Tax-to-GDP: Numbers and optics

Takeaways from some successful countries that improved their tax collections and what it means for India

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A snapshot of countries with high tax-to-GDP ratio

2000	2022	2023	Difference*		World Bank classification	Taxes which contributed
14.3	27.8	27.5	13.4	Nicaragua	Low-middle income	Corporate tax, social contributions, GST
20.9	32	28.9	11.1	Korea	High income	Personal income tax, social contributions
11.7	22	21.9	10.4	Kyrgyzstan	Low-middle income	Corporate tax, GST
19.2	29.6	27.8	10.3	Argentina	Upper-middle income	Social contributions, GST
23.3	33.5	—	10.2	Tunisia	Low-middle income	Personal income tax, Social security contributions
25.3	34.4	—	9.1	Japan	High income	Social contributions, GST
14.4	23.7	24.4	9.3	Georgia	Upper-middle income	Personal income tax, GST
20.3	29.9	—	9.6	Morocco	Upper-middle income	Corporate tax and social contributions

In the ratio between 2000 and 2022

Source: OECD

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Discussions on the tax-to-GDP ratios for India have often cited the country's performance in comparison to other nations. The underlying analysis refers to simple comparisons to other similar countries or to statistical tools like the stochastic frontier analysis. The South Asia Development Update, 2025, of the World Bank, too, uses this approach. The tax gap from this method indicates the shortfall in revenue collection relative to a potential. The broad conclusions in the latter suggest that the tax gap for India is similar to that of Emerging Markets and Developing Economies. This approach assumes that tax collections depend primarily on the structural features of the economies.

An alternative way of examining this question is to identify countries that have reported a significant increase in the tax-to-GDP (gross domestic product) ratio over a given period and to examine the drivers behind such improvements in revenue performance. Using information from the Organisation for Economic Co-operation and Development (OECD) database on global revenues, an attempt was made to identify countries that reported a significant increase in the tax-to-GDP ratio between 2000 and 2022. Excluding small island nations and oil-rich countries, the table provides a snapshot of some countries that reported an increase in the tax-to-GDP ratio of over 9 per cent. These include some low-middle-income countries, some upper-middle-income countries, and some high-income countries. Clearly, the need to raise tax revenue mobilisation is a concern shared by many nations.

It might be interesting to study how these countries succeeded in raising and maintaining a higher tax-to-GDP ratio. Each of these countries has implemented various tax reform measures to expand the tax base and improve revenue collection. Some of these countries reported consistent increase over the entire period — Nicaragua is a good example. Others attained a higher level around the time of the global financial crisis and maintained it thereafter - Georgia, Morocco, and Kyrgyzstan fall in this category. On the other hand, Japan and Tunisia experienced growth during and after the global financial crisis, followed by Korea from 2015. The drivers of growth in tax collections appear to differ across countries, as reflected in the differences in the taxes contributing to that growth.

The table also provides information on the sources of increase in the ratio. The focus is on four major groups of revenues — corporate tax, personal income tax, goods and services taxes, and social security contributions (reported as social contributions in the table). An interesting thing to note is that, of the eight countries presented in the table, six report an increase in social security contributions. The second most common contributor to the increase is taxes on goods and services, which include value-added tax (VAT), as well as customs duties and excises.

Some questions arise regarding the role of social security contributions. These contributions, often paid partly by the employer and partly by the employee, are similar to the provident fund contributions for formal sector employees in India. In India's tax system, such contributions are not included in tax collections. An easy way to improve the optics of the tax-to-GDP ratio could be to include these contributions in the tax collection framework, which would also expand the government's liabilities. In other words, it would affect optics alone, with no impact on resources available to governments.

A conceptual question however remains: Can the existence of a government-guaranteed social security system create a better relation between the state and its citizens? Popular perceptions among middle-class taxpayers suggest that people are uncomfortable with the expenditure priorities of the government. A survey by Vidhi Legal on the impact and incidence of tax evasion in India explores perceptions regarding government expenditures and reports that less than half the people believe that tax money has been put to good use. Establishing a closer link between taxes and perceived benefits might encourage better compliance.

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The views are personal