 years or above (super senior citizens)	up to Rs. 5,00,000	No tax
		between Rs. 5,00,001 and Rs. 10,00,000	20%
		above Rs. 10,00,000	30%
2018-19	<i>Less than 60 years</i>	up to Rs. 2,50,000	No tax
		between Rs. 2,50,001 and Rs. 5,00,000	5%
		between Rs. 5,00,001 and Rs. 10,00,000	20%
		above Rs. 10,00,000	30%
	Above 60 but less than 80 years	up to Rs. 3,00,000	No tax
		between Rs. 3,00,001 and Rs. 5,00,000	5%
		between Rs. 5,00,001 and Rs. 10,00,000:	20%
		above Rs. 10,00,000	30%

	aged 80 years or above (super senior citizens)	up to Rs. 5,00,000	No tax
		between Rs. 5,00,001 and Rs. 10,00,000	20%
		above Rs. 10,00,000	30%
2019-20	<i>Less than 60 years</i>	up to Rs. 2,50,000	No tax
		between Rs. 2,50,001 and Rs. 5,00,000	5%
		between Rs. 5,00,001 and Rs. 10,00,000	20%
		above Rs. 10,00,000	30%
	Above 60 but less than 80 years	up to Rs. 3,00,000	No tax
		between Rs. 3,00,001 and Rs. 5,00,000	5%
		between Rs. 5,00,001 and Rs. 10,00,000:	20%
		above Rs. 10,00,000	30%
	aged 80 years or above (super senior citizens)	up to Rs. 5,00,000	No tax
		between Rs. 5,00,001 and Rs. 10,00,000	20%

		above Rs. 10,00,000	30%
2020-21 (OLD TAX REGIME)	<i>Less than 60 years</i>	up to Rs. 2,50,000	No tax
		between Rs. 2,50,001 and Rs. 5,00,000	5%
		between Rs. 5,00,001 and Rs. 10,00,000	20%
		above Rs. 10,00,000	30%
	Above 60 but less than 80 years	up to Rs. 3,00,000	No tax
		between Rs. 3,00,001 and Rs. 5,00,000	5%
		between Rs. 5,00,001 and Rs. 10,00,000:	20%
		above Rs. 10,00,000	30%
	aged 80 years or above (super senior citizens)	up to Rs. 5,00,000	No tax
		between Rs. 5,00,001 and Rs. 10,00,000	20%
		above Rs. 10,00,000	30%
	2021-22 (OLD TAX REGIME)	<i>Less than 60 years</i>	up to Rs. 2,50,000

		between Rs. 2,50,001 and Rs. 5,00,000	5%
		between Rs. 5,00,001 and Rs. 10,00,000	20%
		above Rs. 10,00,000	30%
	Above 60 but less than 80 years	up to Rs. 3,00,000	No tax
		between Rs. 3,00,001 and Rs. 5,00,000	5%
		between Rs. 5,00,001 and Rs. 10,00,000:	20%
		above Rs. 10,00,000	30%
	aged 80 years or above (super senior citizens)	up to Rs. 5,00,000	No tax
		between Rs. 5,00,001 and Rs. 10,00,000	20%
		above Rs. 10,00,000	30%

Source: Income Tax Department (Secondary Data)

The number of personal income tax slabs in India remained constant at four for individuals aged below 60, senior citizens and at three super senior citizens; between 2012 and 2022.

FY 2012-14 and FY 2014-20 had the same tax slab structure.

For super senior citizens, there has been no change in the tax slabs and respective tax rates.

Changes have occurred in the income thresholds and tax rates of the first and second tax slab for individuals aged below 60 and senior citizens.

Their tax rates for the second tax slab remained same for FY 2012-17 (with 10% tax rate) and 2018-20 (with 5% tax rate).

For the FY 2014-15, the tax slabs were revised with a tax rate of 10% for income between Rs. 2.5 lakh- Rs. 5 lakh for individuals aged below 60; and between Rs. 3 lakh-Rs. 5 lakh for senior citizens.

The budget for FY 2020-21 and 2021-22 have a new optional tax regime, in addition to the regular income tax slabs, with 7 tax slabs having lower tax rates and no deductions or exemptions. Taxpayers were given the option to choose between the new and old tax regimes.

The objective was to offer individuals flexibility in selecting the tax regime that best suits their financial circumstances. The new simplified tax regime aims to make the tax calculation process easier for individuals by removing the need to track and claim multiple deductions while the old tax regime could result in potentially lower tax liability due to deductions and exemptions.

1. For individuals below 60 years of age:

- Income up to Rs. 2,50,000: No tax
- Income between Rs. 2,50,001 and Rs. 5,00,000: 5% tax rate
- Income between Rs. 5,00,001 and Rs. 7,50,000: 10% tax rate
- Income between Rs. 7,50,001 and Rs. 10,00,000: 15% tax rate
- Income between Rs. 10,00,001 and Rs. 12,50,000: 20% tax rate
- Income between Rs. 12,50,001 and Rs. 15,00,000: 25% tax rate
- Income above Rs. 15,00,000: 30% tax rate

2. For individuals aged 60 years or above but below 80 years (senior citizens):

- Income up to Rs. 3,00,000: No tax
- Income between Rs. 3,00,001 and Rs. 5,00,000: 5% tax rate
- Income between Rs. 5,00,001 and Rs. 7,50,000: 10% tax rate
- Income between Rs. 7,50,001 and Rs. 10,00,000: 15% tax rate
- Income between Rs. 10,00,001 and Rs. 12,50,000: 20% tax rate
- Income between Rs. 12,50,001 and Rs. 15,00,000: 25% tax rate
- Income above Rs. 15,00,000: 30% tax rate

3. For individuals aged 80 years or above (super senior citizens):

- Income up to Rs. 5,00,000: No tax
- Income between Rs. 5,00,001 and Rs. 10,00,000: 20% tax on the amount exceeding Rs. 5,00,000
- Income above Rs. 10,00,000: 30% tax on the amount exceeding Rs. 10,00,000

The pandemic led to various measures and considerations in the personal income tax system. The government introduced several relief measures to alleviate the financial burden on individuals and businesses affected by the pandemic.

These included extensions of tax filing deadlines, relaxation of compliance requirements, and temporary reductions in certain tax rates. Income support schemes and grants with respect to taxation were also provided. Some benefits were made tax-free, while others were subject to tax as per existing income tax laws.

The government also provided specific deductions and exemptions to encourage donations towards COVID-19 relief efforts. These deductions aimed to incentivize charitable contributions during the crisis.

Overall, the various trends are in tune with the economic conditions prevailing at the time. These trends project various issues in personal income tax structure which need to be carefully addressed.

CHAPTER 4
FINDINGS, RECOMMENDATIONS
AND CONCLUSIONS

4.1 MAJOR FINDINGS

- Personal income tax receipts have fundamentally improved over the years. But there still exist other challenges that hinder the optimum tax collections .

There is a sizable informal sector in India where a sizable amount of economic activity goes unreported and untaxed. Because people who work in the informal sector frequently fail to disclose their income, this lowers the tax base available for the collection of personal income taxes. A smaller proportion of people pay personal income taxes as a result of this.

The Indian tax system is known for its complexity and wide range of tax exemptions, deductions, and slabs. The accuracy of personal income tax collection may be impacted by this complexity's ability to cause complications and mistakes in tax computations and reporting.

In India, tax evasion is a recurring problem. Some people purposefully underreport their income or utilise illegal measures to avoid paying taxes. As a result, the government receives less money from personal income taxes overall. Black money (undeclared income) and offshore tax evasion are major obstacles to India's ability to collect personal income taxes. Money kept offshore or transferred through tax havens can avoid taxes, resulting in lost income. Some people take advantage of tax law flaws to pay as little tax as possible. This may entail sophisticated tax planning techniques or taking advantage of tax law flaws or making use of exclusions and deductions, to pay as little tax as possible

India's tax officials frequently struggle to efficiently enforce tax regulations and guarantee compliance. The capacity to identify tax evasion and impose fines is hampered by a lack of resources, including human shortages and outdated technological equipment.

- In India, regional differences in the collection of personal taxes are a serious problem. India has large economic inequalities between its many states and regions, with some being more rich and economically developed than others.

Personal income levels are directly influenced by economic growth, and regions with higher incomes often pay more to personal tax revenues. Metropolitan areas and industrial centres, for example, draw greater economic activity and people with higher incomes.

These regions frequently have a larger concentration of companies, professions, and businesses that make considerable contributions to the collection of personal taxes. Rural and underdeveloped areas, on the other hand, may have lower levels of economic activity and income, which results in reduced tax payments.

India has a sizable agricultural industry, and areas where agriculture is a major source of revenue may have lower levels of personal income and, as a result, lower tax receipts. The agriculture industry frequently benefits from tax breaks and incentives, which has an additional influence on the regions' collections of personal taxes.

- India has a relatively low proportion of individuals within the tax net. Taxpayers make up a very small portion of the population overall. The aggregate number of people who pay personal income tax is constrained by the fact that many people, particularly those in the informal economy or with lower income levels, do not qualify for a tax band or do not have taxable income. Another issue is that the income level has not risen to address the inflation problems.

In comparison to other nations, India has a comparatively high tax exemption level. This implies that anyone whose income is below the cutoff is exempt from paying taxes. This results in fewer taxpayers while also helping to lessen the burden on people with lower incomes.

Despite having taxable income, some people may purposefully avoid paying taxes or fail to fulfill their tax duties. This may be the result of a number of factors, such as complicated tax regulations, ignorance, ineffective enforcement, or the perception of widespread corruption.

A sizable proportion of Indians, particularly those who live in rural regions or belong to economically disadvantaged groups, may have poor tax literacy and awareness. On top of this income tax laws are subject to constant modifications with the Annual Finance Act that brings in a plethora of amendments. Large sections of the population often find it difficult to adapt to these frequent changes. Many people might not be completely aware of their tax responsibilities or might not have the information and resources necessary to understand how the tax system works.

Accurately measuring income can be difficult in a nation as varied as India, where a big population does a variety of jobs. There may be fewer taxpayers as a result of some people underreporting their income or finding other means to hide it, particularly those who engage in cash-based transactions or self-employment. This makes it harder for people to pay personal income taxes.

- In India, there is a problem with gender disparity in PAN issuance and personal income tax. In India, there is a sizable gender disparity in the labour participation rate due to the lower proportion of actively employed women. The difference in women's involvement in the workforce has a direct impact on the number of women who make taxable income. In India, a large number of women labour in the unorganised or informal sectors, where income is frequently unreported and untaxed.

Gender-based income disparities persist in India, with women generally earning lower incomes compared to men, particularly in certain industries and sectors. The lower income levels of women contribute to a smaller proportion of women falling within the tax bracket. In India, there are still gender-based wage gaps, with women often making less money than males, especially in several businesses and sectors. Women may be discouraged from actively participating in formal work or seeking higher-paying occupations due to socio-cultural issues and gender prejudices. Stereotypes, uneven opportunities, and cultural expectations may hinder women's ability to earn an income,

which may have an effect on their tax obligations. This lowers the proportion of women who apply for a PAN and pay personal income tax. Lower tax compliance and filing rates among women may be caused by a lack of tax literacy and awareness. Many women may fail to acquire a PAN or correctly declare their income because they are unaware of their tax duties and requirements.

- The Union Budget 2021 introduced a new optional tax regime for individual taxpayers, allowing them to choose between the existing tax structure with deductions and exemptions or a simplified tax regime with lower tax rates but without most deductions and exemptions. This provided taxpayers with more flexibility in choosing the tax regime that suits them best.

Due to the COVID-19 pandemic, the Indian government announced various relief measures, including tax-related measures such as extending the deadline for filing income tax returns and reducing or waiving certain penalties.

These are some of the recent issues and debates surrounding tax slabs and tax rates of personal income tax in India.

However, The Indian tax system's simplicity has been the subject of arguments and controversies. According to critics, the number of tax slabs should be decreased in order to simplify the tax system and make it more user-friendly for taxpayers. To make taxes more progressive, several tax professionals and individuals have argued for a rationalisation of tax rates. India's middle-income group's tax burden is also a concern. The tax slabs and rates therefore ought to be evolved to give the middle-income group, which carries a sizable percentage of the tax burden, additional financial relief.

4.2 RECOMMENDATIONS

A comprehensive strategy is needed to address these problems to create a conducive environment for tax compliance in order to encourage more individuals to come forward and pay personal income tax in India. Such a strategy should include

- streamlining the complex tax legislation

- strengthening compliance measures
- boosting enforcement mechanisms
- raising taxpayer awareness and education
- leveraging technology and data analytics to detect tax evasion and non-compliance.
- providing enough funding for tax authorities.

An all-encompassing strategy is needed to address regional differences in the collection of personal taxes. The discrepancies may be decreased by taking steps like fostering economic growth in undeveloped areas, generating employment opportunities, upgrading infrastructure and connectivity, and raising tax literacy awareness.

The gender imbalance in PAN and personal income tax in India may be addressed with the use of policy interventions, awareness efforts, and tailored support for women. Women may participate more fully in the workforce and earn more money if they are given equal chances in education, employment, and entrepreneurship. This will widen the tax base. The knowledge gap may be closed by launching focused programmes and activities to raise women's tax awareness and by educating them about their tax liabilities, filing requirements, and advantages of tax compliance. It is critical to challenge cultural and gender barriers that prevent women from participating in formal jobs and higher-paying professions. Women's support networks and inclusion promotion can aid in removing these obstacles.

Providing rewards for voluntary disclosure and compliance can encourage more people to file taxes. Tax compliance incentives, such as lowered fines or increased rewards for people who consistently meet their tax responsibilities is important. This may encourage people to carry out their tax obligations.

Identify possible tax evaders by working with financial institutions to provide data on financial activities, income, and assets. Enhancing information-sharing methods can aid in locating people who could be dodging taxes or underreporting their income.

Utilise data analytics to identify non-filers and non-compliant people, then reach out to them using specific strategies.

Encourage the use of online payment and filing systems for taxes. This may make tax filing easier, cut down on mistakes, and provide taxpayers more convenience. More people will file their tax returns if accessible e-filing solutions are made easier.

Increasing the manpower, training, and technological infrastructure of tax authorities can assist to strengthen their capacity for tax administration and enforcement.

4.3 CONCLUSIONS

Personal Income tax system in the country has substantially evolved to address changing economic and social dynamics. Policymakers also continuously strive to strike a balance between equity, revenue generation, and administrative efficiency. However, achieving perfection in all aspects may be challenging and quite impossible.

Personal Income tax has achieved several milestones over the years. Efforts to improve tax compliance have yielded positive results in India. The introduction of initiatives like the Permanent Account Number (PAN) and the Unique Identification Number (Aadhaar) has helped in identifying taxpayers and reducing tax evasion. The voluntary disclosure schemes and amnesty programs launched by the government have encouraged taxpayers to come forward and regularize their tax affairs. India has taken steps to address international taxation issues. The country has entered into Double Taxation Avoidance Agreements (DTAAs) with various countries to prevent double taxation and promote cross-border trade and investment. India has also adopted the Base Erosion and Profit Shifting (BEPS) framework developed by the Organization for Economic Cooperation and Development (OECD) to combat tax avoidance practices. The introduction of e-filing has streamlined the income tax filing process in India. The digitization of tax records and processes has improved transparency, reduced processing times, and facilitated faster communication between taxpayers and the tax department.

The Indian Personal income tax system aligns with several canons of taxation and far better than other countries like china. But it still has a long way to go.

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