

THE ROLE OF DIGITALIZATION IN WIDENING THE INCOME-TAX BASE

ABSTRACT

This paper attempts to analyse the role played by digitalization in widening income-tax base in India since the time of its inception. Special emphasis has been laid upon the working mechanism of digitalization in force in contemporary times. The authors also conducted an empirical research study to gain insight about the digitalized taxation system in India which forms the core of analysis within this paper. The paper focuses upon the transformation digitalization has brought and how it has widened income-tax base primarily in two ways: firstly, by bringing more entities under the fold of taxable earners; and secondly by minimising the instances of tax evasion. The paper also briefly discusses about the history of taxation and digitalization to set the foundation for better understanding. Further, it attempts to explain the working mechanism of digitalization, its transformative aspect, its check on non-accountable income and other factors which in addition to digitalization have an effect on widening income-tax base. Finally, with the assistance of both primary and secondary data the authors establish their conclusive findings.

Keywords- digitalization, income-tax, tax base, tax evasion, income-tax return, taxable income.

1. INTRODUCTION

Visions visiting the mind establish the foundation on which the progressive aspirations of humanity nestle. Two major visions regarding the future of technology and how it shall navigate the societal economic development dominate contemporary discourse about their outlook in the upcoming times. The queries thematically centralized in the discussion are that how individuals shall adapt to the transformed tech society and how they shall endeavour to utilize the technology for the progress of the world.¹

Among the various contributory components of the stature of national economy, taxation system lies at the heart. Effective taxation system is neither stringent enough to burden the

¹ Elizabeth Pollitzer, 'Creating A Better Future: Four Scenarios For How Digital Technologies Could Change The World' (2018) 72 *Journal of International Affairs* 75.

taxpayers nor it is so fragile that it keeps the unaccountable wealth unchecked. Taxpayers typically view taxes as a hardship, and it is natural for them to try to minimize their tax obligations or avoid paying any tax at all.² We must be prepared to pay the price of civilization through a variety of acts of good citizenship, including paying our fair share of taxes, deeply understanding the needs of society, being watchful stewards for future generations, and keeping in mind that compassion is the bond that binds society together.³

Income-tax base refers to “the total amount of income, property, assets, consumption, transactions, or other economic activity subject to taxation by a tax authority.”⁴ Taxation has never been a kind of *quid pro quo* agreement between the taxpayers and the government. Therefore, there has always existed a tendency amongst the payees to escape the payment of taxes firstly with an intention to evade using existing legal loopholes and then sneaking through illegal means. The boon of technological era is the mechanism of digitalization which has played a key role in minimising the evasion of taxes. The role digitalization plays in widening income-tax base shall be explained here through the support of both primary data (collected through research conducted by authors) and secondary data.

The authors circulated an online questionnaire to collect data. The target population were the students and the faculty members of the Rajiv Gandhi National University of Law, Patiala, Punjab. A total of 60 respondents filled the form and the data collected has been used to justify various findings in this paper. Among them 40 had paid income-tax and 19 did not and one respondent was unsure about it [Chart A].

² ‘Why Should I Pay Tax?’ (*Income Tax Department*) <<https://incometaxindia.gov.in/Charts%20%20Tables/Why%20should%20I%20pay%20tax.htm#:~:text=Taxes%20are%20used%20by%20the,be%20borne%20by%20the%20Government.>> accessed 7 September 2023.

³ Jeffrey D Sachs, *The Price of Civilization: Reawakening American Virtue and Prosperity* (Random House 2011).

⁴ ‘Tax Base’ (*Tax Foundation*) <<https://taxfoundation.org/taxedu/glossary/tax-base/>> accessed 7 September 2023.

CHART A

2. WHAT IS

Before understanding in widening the tax understand what The word *digitalization* word *digitalize*. defines the word

digitalize
verb [T]
UK ˈdɪʒɪtɪz eɪʒ / US ˈdɪʒɪz eɪʒ /
(UK usually **digitalise**)

to change something such as a document to a digital form (= a form that can be stored and read by computers):

- The library is digitalizing all its records.
- More than 200 photos have been scanned and digitalized for the online archive.

Synonym
digitize

to start to use digital technology such as computers and the internet to do something:

- There are many reasons why you need to digitalize your marketing strategy.
- The economy is increasingly being digitalized.

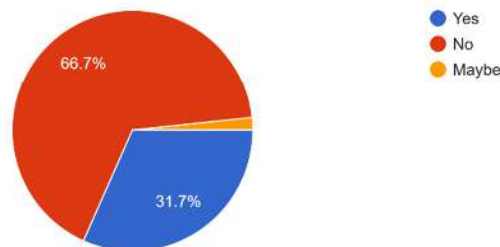
DIGITALIZATION?

the role of digitalization base, it is important to digitalization means. is the noun form of the Cambridge dictionary digitalize as follows:⁵

(Source: Cambridge English Dictionary)

For the purposes of _____ digitalization in

Have you ever paid Income Tax?
60 responses



taxation regime both the meanings are relevant. Digitalization here is facilitating both minimisation of unnecessary paperwork and pro-active use of digital devices and online

⁵ Cambridge Dictionary, *Digitalize* (Cambridge University Press) <<https://dictionary.cambridge.org/dictionary/english/digitalize>> accessed 7 September 2023.

mechanism for collection of taxes and tax-related data. Digitalization can function in multiple ways like Pre-population, Electronic Invoicing, Real-time Information, Targeted Audit Activity and Integrated Tax Systems. A report by ICAEW views digitalization in taxation as not “*mere simple digitization but complete reimagination of tax processes using digital methods*” which has taken place in various economies primarily in three stages as shown in image below:⁶

(Source: ICAEW)

3. HISTORY OF DIGITALIZATION IN INDIA

3.1 *Ancient India*

In India, the system of taxation evolved in the ancient times. Manusmriti illustrates that the ruler imposed *kara* on his subjects based on principles of fairness and justice. It states, “the taxpayers and artisans must pay 1/5th of their income and the agriculturists 1/6th, 1/8th, or 1/10th of the produce depending on the production.”⁷ The principle of *Kosha Moola Danda* (revenue is the backbone of administration) was established by Chanakya in the *Arthashastra*. He laid down rules regarding imposition of various taxes on agriculturists, artisans, traders, octroi, tolls etc. He also established that the “*public should not be exploited by imposing tax more than their competence to pay.*”⁸

3.2 *Medieval India*

These ancient institutions of taxation were replaced by the medieval institutions of the Sultanate and the Mughal period. During the Sultanate Period, there were various taxes: *ushr*

⁶ ICAEW, ‘DIGITALISATION OF TAX: INTERNATIONAL PERSPECTIVES’ (2022) <<https://www.icaew.com/technical/technology/technology-and-the-profession/digitalisation-of-tax-international-perspectives>> accessed 8 September 2023.

⁷ PNB MetLife, ‘History and Evolution of the Taxation System in India’ (*PNB MetLife*, 12 July 2021) <<https://www.pnbmetlife.com/articles/taxation/evolution-of-taxation-system-in-india.html>> accessed 1 October 2023.

⁸ Anushka, ‘Kautilya’s System of Tax Administration’ (*GKToday*, 9 July 2020) <<https://www.gktoday.in/kautilyas-system-of-tax-administration/>> accessed 1 October 2023.

which was levied on Muslims only to give 1/10th of their produce, the *khiraj* which was levied on non-Muslims only and was to pay 1/3rd to 1/2nd of the produce; others were religious taxes known as the *jakat*, *khams*, and *jaziya*.⁹ With the transfer of the throne to the Mughals, system witnessed a change, and taxation became systematised. Different types of taxes were introduced. *Mal* was levied on crops and was to be paid with a share of crops. Other taxes were *Ghalla-bhakshi*, *jabt*, and *kankut* that were for the assessment of land revenue. *Jaziya* was a religious tax paid by non-Muslims.¹⁰ All these were collected through a systematised taxation system.

3.3 British India

In the nineteenth century, the British took hold of taxation regime in India. With the enforcement of Income Tax Act, 1860, the series of taxation regimes began. This was the first statutory enactment on taxation in colonised India. The Act was introduced by Sir James Wilson for compensating the losses incurred by the Company and the British government during the First War of Independence in 1857. This act remained in force for a period of 5 years.¹¹ It divided the source of income into four types: landed property, trade and profession, service, and securities. It made Hindu Undivided Family a separate taxable unit and gave exemptions to life insurance premiums from the sphere of taxation.¹² Then came the Income Tax Act of 1886 followed by the Act of 1918, paving the way for the milestone Act of 1922, which formed the foundation of the Income Tax Act post-independence. The Income Tax Act of 1922 established a proper and stable administrative unit for the administration of Income Tax which continued till the post-independence phase.

3.4 Independent India and Advent of Digitalization

The Income Tax Act, 1961 passed under the reign of the Nehru government, still governs the income-tax regime in the modernised era. This act applies to the whole of India and was

⁹ Purnima, 'Revenue Administration under the Sultans of India' (*History Discussion - Discuss Anything About History*, 14 July 2016) <<https://www.historydiscussion.net/history-of-india/revenue-administration-under-the-sultans-of-india/6236>> accessed 1 October 2023.

¹⁰ Durgesh Jha, 'Taxation in Ancient and Medieval India' (*Panacea Concept*, 8 December 2021) <<https://panaceaconcept.in/taxation-in-ancient-and-medieval-india/>> accessed 1 October 2023.

¹¹ *PNB MetLife*, (n 7).

¹² 'History of Income Tax in India: ' (*Estartindia*, 6 May 2020) <<https://www.estartindia.com/knowledge-hub/blog/history-of-income-tax-in-india>> accessed 2 October 2023.

brought into effect on 1st April 1962. Divided into 23 chapters, it governs every aspect of taxation in India.¹³ This law divides the taxes into direct taxes, paid from a part of the income; and indirect taxes, ones levied indirectly from the goods and the services. This act levies taxes on income through five sources: Salary, Business or Profession, Capital Gains, House Property, and Other Sources. It works on the objectives of price stability, full employment, non-revenue objective, cyclical fluctuation control, and reducing balance of payment issues. The scope of this act covered residential, non-residential, and residential but not ordinary resident status of the tax payer, and which was further widened with the advent of digitalization.¹⁴

In India, the first stage of digitalization began with the introduction of the internet to the general public by Videsh Sanchar Nigam Ltd (VSNL) on August 15, 1995, when modems were introduced and cyber cafes were established.¹⁵ These steps run through a staircase and reach the stair of 2004, where in September, the Government of India introduced e-filing of income-tax on a voluntary basis for every income-tax assessee, which was made compulsory for corporate firms in 2006 and was made mandatory for every individual with an income above 10 lakhs in 2013.¹⁶ Within this period, the government launched the TRACES (TDS Reconciliation Analysis and Correction Enabling System) portal for Tax Deducted at Source (hereinafter referred to as TDS) operations, and soon the tax payers were given access to the Annual Information Statement (AIS) and Taxpayer Information Summary (TIS) to make the filing of returns more feasible and transparent. Further, in 2019, the government launched the faceless assessments scheme, which removed human interface and made the system clearer and more apparent.¹⁷ The era of digitalization is progressing with the increase in technology, with the government planning to introduce more reforms and schemes in the coming years to troubleshoot the complications and identify discrepancies by using methods such as blockchain

¹³ Sujaini Biswas, 'Income Tax Act 1961: Chapters, Objectives, Features, Provisions' (*cleartax*, 29 May 2023) <<https://cleartax.in/s/income-tax-act-1961>> accessed 2 October 2023.

¹⁴ *PNB MetLife*, (n 7).

¹⁵ Prena Mahtani, 'Evolution of Internet in India: From a Luxury to a Necessity' (*Selectra.in*, 26 August 2021) <<https://selectra.in/internet-speedtest/evolution-of-internet-india>> accessed 2 October 2023.

¹⁶ Mukesh Kumar and Mohammad Anees, 'E-Filing: Creating New Revolution in Taxation of India' (*Research India Publications*, 2014) <https://www.ripublication.com/gjfm-spl/gjfmv6n4_15.pdf> accessed 1 October 2023.

¹⁷ Express Computer, '10 Years of Tax Digitisation in India on the Occasion of Tax Filing Season' (*Express Computer*, 31 July 2023) <<https://www.expresscomputer.in/news/10-years-of-tax-digitisation-in-india-on-the-occasion-of-tax-filing-reason/101637/>> accessed 2 October 2023.

technology and real-time sharing methods to make this system more systematic and transparent.

4. WORKING OF THE MECHANISM OF DIGITALIZATION IN WIDENING INCOME-TAX BASE

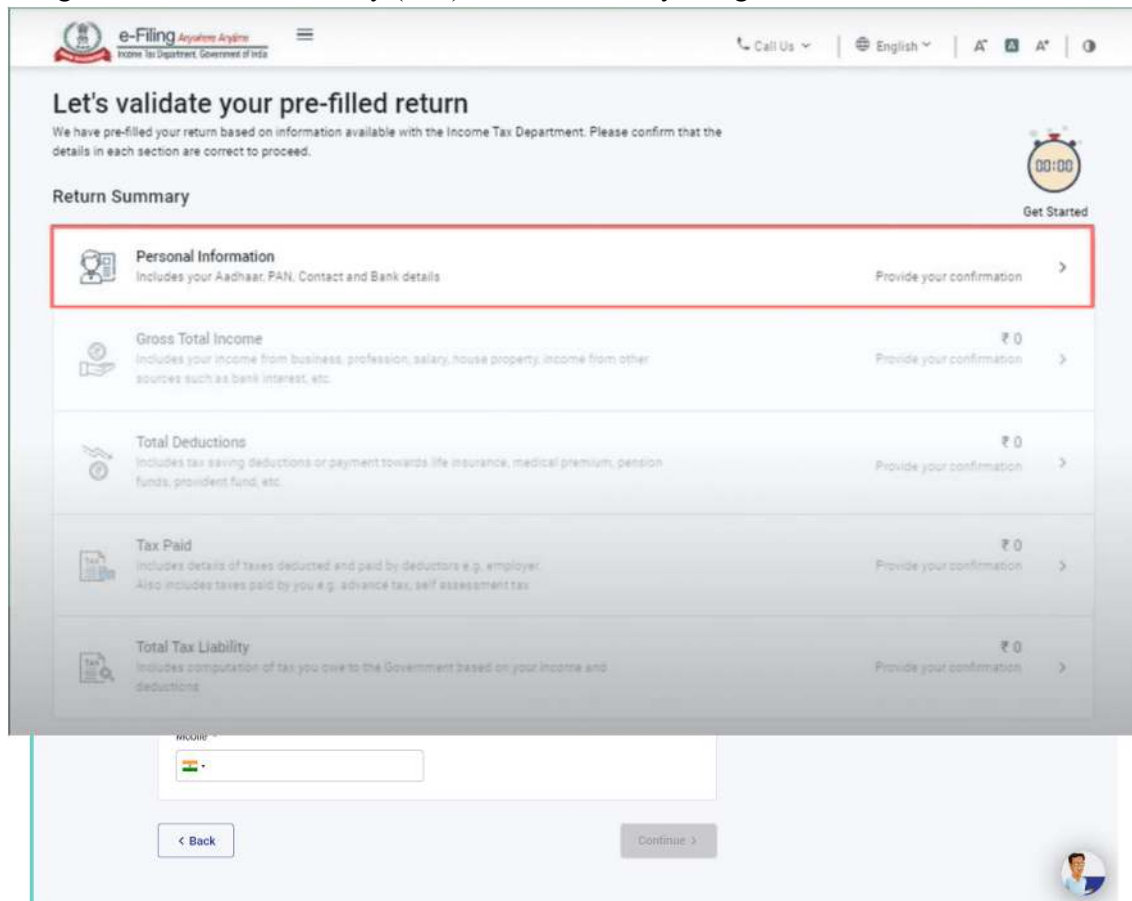
Before explaining the role of digitalization, firstly we shall explain working of various mechanism as in absence of basic knowledge, its role cannot be understood. Several mechanisms have been introduced through digitalization making calculation and collection of income-tax easier for both the taxpayers and taxation authorities. E-filing, e-assessment, pre-filled Income-Tax Return (hereinafter referred to as ITR) forms and e-verification are the mechanisms which are discussed here in this paper.

4.1 E-Filing

Data indicates that in fiscal year (2022-23), e-filing of income-tax returns crossed 6 crores which is much higher than previous year which was around 5.83 crores. This mechanism has made return processing much quicker which takes place within 16 days and it has consequently made return process much quicker which aggregated to 3.07 crores this year. During FY23, the total ITRs (individual and businesses together) filed rose to 7.78 crores whereas during FY22 it was 7.3 crores.¹⁸

¹⁸ Shishir Sinha, 'Over 6 crore ITRs filed till July 30; missing deadline may prove costly' *The Hindu Businessline* (New Delhi, 30 July 2023) <[8](https://www.thehindubusinessline.com/economy/due-date-for-filing-itr-today-total-filing-cross-last-july-31-number/article67138476.ece#:~:text=During%20FY23%2C%20the%20total%20number%20of%20returns%20%28individual,compared%20with%206.86%20crore%20returns%20processed%20in%20FY22.> accessed 2 October 2023.</p></div><div data-bbox=)

ITR can be filed in three ways: with or without a digital signature certificate (DSC) and by using an e-Return Intermediary (ERI) for electronically filing the ITR with or without a DSC.



The image shown below indicates that one needs only a PAN/TAN and Mobile Number to initiate e-filing.¹⁹

(Source: Income Tax Department)

E-filing has benefitted a lot as it removes hassle of unnecessary paperwork and reduces chances of mistakes in calculation; immediate confirmation is received by the taxpayer; before submission tax deductions are pre-checked helping the taxpayer in saving money without evading.²⁰

After logging in one needs to enter necessary details as shown in image below and majority of them are pre-filled:

¹⁹ E-Pay Tax (Income Tax Department) <<https://eportal.incometax.gov.in/iec/foervices/#!/e-pay-tax-prelogin/user-details>> accessed 2 October 2023.

²⁰ Deb P Samaddar, 'Income Tax E-Filing: Everything You need to know' (Insider by Finology, 13 December 2022) <<https://insider.finology.in/finance/income-tax-efiling>> accessed 2 October 2023.

This encourages people to pay taxes as the suspicion of unnecessary taxes and harassment by tax officials for collecting taxes through corrupt means is mitigated.

4.2 E- Assessment

National e-Assessment Centre at Delhi facilitates faceless and nameless assessment for income-tax payers.²¹ Initially when the scheme was launched in 2019, a total of 58,322 cases were picked up for assessment using different computer-based parameters to select these cases. This mechanism helps in easily catching the defaulters, increases transparency, ensures accountability of taxpayers and tax officials; and reduces physical interaction between them thereby increasing convenience and facilitating quick disposal.²²

4.3 Pre-filled ITR forms

While filing ITR, no sooner PAN is entered, all the information regarding the source of income linked to it is automatically filled along with the general information which includes salary schedule, house property schedule, income from other sources and deduction under Chapter VIA of the ITA. However, the pre-filled form does not absolve the taxpayer from liability as he needs to cross-check the filled data to ensure that the information is correct and nothing is missing.²³ This minimises possibility of missing some details as pre-filled details assist the taxpayers.

4.4 E-verification

After a tax payer has filed an ITR, the department starts its processing. Taxpayer has to mandatorily verify it through e-verification otherwise the ITR filed is considered invalid.²⁴ CBDT (Central Board of Direct Taxes) has made this process swift through digitalized means

²¹ 'CBDT to hold high-level review of I-T e-assessment system before its roll-out' *The Economic Times* (25 September 2019) <<https://cfo.economictimes.indiatimes.com/news/cbdt-to-hold-high-level-review-of-i-t-e-assessment-system-before-its-roll-out/71293712>> accessed 2 October 2023.

²² Mannu Arora, 'E-assessment pilot kicks off; 58322 cases picked up for scrutiny' *The Economic Times* (7 October 2019) <<https://cfo.economictimes.indiatimes.com/news/e-assessment-pilot-kicks-off-58322-cases-picked-up-for-scrutiny/71482493>> accessed 2 October 2023.

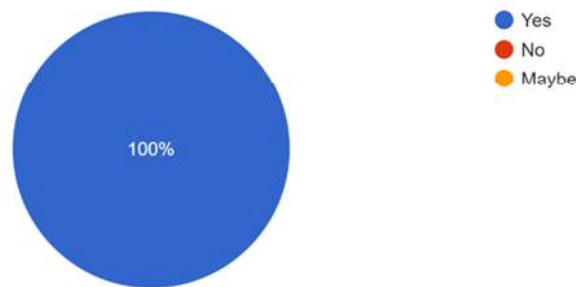
²³ Neeraj Agarwala, 'Tax Talk: Check the pre-filled details in your ITR' *The Financial Express* (27 July 2022) <<https://www.financialexpress.com/money/income-tax-tax-talk-check-the-pre-filled-details-in-your-itr-2607152/>> accessed 2 October 2023.

²⁴ 'How to E-verify Income Tax Return for FY 2022-23 (AY 2023-24): Online ITR Verification' (*Tax2win*, 7 September 2023) <<https://tax2win.in/guide/e-verify-income-tax-return>> accessed 2 October 2023.

and now verification can be completed in 30 days (as compared to 120 days earlier).²⁵ Once a communication is shared to the taxpayer under e-verification scheme, and if the ITR entities were filed incorrectly then he/she can update the credentials so that correct ITR could be generated. In case of non-agreement, the taxpayer is free to submit the supporting documents to substantiate his/her claim.

Are you aware of the fact that we are living in the rapid era of Digitalization which is impacting every sphere of life including the taxation system?

60 responses



The digitalization system has eased all the stages of income-tax collection and made them speedy and hassle free. The time saved is utilized in catching defaulters who have missed the eyes of the department. With its widening sphere, number of taxpayers are surging and the evaders escaping liability are minimising. Digitalization has penetrated deeper into the calculation aspect however when the collection of sources of income is visualized majority of the areas of an individual's income where the monetary or other income is not linked with PAN/ Aadhar, evasion is still possible. The scheme of government to link PAN with Aadhar would further increase the extent of digitalization and chances of evasion would be further minimised which shall bring more collection of tax and widen the income-tax base.

5. TRANSFORMATION USHERED IN THOROUGH DIGITALIZATION

According to the research conducted by the authors, the overall sample was aware of the fact that the Indian system of taxation was completely digitalized, which plays a key role in reforming the taxation policies and widening tax-base [Chart 1].

CHART 1

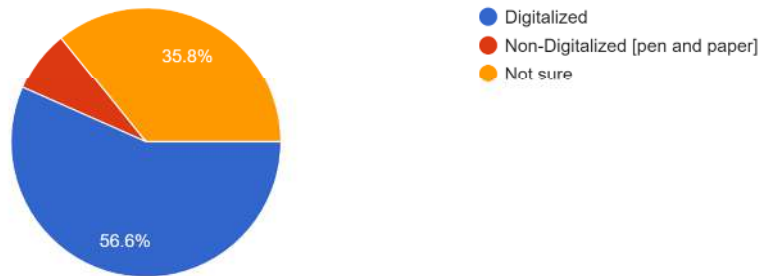
²⁵ Ektha Surana, 'How to Verify Your Income Tax Return' (*cleartax*, 25 September 2023) <<https://cleartax.in/s/income-tax-e-verification-etc>> accessed 2 October 2023.

The findings indicate that 56.6% of the respondents agree that digitalized method is a better method for filling ITRs [Chart 2].

CHART 2

If you have ever paid the Income Tax in non-digitalized era, what do you think which method is better?

53 responses



After having an overview of the perception and acceptability of digitalization, we shall further elaborate various transformative reforms facilitated by digitalisation which have embarked its acceptability both by taxation regime and the taxed entities.

5.1 Hassle free taxation approach

The first and foremost reform and impact of digitalisation is feasibility. Ease in accessibility of data and its availability on tax portals; reduction in time spent; ease in operations and cashflows; and better control over the data has made the procedures of income-tax collection feasible and plausible for both the tax payers and the tax collectors.²⁶ The image below indicates the perception of respondents towards digitalization and its benefits:

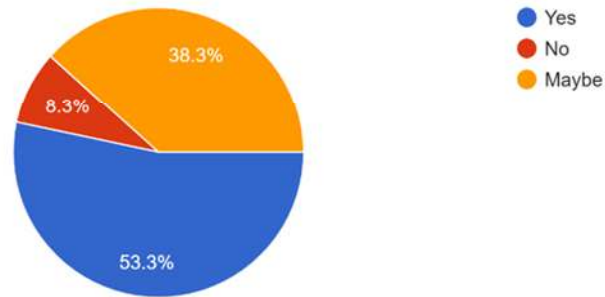
²⁶ Rohintan Sidhwa and Pritin Kumar, 'Income Tax Digitalisation in India' (*Deloitte India*, 9 May 2023) <<https://www2.deloitte.com/in/en/pages/tax/articles/survey-on-income-tax-digitalisation-in-india.html>> accessed 2 October 2023.

(Source: Deloitte)

Responses indicate that over 88% of the respondents agreed that digitalisation has led to better storage and management of data [Chart 3].

Do you think that pre-filled Income Tax Return (ITR) form has led to ease in filling of ITR?

60 responses



Further, the availability of pre-filled ITR form decreases the hectic procedure of filling the form and its approval by tax officials. 53.3% of the respondents affirmed that the prefilled ITR form has led to ease in filing of the ITR [Chart 4].

CHART 4

Thus, digitalisation had a positive role in making the procedure hassle free.

5.2 Reduction in Tax Evasion

Another major transformative reform brought by digitalization is the reduction in tax evasion. Tax evasion is a fraud committed when liability to pay tax arises.²⁷ Cambridge Dictionary defines it as shown in the image below:²⁸

(Source: Cambridge English Dictionary)

It occurs when people hide their actual income under the ITR. This is illegal and punishable²⁹ under Section 276C of Chapter XXII of the Income Tax Act, 1961.³⁰

Digitalization increases income-tax base by enabling the government to identify discrepancies and anomalies in returns and further enable them to inspect the same, thus stimulating a track record of evaders. The launch of e-invoices in 2020 was a major showdown by the government to eliminate evasion. The government also launched the GST e-way Bill System to check the



²⁷ 'Tax Evasion and Penalties for Tax Evasion in India' (*Kotak Life*, 16 June 2022) <<https://www.kotaklife.com/insurance-guide/savingstax/what-is-tax-evasion-and-what-are-the-penalties-for-tax-evasion-in-india>> accessed 3 October 2023.

²⁸ Cambridge Dictionary, *Tax Evasion* (Cambridge University Press) <<https://dictionary.cambridge.org/dictionary/english/tax-evasion>> accessed 3 October 2023.

²⁹ (n 24).

³⁰ *Income Tax Act 1961*.

duplicity of identical transaction enabling a singular reporting of common data. Thus, mix approach of the e-invoicing and the E-way bill enables a check on tax evasion.³¹

5.3 Enables Tax Compliance

Tax

1.7 Number of Income-Tax Returns Filed (Including Revised Return)											
SR	PAN Category	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
1	INDIVIDUAL	3,50,43,126	3,74,08,937	4,29,25,794	5,22,05,021	6,45,58,970	6,32,50,002	6,38,98,872	6,94,89,484	6,86,47,490	7,33,11,873
2	HUF	9,55,457	9,66,500	10,42,522	11,63,543	12,88,544	12,14,410	11,92,227	12,62,864	12,66,524	12,74,426
3	FIRM	9,60,640	9,92,134	11,10,762	11,81,369	13,93,792	14,09,744	13,65,975	15,27,175	15,19,326	15,73,766
4	COMPANY	7,15,005	7,53,508	7,80,470	8,03,990	9,42,834	9,64,862	9,33,867	10,23,751	10,59,314	10,88,414
5	AOP/TRUST	1,83,712	1,88,157	2,75,810	2,64,519	2,92,047	2,92,173	2,83,579	3,10,468	2,86,049	2,86,997
6	OTHER AOP/BOI	1,05,548	1,11,004	1,53,221	1,68,046	2,14,228	2,11,870	2,09,575	2,68,809	2,54,771	2,66,743
7	LOCAL AUTHORITY	2,815	2,631	3,394	3,483	3,959	3,746	3,396	4,463	3,877	3,763
8	AJP	8,653	8,784	10,382	10,899	11,455	10,673	9,593	11,048	9,283	9,907
9	OTHERS	10	35	75	108	239	349	366	519	439	461
	TOTAL	3,79,74,966	4,04,31,690	4,63,02,430	5,58,00,978	6,87,06,068	6,73,57,829	6,78,97,450	7,38,98,581	7,30,47,073	7,78,16,350

compliance is individual-oriented. It arrives when individuals develop a willingness to pay tax and oblige with the tax rules. Digitalization has played a major role in obligating individuals to pay taxes. The simplified method of GST registrations, enhanced transparency, smoother and faster tax collections, and tracking of fraudulent activities and evasion have generated a spirit of compliance among tax payers. Further, increased technology, block chain methods, and artificial intelligence in businesses have enhanced tax compliance in individuals.³²

Under the Digital India Scheme, launched with the objective of digitalizing the country, the government provides services through online portals and ensures internet connectivity all over the country. The government is also working for providing rural areas with high-speed internet connectivity. There are three core objectives of the government under this scheme: developing stable digital infrastructure, providing government services digitally, and developing universal digital literacy.³³

The latest released data by CBDT below shows an increase in the number of income tax returns filed; the number increased from 3,79,74,966 in FY2013–14 to 7,78,16,350 in FY2022-23, which points to increased tax compliance among the tax payers:

³¹ Arpit Kulshrestha, 'How Digitalisation & GST E-Invoicing Speed up Tax Compliance' (*SAG Infotech Official Blog*, 29 May 2023) <<https://blog.saginofotech.com/digitalisation-gst-e-invoicing-speed-up-tax-compliance#>>> accessed 4 October 2023.

³² A S Narayanan, 'How Digitalization of Tax Collection Has Enhanced Tax Compliance in India' (*The BankNXT*, 19 January 2021) <<https://payswiff.com/thebanknxt/blog/how-digitalization-of-tax-collection-has-enhanced-tax-compliance-in-india/>> accessed 4 October 2023.

³³ 'Welcome to Common Services Centres' (*CSC E-Governance Services India Limited*) <<https://csc.gov.in/digitalIndia>> accessed 4 October 2023.

(Source: CBDT)

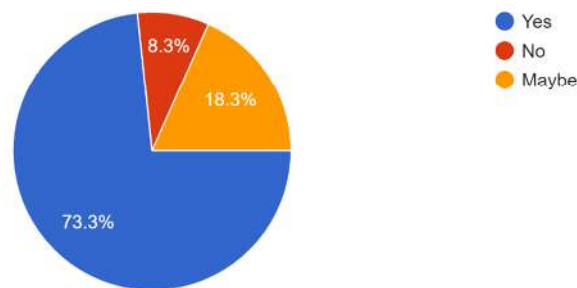
5.4 Reduction in suspicious charges of tax evasion and harassment of individuals by Income Tax Department

With enhanced tax compliance and a reduction in the cases of tax evasion, it is believed that it would lead to a reduction in the cases of harassment by the Income Tax Department (hereinafter referred to as department). The research conducted shows that 73.3% of respondents agreed that digitalization led to a reduction in suspicious charges and harassment [Chart 5].

CHART 5:

Whether digitalization would minimize suspicious charges of tax evasion and harassment of individuals by Income Tax Department?

60 responses



With the introduction of the e-invoice and e-way bill systems, mass reduction in cases of tax evasion has been witnessed. Transparency and clarity ushered in through digitalization have brought relief to tax payers who become victims of suspicious charges by the department. Further, the launch of digital portals and schemes in the digital economy, led to a marked increase in tax compliance among individuals and reduction in harassment cases. The faceless assessment and appeal system launched by the government, within which the evaluation process is being modernised by eliminating human interaction and, conducting assessments and appeals through a technology-driven procedure have also assisted in this regard.³⁴

³⁴ Suranjali Tandon, 'Will Faceless Assessments Reduce Taxpayer Harassment?' (*BQ Prime*, 26 August 2020) <<https://www.bqprime.com/opinion/will-faceless-assessments-reduce-taxpayer-harassment>> accessed 4 October 2023.

Thus, we can say that digitalization has provided relief to tax payers by minimising the suspicious harassment proceedings that the department could levy against them.

5.5 Creation of Equalization Levy

This is one of the actions taken by the Indian government through effective digitalization. It was introduced to tackle the escape of digital companies and social media sites, which have a huge economic presence in the Indian economy, from paying taxes. The Government of India launched the Equalisation Levy in 2016 under Chapter VIII of the Finance Act, 2016, with the objective of taxing multinational digital companies that have a presence in India to pay a 6% income tax.³⁵ This was done to have an equal playing field for all the companies and persons who pay taxes in India. The rise of these companies was a consequence of digitalization, and thus the tax imposed upon them by incorporating them within taxable entities to increase tax-base is also one of the transformations ushered in by digitalization.

The launch of e-filing, e-invoicing, and e-way bill systems, the ease of accessibility, reduction in tax evasion, tax compliance, minimization of harassment, and setup of the equalization levy, are some of the transformative reforms brought up by digitalization in India. Digitalization is cascading the stairs, and in the coming future we will see further reforms that fully transform our economy and widen the income-tax base.

6. CHECK ON NON-ACCOUNTABLE INCOME

Non-accountable income refers to the income which is not disclosed by the tax payer either to fall in the category of taxable entity or to minimise the amount of tax to be paid. Records indicate that only one percent of the population in India files ITRs declaring their income to be above 5 lakhs. Only 5.78 crore ITRs were filed by individual taxpayers for the financial year 2018-19 till February 2020.³⁶ According to a press release by the Ministry of Finance, the total

³⁵ CMA Srivalli Pradhan, 'Digital Economy and Its Impact on Indian Taxation ' (*icmai.in*, December 2019) <https://icmai.in/TaxationPortal/upload/DT/Article/53_1_09_03_21.pdf> accessed 4 October 2023.

³⁶ Samrat Sharma, 'Only 1% of India pays income tax, govt shows proof; tax evasion still a major roadblock' *Financial Express* (21 September 2020) <<https://www.financialexpress.com/policy/economy-only-1-of-india-pays-income-tax-govt-shows-proof-tax-evasion-still-a-major-roadblock-2088141/>> accessed 28 September 2023.

number of ITRs for AY 2023-24 filed till July 31, 2023 are more than 6.77 crores, which is 16.1 per cent more than the total ITRs for AY 2022-23 (5.83 crore) filed till July 31, 2022.³⁷

Section 2(24) of the Income Tax Act, 1961 (hereinafter referred to as ITA) defines *income*. Furthermore, section 4 states that income-tax shall be charged on the *total income* earned during the assessment year and the scope of total income is delineated by section 5. Tax evasion happens when the tax payers conceal their total income using illegal means misleading financial statements; keeping money in foreign accounts; filling incorrect details while filing ITRs such as understating their income or overstating deductions, etc.³⁸ As per chapter XXII of ITA, tax evasion is illegal and such defaulters who wilfully attempt to evade tax are penalized under section 276C.³⁹ For example, a company claims depreciation on a car that is used by the company's director for personal purposes which is not permitted under section 32(1)(a) of the ITA.⁴⁰ As per the data available on the website of the department, there are a total of 96 tax defaulters who owe \$3,493.24 crore in taxes.⁴¹ This exercise of publication of corporate and personal taxpayers who had defaulted more than one crore was started by the end of financial year 2016-17 by the department.⁴² The maximum amount which is pending by an assessee is from Mumbai's Uday Acharya amounting to ₹779.04 crores. He has been declared bankrupt but the department could not recover anything from him as he has passed away.⁴³ However, majority of them are big companies and individuals who have defaulted taxes in crores with

³⁷ Tarun Mishra, 'Record 6.77 crore ITRs filed for FY23 till July 31: Income Tax Dept' *Business Today* (1 August 2023) <<https://www.businesstoday.in/personal-finance/tax/story/record-677-crore-itrs-filed-for-fy23-till-july-31-income-tax-dept-392318-2023-08-01>> accessed 28 September 2023.

³⁸ 'What is Tax Evasion, and What are the Penalties for Tax Evasion in India?' (*Kotak life*, 16 June 2022) <<https://www.kotaklife.com/insurance-guide/savingstax/what-is-tax-evasion-and-what-are-the-penalties-for-tax-evasion-in-india>> accessed 29 September 2023.

³⁹ Income Tax Act 1961.

⁴⁰ Mayashree Acharya, 'Understanding Tax Evasion and Penalties in India' (*cleartax*, 30 January 2023) <<https://cleartax.in/s/tax-evasion-and-penalties-in-india>> accessed 29 September 2023.

⁴¹ Tax Defaulters, (*Income Tax Department*) <<https://incometaxindia.gov.in/Pages/tax-defaulters.aspx>> accessed 29 September 2023.

⁴² 'Income Tax department to 'name and shame' crorepati defaulters this fiscal' *The Economic Times* (25 May 2016) <<https://economictimes.indiatimes.com/wealth/tax/income-tax-department-to-name-and-shame-crorepati-defaulters-this-fiscal/articleshow/52421542.cms?from=mdr>> accessed 29 September 2023.

⁴³ B Sivakumar, '₹3,500 crore owed by 96 tax defaulters unlikely to be recovered' *Fortune India* (21 June 2023) <<https://www.fortuneindia.com/macro/3500-crore-owed-by-96-tax-defaulters-unlikely-to-be-recovered/113130>> accessed 29 September 2023.

minimum tax evasion by Hriday Nath Kapoor who had defaulted a total of one crore rupees as indicated in the image below:

Company Name	PAN	Director/Defaulters	Defaulted Amount
HIRAK BIOTECH LTD	AABCH5421N	DIRECTOR: - 1. PRATIK R. SHAH 2. NIKETA D DAVE	₹ 18.54 crores
HOME TRADE LTD	AABFH8408A	DIRECTOR'S NAME: - SANJAY AGARWAL	₹ 72.18 crores
HRIDAY NATH KAPOOR	N. A.	N. A.	₹ 1 crores
ICON BIO PHARMA & HEALTH CARE LIMITED (Formerly known as icon drugs limited)	AABCM9389Q	DIRECTORS: - 1. SEEMA SARIN CHAUDHARY, 2. BHUPESH R. CURJAR, 3. SARIN K CHAUDHARY 4. JALPA B. CHAMPANERY	₹ 17.59 crores
INDRAWARDAN V DARBAR	AGPD2558A	VITHALBHAI DARBAR	₹ 27.81 crores
INFINITY KNOWLEDGE SOLUTIONS PVT LTD. (Formerly M/s Rajsoft Solutions Pvt Ltd)	AACCR2078Q	DIRECTORS: - 1. RAJASEKAR JAI SANKER 2. RAJY KALYANI LAKSHMIKANTH 3. TALUKA SATISH YADAGIRI	₹ 12.33 crores
INTERNATIONAL BUSINESS AND SERVICES NEEDS INDIA PVT. LTD.	AABCI5907I	DIRECTOR'S NAME: - 1. RAVI KUMAR DARBA 2. GEETHA DARBA	₹ 11 crores
IRFAN AHMED	N. A.	N. A.	₹ 257.04 crores
JAG HEET EXPORTS PVT. LTD.	AACCJ9838Q	DIRECTORS: - SHRI JASHUBHAI V SONI 24, PRATIMA SOCIETY, NR VIJAY CROSS ROAD, AHMEDABAD. SHRI ALPESH BHAI J. SONI (A) 24, PRATIMA SOCIETY, DADASAHEBNA NAVRANGPURA, AHMEDABAD. (B) MIDDA DD & CO. RE. INDIA PVT	₹ 10.45 crores

(Source: Income Tax Department)

It is important to understand how these income-tax evaders who have defaulted taxes in crores are caught by the department with digitalization into picture. But before that we need to understand why the problem of tax evasion is so persistent and increasing day by day.

The problem of tax evasion is not something new which is being encountered in twenty first century only. Tax payers have always been reluctant to pay the tax as they no direct benefits from it, conversely it is not a direct *quid pro quo* agreement with the government.⁴⁴ Anil Kumar Jain explains the emergence of this problem and states that back in the thirties of twentieth century some wealthy businessmen started concealing their income and the second world war created such condition which created golden era for tax dodgers.⁴⁵ Moreover, this evasion is more rampant in cases of direct taxes such as income-tax as the tax payer has to bear direct burden of such taxes.⁴⁶ Income-tax base is reduced due to these practices of concealing income and evading payment of taxes on regular basis. Digitalization puts a check on this non-accountable income in two ways: firstly, it increases the effect of probability of detection and

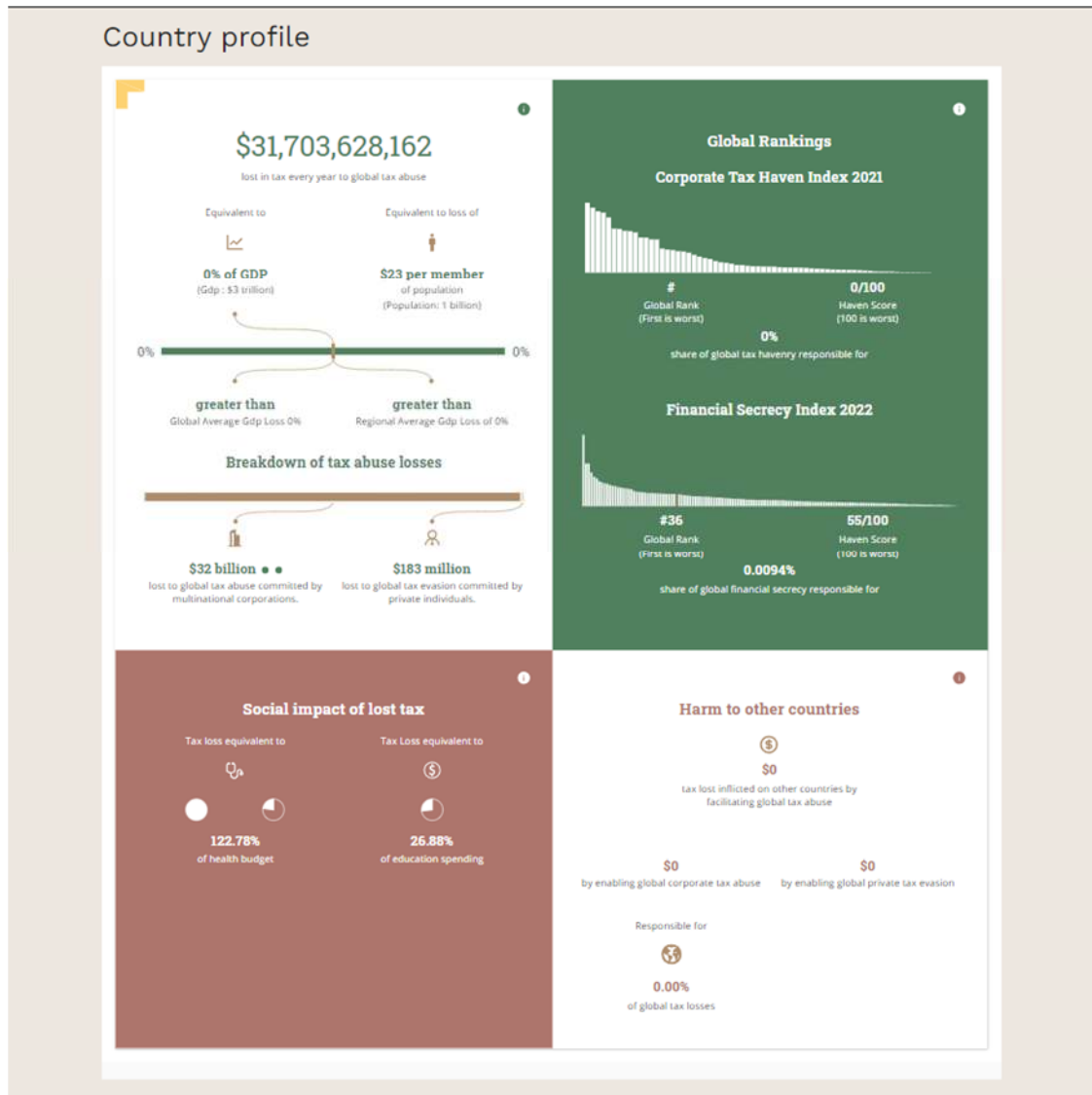
⁴⁴ Rajendra Nath Bhargava, *The Theory and Working of Union Finance in India* (Chaitanya Publishing House, 1967).

⁴⁵ Anil Kumar Jain, 'Tax Avoidance and Tax Evasion: The Indian Case' [1987] *Modern Asian Studies* 233, 235.

⁴⁶ *ibid* 234.

secondly it facilitates easy and effective collection of taxes. As the probability of being caught increases, it brings a decrease in the optimal proportion of understated income and increases the reported income.⁴⁷

Tax Justice Network every year publishes a report named State of Tax Justice. According to the 2023 report, India is currently losing \$31,703,628,162 to tax havens each year.⁴⁸ Country



Profile of India is indicated in the image below:⁴⁹

(Source: Tax Justice Network)

⁴⁷ Ved P Gandhi, *Supply Side Tax Policy: Its Relevance to Developing Countries* (International Monetary Fund 1987).

⁴⁸ 'Country Profile: India' (Tax Justice Network) <<https://taxjustice.net/country-profiles/india/>> accessed 1 October 2023.

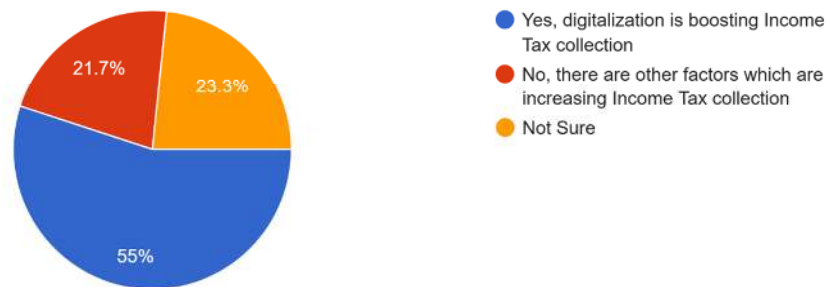
⁴⁹ *ibid.*

As per a press release by the Press Information Bureau, there was a net increase of 25.5% in the collection of income tax as compared to previous financial year. 50% percent of this tax collection was contributed by TDS (Tax Deducted at Source) mechanism on all India basis. Through the research conducted to analyse the perception of people towards digitalization, we observed that majority assents that digitalization is bringing increase in tax base however close to half the respondents either believe that digitalization has no role to play here or they are unsure about it. The responses received are indicated in the chart below [Chart 6]:

CHART 6

Whether the mechanism of digitalization which is in implementation contemporarily benefitting the collection of tax or there are other factors which are boosting tax collection?

60 responses

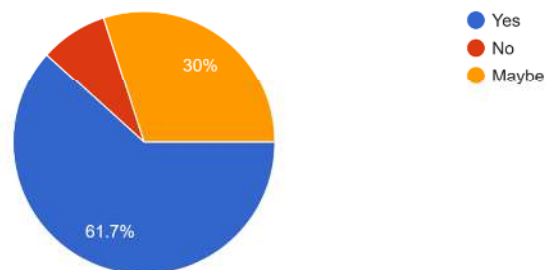


When further interrogated as to whether digitalization is assisting in checking non-accountable income, majority still responded in affirmative [Chart 7]:

CHART 7

Whether non-accountable income of individuals and non-filing of Income Tax Return by them can be checked by digitalization?

60 responses

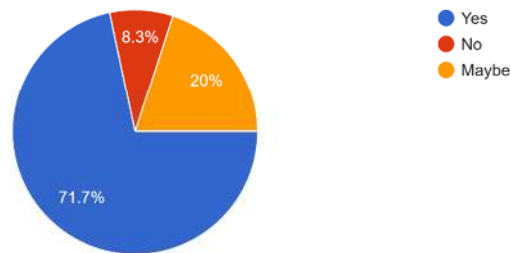


Let us analyse this problem further. TDS mechanism facilitates regular flow of revenue to government exchequer and also creates an audit trail for individuals having taxable income.⁵⁰ Currently, TDS is deposited to the credit of the central government either through e-payment or by furnishing a challan.⁵¹ Technologies which facilitate 26AS reconciliation for TDS could also greatly help digitalise the process with enabled dashboards which provide potential tax leakages due to erroneous TDS entries by customers and suppliers respectively.⁵² Implementation of Digital Tax Compliance and Litigation Tracker could provide tax leaders with adequacy of tax provisions, tax losses, tax refunds, etc. Moreover, such digital tax governance built on Software as a Service Model (SaaS) would minimise cost of maintaining IT infrastructure.

Data Analytics could assist in proactively identifying inaccuracies, inconsistencies and leakages at transactional level and improve tax processes by action on such data insights. Automated tax data collation through creation of Tax Data Warehouses by using ETL (Extract, Transform and Load) and OLAP (Online Analytical Processing) database technologies. This shall increase reconciliation for future retrieval and save time.⁵³ The responses received are also in alignment with the analysis [Chart 8]:

CHART 8

Do you think that adoption of emerging technologies positively affected the Income Tax base?
60 responses



⁵⁰ '25.5% growth in Income Tax net collection compared to the last year' *Press Information Bureau* (Chennai, 12 January 2023) <<https://pib.gov.in/PressReleaseDetail.aspx?PRID=1890728>> accessed 29 September 2023.

⁵¹ 'Tax Deducted at Source (TDS)' (*Income Tax Department*) <https://incometaxindia.gov.in/Pages/Deposit_TDS_TCS.aspx> accessed 1 October 2023.

⁵² Rahul Kashikar, 'Tax Technology and Transformation' (*KPMG*) <<https://kpmg.com/in/en/blogs/home/posts/2021/05/tax-technology-and-transformation.html#:~:text=Technologies%20which%20facilitate%2026AS%20reconciliation%20for%20Tax%20Deducted,%2F%20TCS%20entries%20by%20customers%20and%20suppliers%20respectively.>> accessed 1 October 2023.

⁵³ *ibid.*

Digital era is witnessing a transformation from payments in cash to payment through online modes such as Unified Payment Interface (UPI). According to the National Payments Corporation of India (NPCI), UPI transactions showed 119% growth in February 2023.⁵⁴ When questioned about the compliance through digital means, the respondents affirmed that digitalization surely assists in this regard and how it happens shall be explained further:

Payments through such modes are easily tracked by the department. Even the smallest of businesses or street vendors have started accounting for their income through receipt of online payments. Every transaction through online mode is recorded with the linked bank accounts and liability to pay tax is raised as soon as you cross the minimum slab for escaping tax. Physical modes always assisted in evasion of tax as calculation of income earned from different sources was a major problem however, with digitalization this problem has reduced to a greater extent. With this check on non-accountable income, the number of tax evaders shall decrease and number of taxpayers would increase thereby widening the income-tax base.

7. OTHER FACTORS WHICH SHALL IMPACT WIDENING OF INCOME TAX BASE IN ASSOCIATION WITH DIGITALIZATION

As per a report from the Centre for Monitoring Indian Economy (CMIE), the total number of salaried employees in India stood 86 million. The report further highlighted that the average annual salary of an urban salaried employee was INR 300,000. Also, in 2021, an average business person earned INR 134,323 per annum and small traders & daily wage labourers earned about INR 117,053 per annum.⁵⁵ Ministry of Finance revealed through a document that out of the 5.78 crore individuals who filed ITRs in financial year 2018-19, over 1.44 crore individuals have disclosed that they earn over Rs.5 lakh. Under the new tax regime, if a person's gross annual income exceeds ₹2,50,000 in a fiscal year, submitting a tax return is mandatory as per tax regulations.⁵⁶ If we take into consideration the number of salaried employees only, the number of ITRs filed is very less. Income-tax collection is also dependent upon the number of persons earning above the minimum tax slab to escape the payment of tax. Bringing a

⁵⁴ 'Income Tax On UPI Transactions And How Does it Work?' (*cleartax*, 27 March 2023) <<https://cleartax.in/s/tax-on-upi-transactions>> accessed 1 October 2023.

⁵⁵ Ministry of External Affairs, 'India sees 8.5 million new salaried jobs in October 2022: CMIE' (*Economic Diplomacy Division*, 11 November 2022) <<https://indbiz.gov.in/india-sees-8-5-million-new-salaried-jobs-in-october-2022-cmie/>> accessed 2 October 2023.

⁵⁶ Vipul Das, 'ITR Filing: Who are mandatory and who are exempted to file an ITR for AY 2022-23' *Live Mint* (22 July 2022) <<https://www.livemint.com/money/personal-finance/itr-filing-who-are-mandatory-who-are-exempted-to-file-itr-for-ay-202223-11658505864768.html>> accessed 2 October 2023.

decrease in poverty, increase in average salaries of employees and profit maximization by businesses shall also contribute in widening tax base. However, digitalization still has a very prominent role to ensure accountability of such income. This data about the total income of each individual is also dependent upon the disclosure of earned income of the individual. Unless a person declares that he/she earns above 2,50,000 per annum he/she continues to fall in the category of individual non-mandated to file an ITR and till the time one does not file an ITR, it is away from eyes of the department. The extent of evasion is higher in cases of businessmen where the income earned is not through some payee which could account for total income; taxes are not collected through TDS. For such income digitalization of both payment and earning mechanism is mandatory.

Secondly, increase in tax rate and lowering the income slab to bring more people under taxable entities can widen income-tax base. However, this is possible only when the purchasing power parity of an individual increases with a reduction in inflation. In an economy, where an individual can barely survive and businesses could hardly maximize their profits, taxing them rampantly would increase cases of evasion and discontent among people which would backfire.

Thirdly, the speedy disposal of cases and penalty imposed creates a deterrence amongst people to disclose their taxable income for fear of incurrance of huge monetary penalty, loss of respect and punitive sanctions. The Hon'ble Supreme Court of India in its verdict in *Attorney General of India v Lachma Devi*,⁵⁷ stated that it is not the brutality of punishment but its surety which serves as a great deterrent against crimes. On a similar note, surety of sanction, even if a minimum amount of evasion takes place, creates deterrence amongst individual against tax evasion. Digitalization plays a role here to catch these evaders and prove their liability easily and early, which widens tax base by increasing accountability.

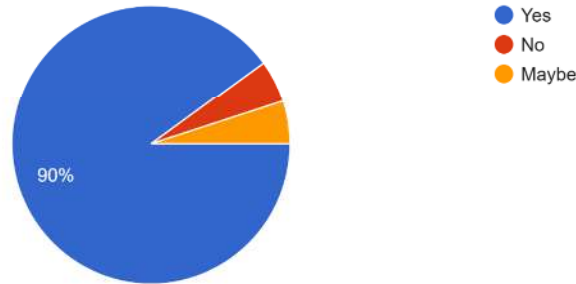
Lastly comes the role of awareness. The research conducted by us [Chart 9] indicates that though majority is aware of the benefits of paying income-tax however, for the ones unaware of its benefits, an awareness campaign shall prove to be beneficial both in making them realise their responsibility for contributing towards national economy and increasing the income-tax base. This knowledge shall morally encourage them for paying the taxes and for the ones who despite being aware of the importance of paying taxes still try to evade such responsibility, strict hand of law and clever hand of digitalization is the best remedy available.

⁵⁷ *Attorney General of India v Lachma Devi* AIR 1986 SC 467.

CHART 9

Do you think that paying Income Tax is beneficial for the economy?

60 responses



8. CONCLUSION

Through our research study, we came to the conclusion that digitalization is widening the income-tax base. It is a better method of tax payment, with over 56.6% of respondents agreeing with the fact; moreover, 71.7% of the persons in our sample believe that technology has positively affected the income-tax base. This positive effect can be seen from the fact that the income-tax base is widening because of digitalization and its transformative character, which has led to better management of data, as agreed by 88.3% of the respondents, and further reduced tax evasion by a check on non-accountable income and the non-filing of income tax, as concluded from the response of 61.7% of the populace agreeing with the fact; further, it has brought about tax compliance and led to a lessening of suspicious charges and harassment by the income tax department. As per our study, over 61% of the populace agree that it has enabled tax compliance, and 73.3% believe that it has led to a reduction in harassment cases. Moreover, the different mechanisms of digitalization are working on the same route and expanding the base of income-tax. Thus, we can say that digitalization has brought an overall reform to the taxation system and thus widened the income-tax base by bringing into the sphere more taxable entities.

Taxation has been present in our lives since ancient times, transcended the medieval period, and reached the modern state, where it has been revolutionised by digitalization. Digitalization, with its mechanisms of e-filing, e-invoice, e-verification, pre-filled ITR forms, and e-assessment, has transformed the regime of taxation in India. The new era of digitization has enabled the shift in transactions from the use of cash to a cashless transactions using a unified payment interface (UPI), which helps to keep track of the money transferred and earned. This

also helps us in tracing the income of those who earn in paper currency, which has now shifted to digital money. Also, with digitalization, most of the populace in India receives payments in their bank accounts, which further allows the authorities to keep track of their income and thus ensure that they pay their fair share of tax. Additionally, digitization has enabled the government to implement more efficient and targeted tax collection strategies, resulting in a more equitable distribution of tax burdens among the population. Thus, digitization has brought transparency, accountability, and equitability to the system.

The income-tax base has been made wide open with the new streams of digitalization, introducing it in even those spheres where it currently remains unimplemented to bring full digitalization. The world is still developing, and new technologies are evolving. With these new technologies, the regime of digitalization will cascade further and transform our whole economy.

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