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India | Strategy
Sector Update

JM Financial

India direct taxes

Another year of structural progress

Direct tax collections compounding at healthy pace

Personal taxes continue to drive India's direct tax collections

Tax participation remains next structural opportunity

JM Financial Institutional Securities Limited

Strategy

India direct taxes: Another year of structural progress

India's direct tax collections continue to reinforce the structural formalisation thesis outlined in our thematic titled *India Personal Taxes – A decade of formalisation & compliance*. Net direct tax collections increased to INR 22.3tn in FY25, translating to a 12% CAGR over FY15–25, while personal income tax continued to materially outpace corporate taxes, increasing at a 17% CAGR versus 9% over the same period. Personal taxes now account for 55.6% of net direct tax collections while direct taxes contribute 58.8% of India's total tax revenues. With a direct tax-to-GDP ratio improving to a record 6.7%, India continues to compare favourably with regional peers such as the Philippines (5.3%) and Indonesia (4%); however, only 8% of India's population pays income tax compared with 23.2% in the Philippines and 26.1% in Indonesia. The contrast highlights that while India's direct tax framework has strengthened materially over the past decade, significant structural headroom remains to further broaden the country's taxpayer base.

- **Direct tax collections compounding at healthy pace**: Net direct tax collections increased to INR 22.3tn in FY25 from INR 19.6tn in FY24, up 13.7% YoY (12% CAGR over FY15–25). The continued rise in collections reflects not only higher incomes, but also the structural expansion of India's formal tax base and sustained improvement in tax compliance over the past decade.

- **Personal taxes continue to drive India's direct tax collections**: Personal income tax collections increased to INR 12.4tn in FY25 versus INR 9.9tn for corporate taxes. Over FY15–25, personal income tax increased at a CAGR of 17%, way ahead of the 9% CAGR for corporate taxes. Consequently, personal taxes made up 55.6% of the total direct tax collections in FY25, up from 38.3% in FY15. The sustained outperformance underscores a structural shift in India's direct tax base in the wake of formalisation and improving compliance steadily lifting the contribution of individual taxpayers.

- **Collection patterns point to stronger tax compliance**: Gross direct tax collections continue to be dominated by taxes collected before final assessment, with TDS and advance tax contributing nearly 79% to total collections in FY25. While advance tax remained the single-largest contributor, the share of TDS increased to 35% from 28% in FY24, highlighting the growing role of taxes collected at source. A larger proportion of taxes being collected upfront reduces the scope for income under-reporting, improves collection efficiency and reinforces the structural strengthening of India's direct tax ecosystem.

- **India's direct tax-to-GDP ratio reaches new high**: India's direct tax-to-GDP ratio improved to 6.7% in FY25 (6.5% in FY24), the highest level in over two decades. Direct taxes also accounted for 58.8% of India's total tax revenue in FY25, up from 56.2% in FY15. Together, these trends suggest a larger share of India's economic activity is being captured within the direct tax system, reflecting a gradual strengthening of the country's direct tax framework over the past decade.

- **Tax participation remains next structural opportunity**: The share of India's population paying income tax increased to 8% in FY24, nearly doubling from 4.1% in FY14. Despite the meaningful progress, taxpayer participation remains substantially below the Philippines (23.2%), Indonesia (26.1%) and ~50% across developed economies. This gap suggests that though India's direct tax framework has strengthened considerably over the past decade, the expansion of the taxpayer base remains the next major structural driver of direct tax growth.

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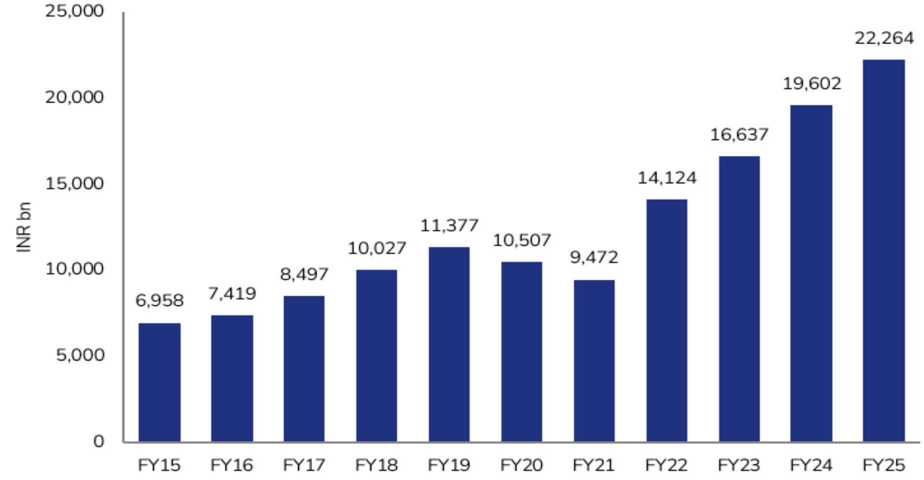
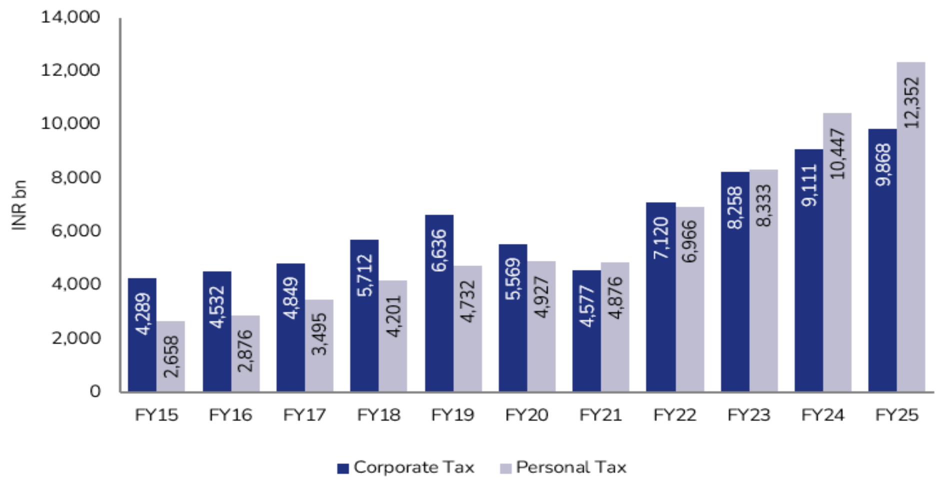
Exhibit 1: Net direct taxes collected over FY15–25 (INR bn)



Source: Income Tax India, JM Financial

In FY25, direct taxes grew 14% YoY; over FY15–25, direct taxes clocked a CAGR of 12%

Exhibit 2: Corporate tax versus personal tax collections over FY15–25 (INR bn)

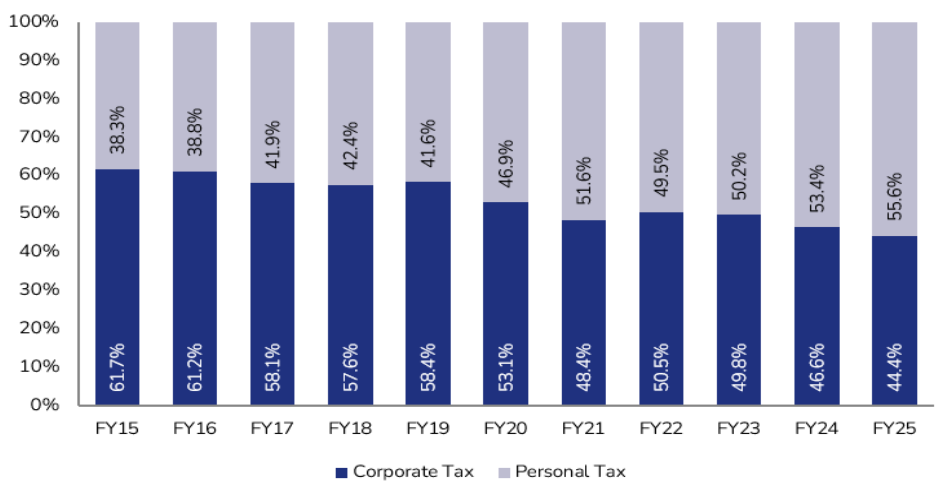


Source: Income Tax India, JM Financial

Over FY15–25, personal income tax increased at a CAGR of 17% versus 9% for corporate tax

In FY25, personal income tax grew 18% YoY, outpacing the 8% YoY growth in corporate tax

Exhibit 3: Share of personal tax has been surpassing corporate tax since FY21

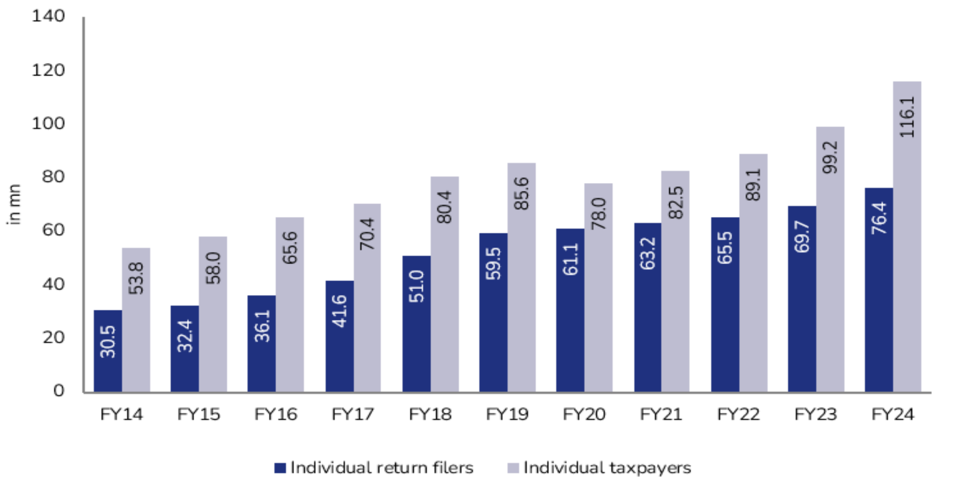


Source: Income Tax India, JM Financial

Personal taxes formed ~56% of net direct taxes collected in FY25 versus ~53% in FY24

Corporate taxes made up ~44% of net direct taxes in FY25 versus ~47% in FY24

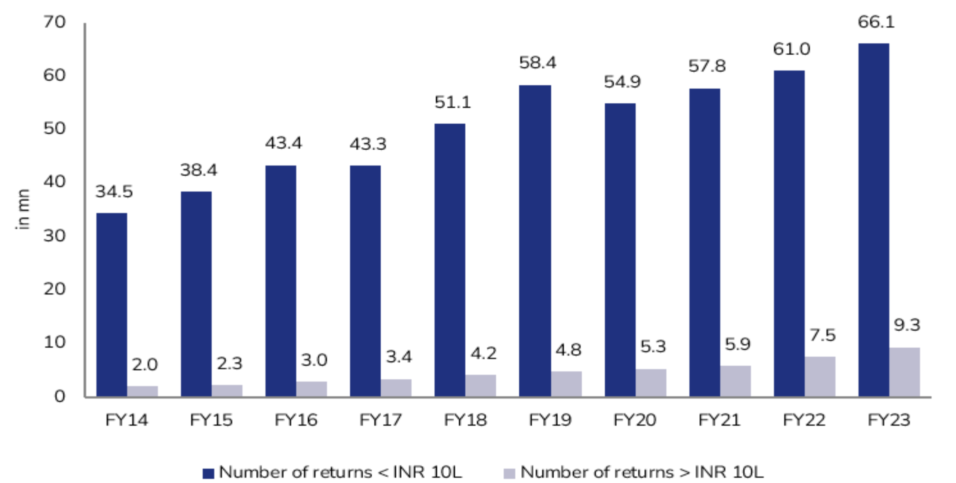
Exhibit 4: Individual taxpayers grew sharply over FY14–24



Source: Income Tax India, JM Financial

Over FY14–24, the number of individual taxpayers expanded at a CAGR of 8% while the number of individual return filers grew at a CAGR of 10%

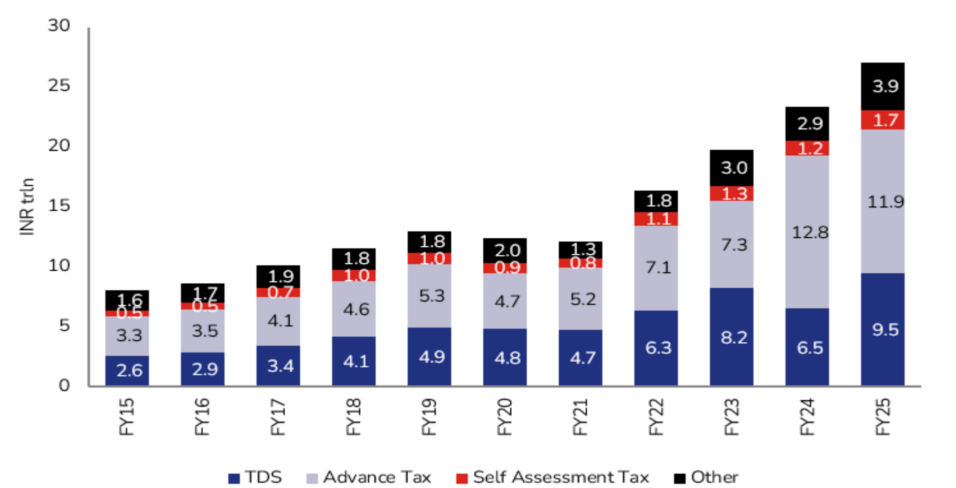
Exhibit 5: Number of individual income tax returns filed by income



Source: Income Tax India, JM Financial

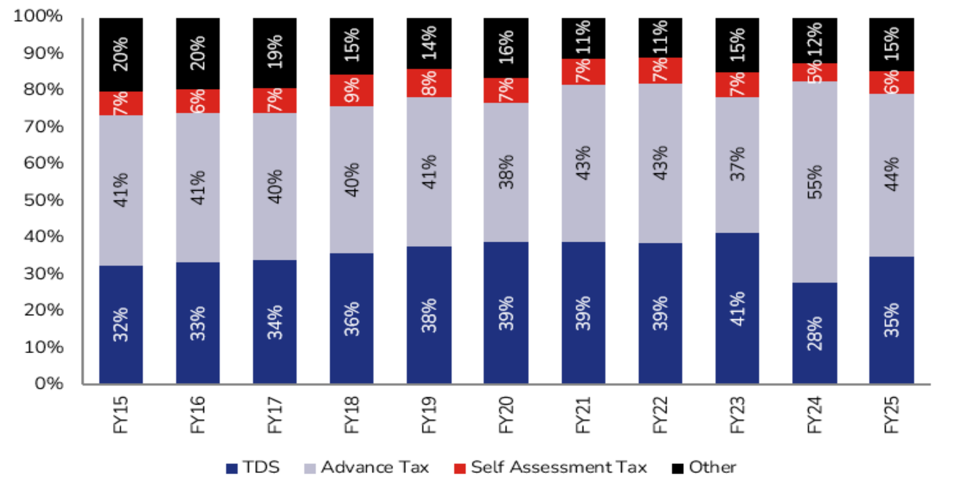
The number of income tax returns filed by individuals with income <INR 1mn increased at a CAGR of ~8% over FY14–23 versus 18% for individual returns with income of >INR 1mn

Exhibit 6: Gross direct tax collection by type (INR tn)



Source: Income Tax India, JM Financial

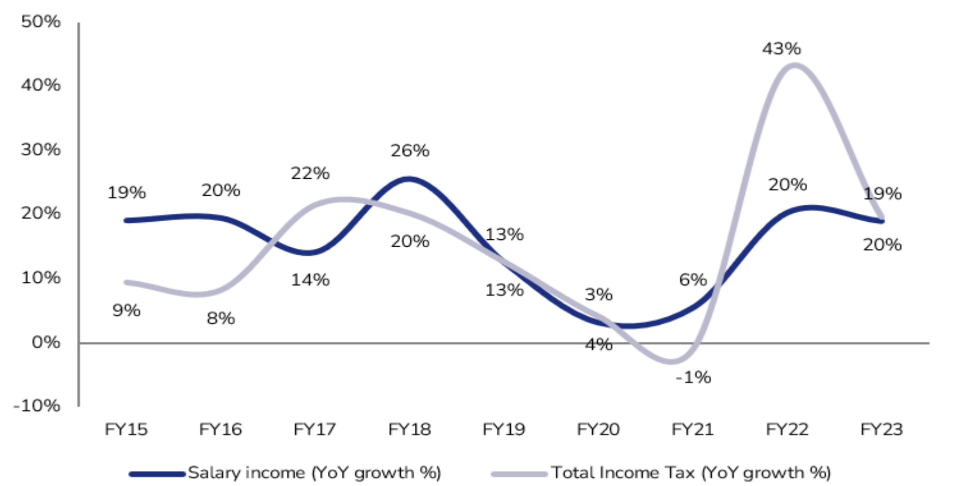
Exhibit 7: Contribution of each type to direct tax collection



Source: Income Tax India, JM Financial

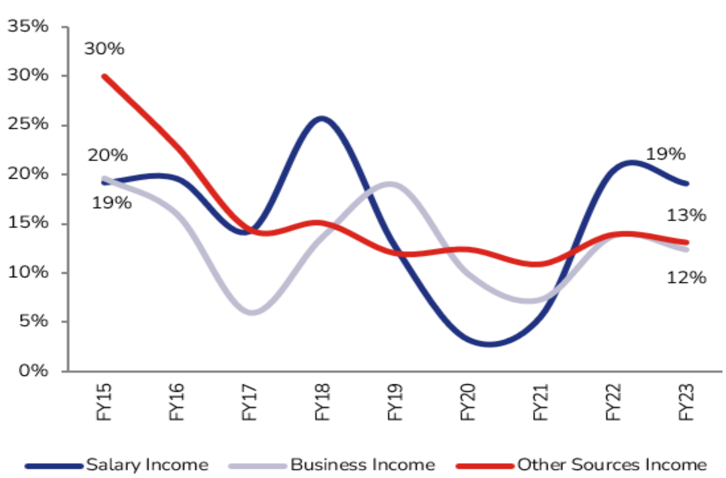
~79% of gross direct taxes were collected via TDS and advance tax in FY25 with the share of TDS growing from 28% in FY24 to 35% in FY25 and advance tax falling from 55% in FY24 to 44% in FY25

Exhibit 8: Correlation between YoY growth in salary income and personal income tax



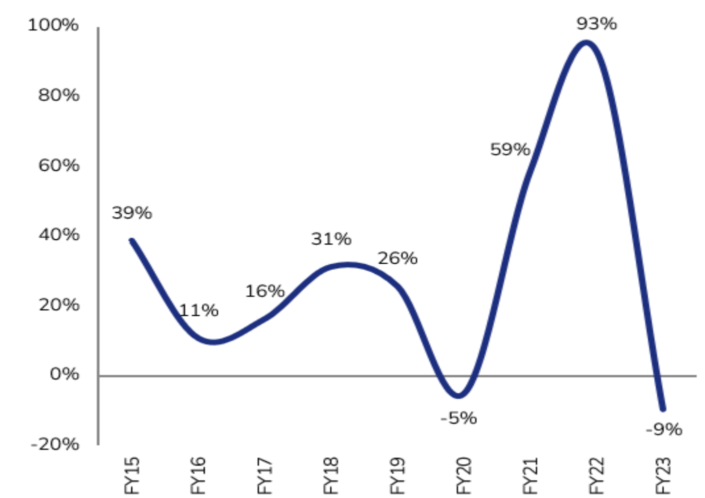
Source: Income Tax India, JM Financial

Exhibit 9: YoY growth in salary, business and other income



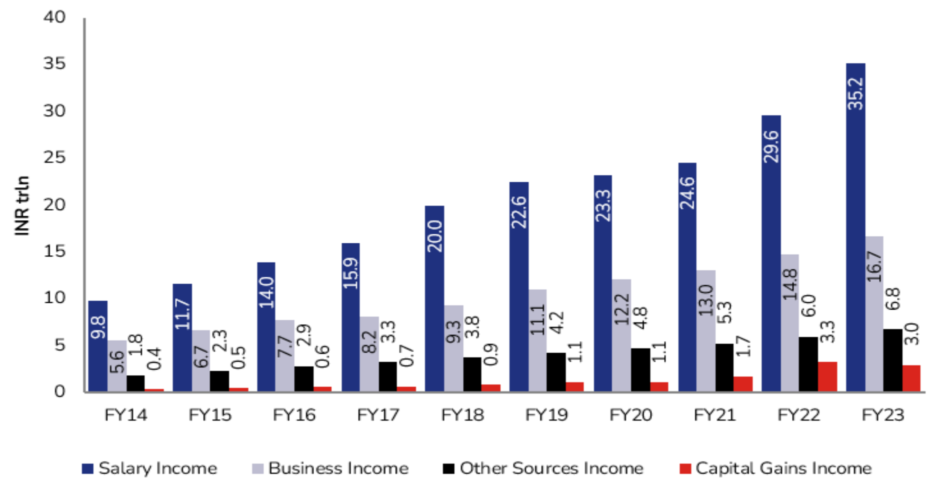
Source: Income Tax India, JM Financial

Exhibit 10: YoY growth in capital gains



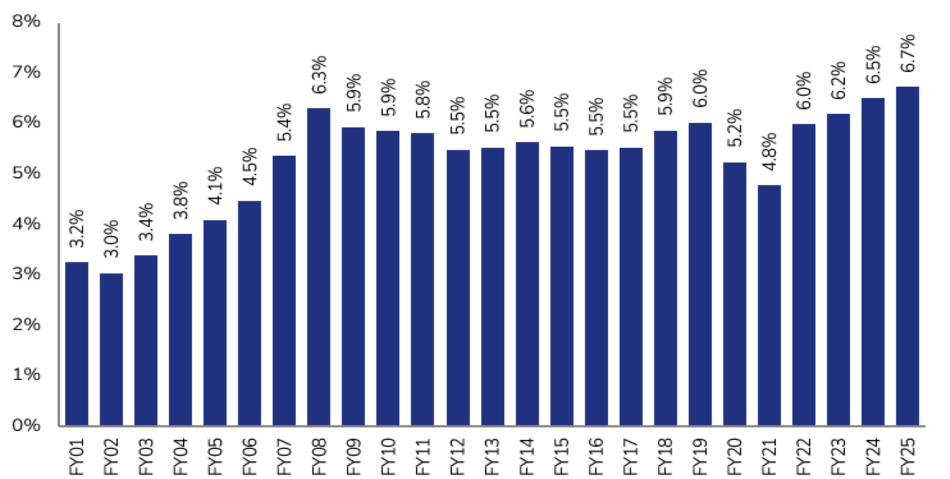
Source: Income Tax India, JM Financial

Exhibit 11: Taxable income of individuals by type over FY14–23 (INR tn)



Source: Income Tax India, JM Financial

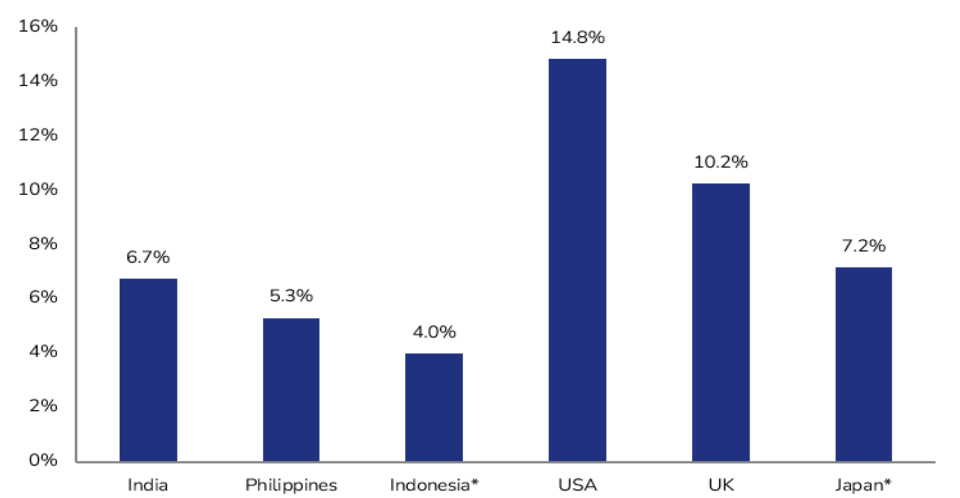
Exhibit 12: India's direct tax-to-GDP ratio



Source: Income Tax India, JM Financial

India's direct tax-to-GDP ratio improved from 6.5% in FY24 to 6.7% in FY25

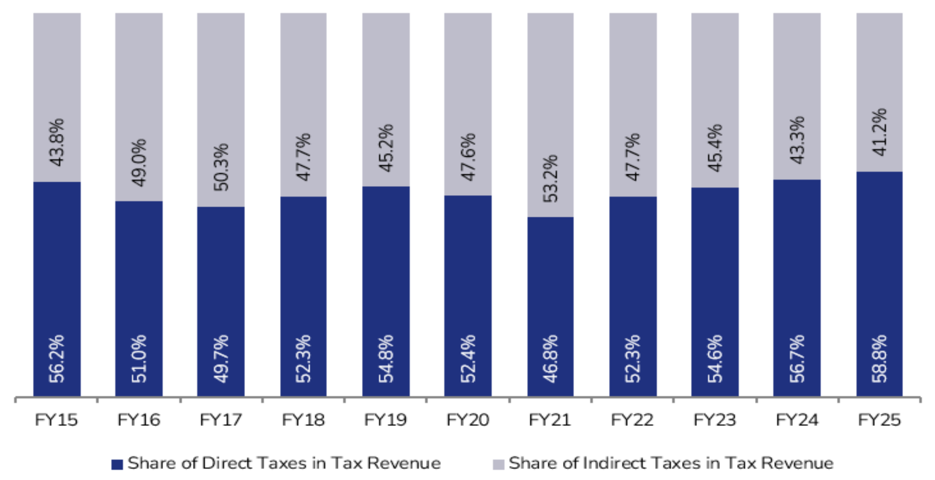
Exhibit 13: Direct tax-to-GDP ratios amongst global peers (2025)



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; *2024 numbers

India's direct tax-to-GDP ratio improved from 3.3% in FY01 to 6.7% in FY24, placing it ahead of peers such as the Philippines (5.3%) and Indonesia (4%)

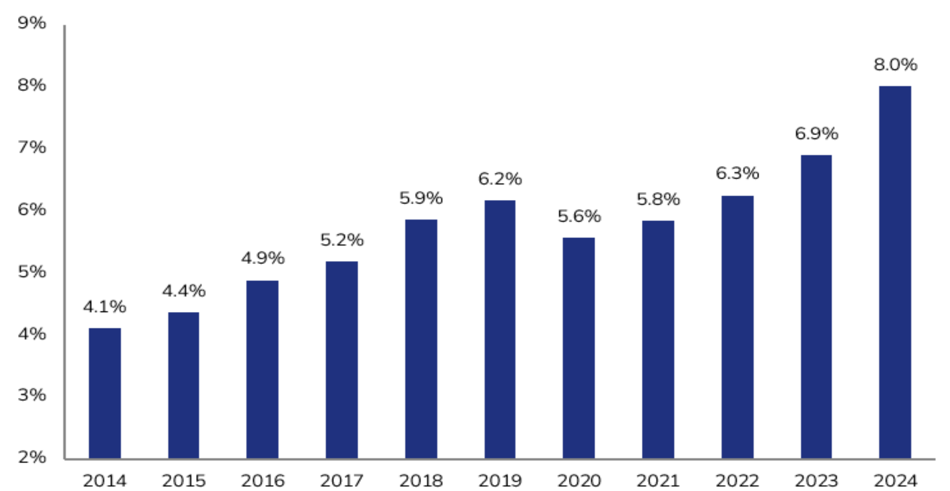
Exhibit 14: Share of direct taxes in India's tax revenue



Source: Income Tax India, JM Financial

Direct taxes formed 58.8% of total tax revenue in FY25 versus 56.7% in FY24

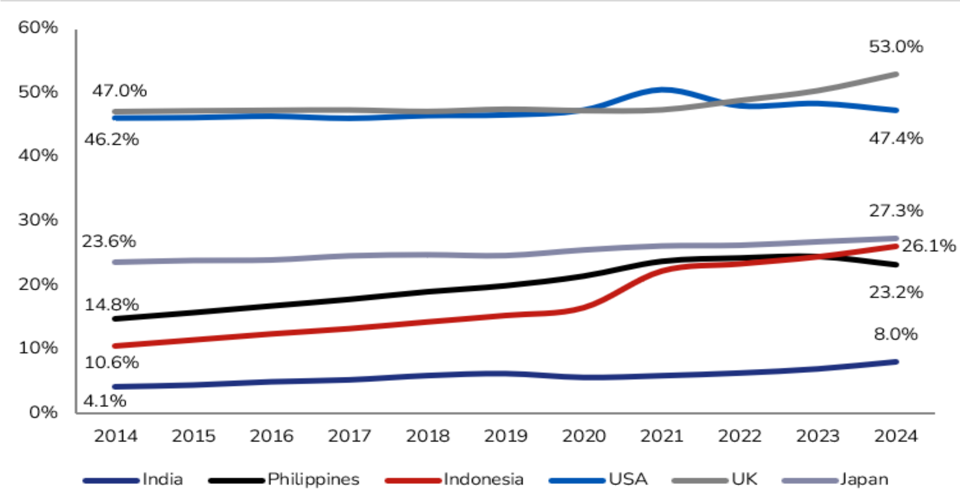
Exhibit 15: India – Percentage of population paying income tax



Source: Income Tax India, World Bank, JM Financial

8% of India's population pays income tax (as at end-FY24)

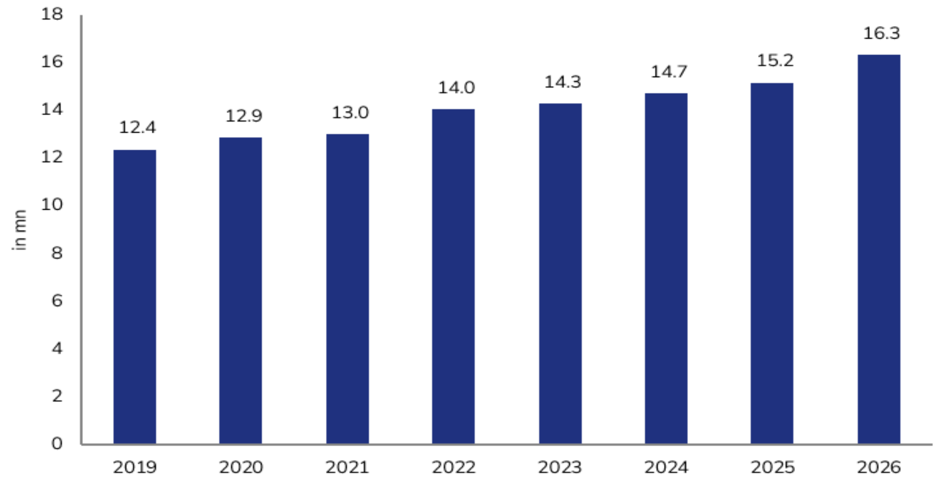
Exhibit 16: Global peers – Percentage of population paying income tax



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 8% of India's population pays income tax (end-FY24) compared with 23.2% in the Philippines and 26.1% in Indonesia; developed economies see coverage of ~50%

Exhibit 17: Number of active GST taxpayers by year



Source: GSTN, JM Financial

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 16.3mn in 2026, a net addition of 3.9mn entities in seven years

APPENDIX I

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