

## A Study on Digitalisation of the Tax System in India

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### ABSTRACT

The evolution of tax systems in the digital age has significantly transformed the processes of tax collection, reporting, and administration. Digitalisation refers to the adoption of advanced technologies and digital tools to replace traditional, labour-intensive procedures. Through automation, real-time data validation, and accurate computations, digital systems enhance operational efficiency and reduce processing time. This transition not only accelerates services such as tax refunds but also reduces the administrative workload for taxpayers. Additionally, the move toward digital platforms minimizes costs associated with paperwork, storage, and manual operations.

In India, the digital transformation of taxation represents a major step toward improving transparency, efficiency, and compliance in public finance management. This study examines the development, implementation, and impact of key digital tax initiatives such as the Goods and Services Tax (GST), online income tax filing, the Tax Information Network (TIN), and faceless assessment mechanisms. Using policy analysis and secondary data, the research evaluates how these initiatives contribute to reducing tax evasion, improving taxpayer services, and increasing revenue collection. It also identifies challenges including limited digital literacy, cybersecurity risks, and infrastructural constraints. The study concludes by suggesting policy improvements, enhanced stakeholder awareness, and technological advancements to strengthen India's digital tax ecosystem.

**KEYWORDS:** Taxation, Digitalisation, Tax Administration, E-Filing, Tax Compliance

### INTRODUCTION

Over the past decade, India's tax administration has undergone a substantial transformation due to the integration of digital technologies. Traditional tax systems, largely dependent on manual procedures and paper-based documentation, were often inefficient, error-prone, and difficult to monitor effectively. Digitalisation offers a solution by enabling a more streamlined, transparent, and accountable system of tax governance.

Government initiatives such as *Digital India* and the implementation of GST have played a crucial role in promoting this transformation. The incorporation of digital tools into taxation aims to simplify processes, reduce human intervention, and curb tax evasion. Innovations such



as online return filing, faceless assessments, and real-time tracking of transactions have revolutionized tax administration in India.

This shift is also influenced by changing expectations of taxpayers, who increasingly demand convenience and efficiency similar to private digital services. Furthermore, the rapid growth of the digital economy—characterized by online transactions and cross-border trade—necessitates a modern tax framework capable of capturing new forms of economic activity. This study explores the development, impact, challenges, and future direction of digitalisation in India's tax system, highlighting its role in reshaping interactions between taxpayers and authorities.

## LITERATURE REVIEW

A review of existing studies on digital taxation in India reveals several important insights:

Rao (2016) discusses the gradual transition from manual to electronic tax systems beginning in the late 1990s, emphasizing the role of the Tax Information Network (TIN) and e-filing as early milestones.

Chattopadhyay (2018) identifies the introduction of GST in 2017 as a turning point that accelerated the adoption of digital platforms for real-time reporting and reconciliation.

Kumar and Gupta (2019) highlight the importance of the GST Network (GSTN), which functions as a centralized digital infrastructure supporting registration, filing, and payment processes.

Mukherjee (2020) notes that despite initial challenges, GST implementation has improved compliance and broadened the tax base.

Saxena (2021) finds that digital systems reduce direct human interaction, thereby limiting corruption and improving efficiency.

Sharma and Mehta (2020) report increased tax return filings following digitalisation, attributing this to simplified processes and automated reminders.

Bhattacharya (2020) identifies technical issues such as system errors and complex interfaces as obstacles.

Patel (2021) raises concerns regarding data security and privacy risks.

International perspectives from the World Bank (2022) and OECD (2021) recognize India's progress but recommend improvements in user experience and infrastructure.

## RESEARCH METHODOLOGY

This study adopts a conceptual and analytical approach based entirely on secondary data. Information has been collected from academic journals, reports, articles, newspapers, and credible online sources. The objective is to assess both the advantages and limitations of digital taxation in India by analyzing existing literature and policy developments.

## DATA ANALYSIS

### Advantages of Digitalisation

The digital transformation of tax systems offers several key benefits:

- **Online Filing:** Taxpayers can submit returns electronically, reducing dependency on paperwork.
- **Automated Data Processing:** Financial data is captured automatically, minimizing manual errors.
- **User-Friendly Platforms:** E-filing portals include tools for calculation, validation, and error detection.
- **Real-Time Monitoring:** Authorities can track transactions instantly, helping identify discrepancies.
- **Digital Payments:** Taxes can be paid securely online without physical visits.
- **Data Analytics:** Advanced tools help detect non-compliance and support policymaking.
- **Reduced Workload:** Automation decreases administrative tasks for both taxpayers and officials.
- **Improved Accuracy:** Digital systems enhance precision and transparency.
- **Faster Refunds:** Processing times are significantly reduced.
- **Electronic Communication:** Updates and notifications are delivered digitally.
- **Compliance Tracking:** Systems monitor deadlines and filing status.
- **Easy Access:** Taxpayers can review records anytime online.

### Tax Policies in the Digital Era

Digitalisation enables innovative approaches to taxation through the use of advanced technologies:

1. **Digital Tax Administration:** Automation simplifies tax processes and improves service delivery.
2. **AI and Data Analytics:** These tools help identify fraud patterns and enhance compliance.
3. **Blockchain Technology:** Ensures secure and transparent transaction records.
4. **E-Invoicing:** Real-time reporting improves GST/VAT compliance.
5. **Digital Services Tax:** Addresses taxation challenges of multinational digital companies.
6. **Global Data Sharing:** Facilitates cooperation between countries to prevent tax evasion.
7. **Automated Tools:** Pre-filled returns and smart systems simplify compliance.
8. **Cybersecurity Measures:** Protect sensitive taxpayer data from threats.

## CHALLENGES AND CONSIDERATIONS

Despite its benefits, digital taxation presents several challenges:

1. **Data Security Risks:** Protecting taxpayer information from cyber threats is critical.
2. **Infrastructure Limitations:** Uneven access to technology affects implementation.
3. **Digital Literacy Issues:** Many individuals struggle to use digital platforms.
4. **Legacy System Integration:** Older systems may not align with modern technologies.
5. **Regulatory Gaps:** Legal frameworks often lag behind technological advancements.
6. **Change Management:** Adoption requires awareness, training, and cooperation.
7. **High Initial Costs:** Investment in infrastructure and technology is substantial.

## DIGITAL TAX REFORMS IN INDIA

India has implemented several major reforms to modernize its tax system:

### 1. Goods and Services Tax (GST)

GST unified multiple indirect taxes into a single system supported by digital infrastructure. Key features include:

- Online return filing

- Real-time invoice matching
- E-way bill system for goods movement

## 2. Income Tax Digitalisation

- Aadhaar integration ensures secure identification
- E-filing portals simplify return submission and processing

## 3. Digital Payments

- UPI enables instant transactions
- Mobile wallets facilitate easy tax payments

## 4. Data Analytics

- Project Insight uses data to detect tax evasion

## 5. Digital Authentication

- Digital Signature Certificates (DSCs) ensure secure documentation

## 6. Centralized Communication

- Digital platforms provide updates and notifications

## 7. Taxpayer Support Systems

- Online portals and mobile applications assist users in compliance

These initiatives demonstrate the government's commitment to creating a transparent and efficient tax environment.

## FUTURE OUTLOOK:

The future of digital taxation in India is promising:

1. **Expansion of Digital Infrastructure:** Integration of AI, machine learning, and blockchain will enhance efficiency.
2. **Higher Compliance Levels:** Automation and analytics will reduce tax evasion.
3. **System Integration:** Linking databases such as PAN, Aadhaar, and GSTN will improve monitoring.
4. **User-Friendly Innovations:** Mobile apps and chatbots will simplify processes.
5. **Advanced Analytics:** Predictive tools will support better policy planning.

6. **Ongoing Reforms:** Policies will continue evolving to improve transparency and ease of doing business.
7. **Addressing Challenges:** Efforts will focus on cybersecurity, inclusivity, and reducing the digital divide.

## CONCLUSION:

The digitalisation of India's tax system represents a significant advancement toward a more efficient, transparent, and accountable framework. By automating processes and reducing reliance on manual systems, digital tools have streamlined tax administration and improved service delivery.

Moreover, digital platforms promote better compliance by making tax processes more accessible and user-friendly. The availability of real-time data allows authorities to monitor trends, detect irregularities, and allocate resources effectively. At the same time, faster processing and reduced costs benefit both taxpayers and the government.

However, to fully realize these benefits, challenges such as data security, infrastructure gaps, and digital literacy must be addressed. A balanced approach that combines technological innovation with inclusive policies will be essential.

In conclusion, digitalisation is not merely a technological upgrade but a fundamental shift in how taxation is managed. By embracing this transformation responsibly, India can develop a tax system that is efficient, fair, and aligned with the demands of a rapidly evolving digital economy.

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