

Tax-GDP Ratio- Trends and implications for India in a global context.

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Resource mobilization is one of the most critical financial functions of government across the world. Tax- GDP ratio is a crucial indicator which provides a snapshot into the resource generating capacities and potential of an economy. Since the revenue administration regimes vary globally in many ways, it is also interesting to understand the intricacies of this concept before making comparisons in a very superficial manner. The tax- GDP ratio in India is presently in the range of 11-11.5 percent, while some OECD countries like Sweden, Finland and Norway have a figure of over 40 percent in recent years.

Components

The definition of Tax-GDP ratio has been flexible across economies and the generic principle for “Tax”- includes all major sources of revenue generated by the government including receipts in the nature of and including taxes, levies, fees, fines, duties, tariffs, tolls etc. In a large number of OECD and developed countries the Social Security contribution (SSC) forms a part of their “Tax” component in this ratio. Many developing and emerging economies like India, China, Brazil do not have this component as part of revenue or tax and others have small components. The following chart¹ for 2023 reflects the impact:

Country	Tax-GDP Ratio	Share of SSC
Denmark	43.4	29
Finland	42.5	15.5
Norway	41.4	21.4
Sweden	41.4	14.6
UK	35.3	14.2
India	11.3 ²	Nil

¹ Compareyourcountry.org/tax-revenues (Last Visited 10th July, 2025).

² https://sansad.in/getFile/annex/267/AU881_ND5qKF.pdf?source=pqars (last visited 8th July, 2025)

Ghana	15.2 ³	5
Bangladesh	7.8 ⁴	Nil.

The above are estimates of different organizations. Data variations are possible to some extent. Credible comparable data across tax regimes particularly in emerging and less developed economies, is also challenge due to poor administrative capacities. The larger picture can be appreciated- relating to the social security component.

The tax component includes most of the government revenues generated at different levels of government including social security contributions wherever they are in practice. There are difficulties for several emerging and developing economies to impose SSC, though in various nations in Africa like Ghana, Nigeria and others this is being levied. Capturing the revenue generation objectively and scientifically also poses a challenge and recently Nigeria revised⁵ its Tax-GDP ratio from 6.0 percent to over 10.86 percent for 2021, on grounds that earlier all tax/revenue generated was not properly captured. Similarly, there are multiple issues in ensuring data for measuring GDP in several economies. The Tax-GDP ratios available over a period do provide broad indicators regarding the tax capacities and also the tax gaps which may exist in various economies.

Major components of tax revenue include Personal Income Taxes at Central and State level, Corporate Taxes, Customs and Excise Duty at Central level, Consumption taxes levied by central or State levels or shared jointly, Payroll taxes usually at State levels, Property taxes at County, Municipality and local government levels. There are a large number of combinations used by developed and emerging economies depending upon economic, social and political priorities and administrative and structural conveniences.

During 1975-2014 there have been general trends in most developed countries of OECD⁶, which indicate that the Personal Income Tax and Corporate tax have

³ <https://www.oecd.org>

⁴ <https://www.ceicdata.com/en/indicator/bangladesh/tax-revenue--of-gdp> (Last Visited 10th July, 2025)

⁵⁵ <https://www.reuters.com/world/africa/nigeria-revises-2021-tax-to-gdp-ratio-109-tax-chief-2023-05-31/> (Last visited 10th July, 2025).

⁶ Comparative Taxation; Why Tax Systems Differ, Chris Evans, John Hasseldine, Andy Lymer, Robert Ricketts and

remained an important part of central government revenues with movement towards a slightly higher share of consumption taxes like VAT, GST etc. The share of Property taxation in total government revenue has also gone up from 9.2 percent to 19.8 during this period.

Environmental taxes⁷ are a significant part of total revenue in many economies like Netherlands, South Africa and Italy (around 10 percent, 2014) and Turkey had the highest share of 13 percent in 2014. USA had 0.72 percent of its GDP from environment taxes in 2014 and OECD had overall share of 1.9 percent. Such components do have significant potential for enhancing the tax-GDP ratios in most less developed and emerging economies too.

Components of “Tax” do need to change and past patterns confirm the same.

What are the implications

Determining the most appropriate ratio of tax-GDP is not always easy, though a higher ratio does indicate better resource mobilization and more funds and financial power to the government to enhance its services, infrastructure, utilities and services for its citizens and stakeholders. The patterns over years and experiences of growth and development in economies have indicated⁸ that 15 percent is an appropriate tax- GDP ratio, which provides balanced growth and development of economies. Interpreting this ratio have far reaching implications and vary across tax regimes :

1. Higher tax/GDP ratio indicates more resources available to governments to spend both for capital projects and also general public utilities. If used efficiently, this helps in enhancing public services, general utilities, infrastructure, health and education facilities for the citizens. Inefficiencies result in harmful effects and hardships for citizens.

Cedric Sandford (2017), Fiscal Publications.

⁷ Ibid, Chapter 6.

⁸ Taxing for Growth: Revisiting the 15 Percent Threshold July 10, 2024 Rishabh Choudhary, Franz U Ruch, and Emilia.Skrok1<https://documents1.worldbank.org/curated/en/099062724151523023/pdf/P1778861e0c40b081186a61ced16cac6cde.pdf> (last visited 9th July, 2025).

2. Higher ratio implies heavier taxation on the entities within the region. Higher tax burden makes the economy inflationary and less spending power with the citizens and entities.
3. Components of the tax like income tax or consumption taxes also have impact on the residents of the region in different ways depending upon their economic status and also the sectoral impact in the region. Increased reliance on GST and VAT indicates the preference for consumption-based taxation⁹ and the traditional arguments against it not being progressive or based on equity, are being diluted¹⁰.
4. Comparison over different economies should be done after considering similar heads of taxation. Removing social security from tax definition will reduce the ratios in many economies.
5. Higher ratio also indicates that more sectors and regions are contributing to the tax revenue and the extent of exemptions and deductions are not widespread. In India a large section of the population is exempt from taxation under various categories. Similar situation exists in many developing economies. There may be need to explore possibilities for more inclusive tax regimes in future. Resource generation remains critical for sustained economic growth and development.
6. Importance of tax revenues from different levels of federal, State and local governments have to be considered, since there is potential to enhance such collections which have been static in many developing economies.
7. Capacities and efficiencies of tax administrations can and do make an impact on the tax collections.
8. Experiences in EU as well as India have clearly indicated that multiple other factors including global economic fluctuations, emergence of new business and technologies as well as trade and tariff issues do impact this tax/ GDP ratio over time.

⁹David A. Weisbach & Joseph Bankman, "Consumption Taxation Is Still Superior to Income Taxation," 60 Stanford Law Review 789 (2007).

¹⁰ Would a Consumption Tax Be Fairer Than an Income Tax? Alvin Warren. Yale Law Journal, Vol. 89: 1081, 1980. (last visited 9th July, 2025)

Understanding the various implications will certainly need a specific context, but the ratio is always a useful tool to provide direction and guidelines for economies.

Global Comparisons

The potential for enhancing taxation and other revenues for government is a thrust area and domestic resource mobilization in most emerging and less developed economy is a top priority. While developed economies are better placed in terms of more stable and strong systems with use of technology and smaller unorganized sector, there are challenges for all to review and introspect new avenues and structures to reduce the tax gaps, even in developed economies. Global trends can provide some insights as follows:

1. The tax-to-GDP ratio varied significantly between EU countries in 2023¹¹, with the highest shares of taxes and social contributions as a percentage of GDP being recorded in France (45.6%), Belgium (44.8%), Denmark (44.1%), Austria (43.5%), Luxembourg (42.8%), Finland (42.7%) and Sweden (42.3%). At the opposite end of the scale, Ireland (22.7%), Romania (27.0%), Malta (27.1%) and Bulgaria (29.9%) as well as Switzerland (26.9%) registered the lowest ratios.
2. The trends as per OECD¹² clearly indicate that there has been a gradual decline of this ratio from 28.3% in 2000 to 25.2% in 2023 for USA. Similarly for UK this ratio was 36.9 in 2019 and has declined to 33.9 in 2023. These figures are inclusive of social security contributions.
3. The tax-GDP ratios in many economies in Africa¹³ are not very high and mostly below 10 percent if social security contribution is not included. This below the golden principle of 15 percent needed for rapid and sustained economic growth. Ghana has a ratio of 14 percent in 2022, which included 5 percent of social security contributions. It is targeting a ratio of 18-20 percent in 2026-27. Nigeria has a ratio of below 10 percent for last one decade, though it is revising the data for recent years. It is targeting 18-2-

¹¹ https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Tax_revenue_statistics (last visited 8th July, 2025).

¹² https://www.oecd.org/content/dam/oecd/en/publications/reports/2023/12/revenue-statistics-2023_6ee814f4/9d0453d5-en.pdf (Last visited 10th July, 2025).

¹³ <http://www.imf.org>, <http://www.oecd.org>, <http://www.ifs.org> (Last visited 10th July, 2025).

percent by 2026. Bangladesh has the ratio of around 7 percent and plans to enhance the same to over 10.5 percent in next 10 years by 2034-35.

4. There is a significant potential in emerging economies to enhance its tax and revenue generation through better policy regulation, streamlining of tax structures and administration, use of data and technology. This clearly depicted by sustained and strong action being initiated by many economies.

Keeping tax rates reasonable ensures better business environment and global competitiveness and very high rates of taxation or levies impact the economy with disruptions. The increase in efficiency of the resource models with closing the tax gaps are the best solutions for the economies. Even UK, USA and other developed economies have to evolve with new policies and structures to enhance resource mobilization and retain healthy Tax-GDP ratios.

Enhancing Tax- GDP ratios in India.

Tax-GDP ratio in India has been moving in the range of 11.5 percent for past few years and several major tax reforms have taken place. Following chart reflects the trends in India.

Year	Tax to GDP Ratio
2016-17	11.1
2017-18	11.2
2018-19	11.0
2019-20	10.0
2020-21	10.2
2021-22	11.5
2022-23	11.3
2023-24	11.7
2024-25	RE11.9
2025-26	BE 12.0

Source: Govt. of India, Sansad Website¹⁴.

Following specific efforts have been initiated for tax and revenue enhancement and streamlining policies and administration for boosting the Tax-GDP ratio in India.

1. Introduction of GST¹⁵ which is a collaboration between Central and State Governments and is aimed at uniformity across the country with transparency and efficiency.
2. Income tax reforms through faceless assessments¹⁶ and appeals. Use of data and technology for tracking evasion.
3. New Income Tax Act Legislation¹⁷ introduced and under consideration by Indian Parliament. This is aimed at simplifying the regulations and removing redundant provisions.

The reforms at the State Government and Local government levels for enhancing tax and revenue enhancement are relatively fewer and are dependent upon the various States and local government bodies. As per RBI data¹⁸ the contribution of local revenues as percentage of GDP in India has been static for over a decade¹⁹, is also very low compared to most developed countries and indicates poor capacities of taxation governance at municipalities, panchayats and zila parishad levels.

The Central government has already made impactful efforts to improvise and innovate tax revenues. However for enhancing the taxes and revenue collection also resulting in the target golden ratio of 15 percent of GDP some areas for consideration are as follows:

- A. Stronger and immediate reforms at State level and Local government level to strengthen administration.

¹⁴ https://sansad.in/getFile/annex/267/AU881_ND5qKF.pdf?source=pqars (last visited 8th July, 2025)

¹⁵

https://cag.gov.in/uploads/download_audit_report/2019/Chapter_1_Implementation_of_GST_of_Report_No_11_of_2019_Compliance_Audit_of_Union_Government_Department_of_Revenue_Indirect_Taxes_Goods_and_Services_Tax.pdf (Last visited 17th July, 2025)

¹⁶ <https://www.pib.gov.in/PressReleasePage.aspx?PRID=1587423> (Last visited 17th July 2025).

¹⁷ <https://prsindia.org/billtrack/the-income-tax-bill-2025> (Last Visited 17th July, 2025).

¹⁸ RBI Report on Local Finances, 2024.

¹⁹ https://cag.gov.in/uploads/download_audit_report/2022/10-Chapter-6-064199054cbade3.14694339.pdf (Last visited 27th Jan. 2025).

- B. Review and analysis of tax gaps at State government and local levels.
- C. Consider the streamlining and reforms of property taxation, pollution related taxation, user charges for specific public utilities, identify specific tax and revenue potential of levies on local resources like sand, forest products, water, minerals etc.
- D. In view of a huge number of local bodies, better coordination, management and enhancing technical and financial capacities of these bodies for upgrading the functions and data availability for each local government.
- E. Considering some degree of decentralization and empowerment for legislation and administrative autonomy, with presence of independent professional and technical experts in local and state tax and revenue administration. OECD study has indicated that in most countries there has been a shift for delegation of some powers to sub-central governments or closer coordination between Central and sub-central governments. USA, UK, Italy, Sweden, France and Germany do give more importance to local governments. Between 1975 and 2014 there was a shift of share of total government revenues from central to sub-central levels by 8 percentage points²⁰. Delegation of more powers with autonomy to sub-central governments need consideration on priority.
- F. Enhancement of tax revenues through fresh analysis and imposition of taxes, levies fees on subjects like environment related taxation and property taxation in the large number of local governments as well as engagement of State level governments.

Moving Positively

The awareness for transforming traditional mechanisms of tax and revenue generations by governments at different levels has already initiated some major reforms in countries like India and also many other emerging economies. There is also a need to analyze the components which are helping in GDP growth and how it is contributing towards taxes. Additionally analysis of exempt sectors and entities need to be reviewed in the changing environment. While such issues will remain sensitive, balanced changes get acceptance when designed and implemented in a fair and transparent manner. India has been proactive to make

²⁰ Comparative Taxation; Why Tax Systems Differ, Chris Evans, John Hasseldine, Andy Lymer, Robert Ricketts and Cedric Sandford (2017), Fiscal Publications.

efforts for enhancing the Tax-GDP ratio and sustained follow-up by all stakeholders along with global best practices must provide a strong positive direction to move ahead.

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