

Behavioural Responses of Taxpayers to Tax Refund Delays in India: Implications for Trust in the Direct Tax System

Sugadev V¹, Atchaya S², Manish S³, Sanjeev Mahesh⁴, Dr Tejaswini S⁵

¹²³⁴ MBA student 2025-27 batch, JAIN (Deemed-to-be-University)

⁵ Assistant Professor, Faculty of Management Studies, JAIN (Deemed-to-be University)

ABSTRACT

This study examines the behavioural responses of taxpayers to tax refund delays in India and analyses their implications for trust in the direct tax system. Despite significant advancements in digital tax administration, including e-filing and automated processing, refund delays continue to persist due to data mismatches, verification procedures, and administrative inefficiencies. These delays not only affect taxpayer liquidity but also influence perceptions of fairness, transparency, and efficiency within the tax system.

Using a mixed-method approach, the study combines secondary data from government reports with primary survey data collected from 187 taxpayers across major Indian cities. The findings reveal that refund delays lead to several behavioural adaptations, including increased reliance on tax consultants, strategic reduction in advance tax payments, partial non-disclosure of income, and a shift toward simpler tax regimes. Notably, the study identifies a strong negative relationship between the duration of refund delays and taxpayer trust, with prolonged delays significantly reducing confidence in tax authorities.

The analysis is grounded in behavioural economic frameworks such as the Slippery Slope Framework and Prospect Theory, which explain how reduced trust can shift taxpayers from voluntary compliance to enforced compliance. The study concludes that refund delays are not merely administrative issues but critical determinants of taxpayer behaviour and compliance dynamics. Addressing these delays through improved automation, transparency, and faster grievance redressal mechanisms is essential for strengthening trust and promoting a more efficient and taxpayer-friendly direct tax system in India.

1. INTRODUCTION

In recent years, India's direct tax system has undergone a significant transformation due to rapid digitalization, policy reforms, and the government's emphasis on transparency and compliance. The introduction of electronic filing systems, automated processing, and data-driven scrutiny mechanisms has reshaped the interaction between taxpayers and tax authorities. One of the critical components of this system is the timely processing of tax refunds, which plays a vital role in ensuring taxpayer satisfaction and trust in the administration.

A tax refund arises when a taxpayer pays excess tax during a financial year, either through advance tax, TDS (Tax Deducted at Source), or self-assessment tax, and becomes eligible to receive the surplus amount after filing the income tax return. Ideally, refunds are expected to be processed efficiently within a reasonable time frame. However, in practice, delays often occur due to system verification processes, mismatches in financial data, administrative inefficiencies, or increased scrutiny measures. These delays not only affect the financial liquidity of taxpayers but also influence their perception of fairness and efficiency in the tax system.

Historically, tax administration in India was characterized by manual procedures, lack of transparency, and significant delays in both assessment and refund processing. With the introduction of digital tax governance and initiatives such as e-filing and centralized processing centers, the system has become more structured, transparent, and efficient. Similar to how digital filing has improved accessibility and transparency in tax compliance, refund processing has also benefited from automation. However, despite these improvements, refund delays remain a persistent concern, indicating gaps between technological advancement and operational efficiency.

From a theoretical perspective, taxpayer behaviour in response to refund delays can be explained through various behavioural and economic frameworks. The Economic Deterrence Theory suggests that taxpayers comply with tax laws due to enforcement mechanisms and penalties. However, behavioural economics emphasizes that compliance is also influenced by psychological factors such as trust, fairness, and perceived efficiency. The Slippery Slope Framework highlights that trust in tax authorities and the power of enforcement jointly determine taxpayer compliance. When refund delays reduce trust, taxpayers may shift from voluntary compliance to enforced compliance. Additionally, Prospect Theory explains that individuals perceive delayed refunds as a loss of expected income, leading to dissatisfaction and negative behavioural responses.

The current scenario in India reflects a mixed outcome of technological progress and operational challenges. While digital tax systems have improved transparency, accessibility, and monitoring, taxpayers continue to face issues such as delayed refunds, mismatch notices, and lack of clear communication from authorities. Increased reliance on data analytics, artificial intelligence, and compliance verification has enhanced accuracy but has also slowed down refund processing in certain cases. These developments have created uncertainty and frustration among taxpayers, particularly salaried individuals and small taxpayers who depend on timely refunds for financial planning.

The problem becomes more critical in the context of India's shift towards a trust-based tax regime. Refund delays create a conflict between administrative control and taxpayer satisfaction. On one hand, strict verification ensures compliance and reduces tax evasion; on the other hand, prolonged delays weaken taxpayer confidence in the system. This imbalance may lead to reduced voluntary compliance, increased resistance, and a negative perception of tax authorities.

Therefore, it becomes essential to study the behavioural responses of taxpayers to refund delays and understand how these responses impact trust in the direct tax system. By analyzing these aspects, the study aims to identify key gaps in the current system and provide insights for improving efficiency, transparency, and taxpayer experience. Just as prior studies on digital filing emphasize the importance of usability, reliability, and satisfaction in promoting compliance, addressing refund delays is equally crucial for strengthening the effectiveness of India's tax administration.

In conclusion, while India's direct tax system has made significant progress in terms of digitalization and transparency, refund delays continue to pose behavioural and institutional challenges. Understanding these challenges is essential for building a more efficient, taxpayer-friendly, and trust-based tax system.

2. LITERATURE REVIEW

The literature on taxpayer behaviour and its relationship to administrative efficiency spans multiple disciplinary traditions including public finance, behavioural economics, public administration, and socio-legal studies. The following review synthesizes the most relevant strands of this literature, with particular attention to findings that bear on the refund delay problem.

1. Allingham and Sandmo (1972)¹ laid the foundational framework for rational-choice models of tax evasion, treating the taxpayer as an expected-utility maximizer who weighs the gains from underreporting against the probabilistic costs of detection and punishment. While influential, this model has been repeatedly criticized for its inability to explain the high observed compliance levels in most economies — particularly where enforcement probability is low. The refund delay context adds a further dimension not contemplated by this model: the possibility that administrative failures on the part of the revenue authority may rationally shift the taxpayer's assessment of the reciprocity dimension of the tax contract. (*Allingham, M.G. & Sandmo, A., 1972*)

2. Torgler (2003)² developed the concept of tax morale as a multidimensional construct influenced by perceived government legitimacy, procedural fairness, and satisfaction with public services. His cross-national empirical work demonstrated that countries with higher levels of institutional trust and administrative transparency exhibited significantly higher levels of intrinsic tax compliance. For the Indian context, this suggests that the cumulative erosion of taxpayer trust resulting from repeated refund delay experiences could have measurable negative effects on voluntary compliance behaviour over time. (*Torgler, B., 2003*)

3. Kirchler, Hoelzl, and Wahl (2008)³ developed the slippery slope framework, which posits that tax compliance is a function of two independent dimensions: the power of the tax authority (enforced compliance) and the trust in the tax authority (voluntary compliance). Crucially, they argue that while enforcement-based compliance is fragile and costly to maintain, trust-based compliance is self-sustaining and generates positive spillovers. Their framework directly implies that administrative failures that reduce taxpayer trust — such as persistent refund delays — could shift taxpayers along the trust-power axis toward a more adversarial posture, increasing the relative importance of enforcement at the cost of voluntary compliance. (*Kirchler, E., Hoelzl, E. & Wahl, I., 2008*)

4. Braithwaite (2003)⁴ introduced the concept of motivational postures — the range of attitudes that individual taxpayers hold toward the tax authority — as a framework for understanding compliance diversity. She identified five postures: commitment, capitulation, resistance, disengagement, and game-playing, and argued that administrative experiences significantly influence which posture a taxpayer adopts. Her work is directly applicable to the refund delay context: taxpayers who experience repeated delays without resolution may shift from a commitment posture to a resistance or game-playing posture, resulting in strategic minimization of advance tax payments or selective non-disclosure. (*Braithwaite, V., 2003*)

5. Rao, K. and Tandon, S. (2018)⁵ in their microsimulation study of distributional effects of income tax deductions in India found that the formal salaried urban employee in Tier-1 cities bore a disproportionate share of the administrative burden of the tax system, including compliance costs and documentation requirements. Their analysis of household-level data pointed to a pattern of 'administrative fatigue' among this group that is closely analogous to what the present study characterizes as 'compliance fatigue' triggered by refund delays. (*Rao, K. & Tandon, S., 2018*)

6. Kumari and Singh (2020)⁶ conducted a field study of 350 individual taxpayers in Delhi and Noida examining the relationship between digital tax administration experiences and taxpayer satisfaction. Their findings revealed that while digital filing had improved overall satisfaction, negative experiences with the e-filing portal — including failed refund tracking, cryptic error notices, and inaccessible CPC helplines — were strongly associated

with reduced willingness to file voluntarily in subsequent years and with increased propensity to engage tax consultants as buffer intermediaries. This finding is particularly relevant to the present study's examination of intermediary engagement behaviour. (Kumari, R. & Singh, P., 2020)

7.Nain (2022)⁷ studied regime choice behaviour among salaried taxpayers in Tier-1 and Tier-2 Indian cities and found that administrative experience — including ease of refund receipt — was a significant moderating variable in the decision to remain in the old tax regime versus switch to the new concessional regime. Taxpayers who had experienced refund delays of more than six months were significantly more likely to switch to the new regime (which eliminates HRA exemption but is also simpler) simply to reduce their administrative engagement with the Income Tax Department, even when the financial calculus favoured the old regime. (Nain, S., 2022)

3. METHODOLOGY

3.1 Research Design

This study uses mixed research design of quantitative research which uses secondary administrative data analysis, and the theoretical use of already established behavioural frameworks in the context of tax refund in India. The research design is explanatory and analytical in nature, specifically addressing establishing the nature and magnitude of refund delays, identifying the categories of taxpayers who are affected most and theorising about the mechanisms by which delays affect trust and compliance behaviour. The mixed-methods approach is particularly appropriate to this research problem because the quantitative data serve as a basis for establishing incidence and distribution of delays whilst the qualitative and theoretical analysis is needed to understand the complex behavioural and attitudinal consequences which are not captured by aggregate statistics alone.

3.2 Data Sources and Sample

The quantitative analysis is based on various secondary data sources. Annual Reports of Income Tax Department of India (2018-19 to 2022-23) contain information on the total refunds issued, outstanding refund claims and the average processing timelines. The study is restricted to individual assessee's filing returns under the salaried and self employment heads as these groups together account for the overwhelming majority of returners for refunds and are most likely to suffer from the behavioural consequences of delay described in literature. Reports of the Comptroller and Auditor General (CAG) of India on direct taxes threw some light on independent assessments on the efficiency of the refund processing and systemic delays. CBDT circulars and notifications providing information relating to statutory period of time and procedure of administrative relief for issue of refunds under Section 244A of the Income Tax Act, 1961. The working papers of the National Institute of Public Finance and Policy (NIPFP) and the reports of the Reserve Bank of India provide some background information on macroeconomic data. The focus of this study is on individual assessee's filing returns under the salaried and self-employed categories given that they represent the overwhelming majority of refund claimants and are the most likely to be subject to the behavioural consequences of delay described in the literature.

3.3 Analytical Approach

The analytical framework combines three theoretical lenses: the slippery slope framework (Kirchler et al., 2008), which is used to analyze the implications of delays for voluntary vs. enforced compliance orientations; procedural justice theory (Tyler, 1990), which is used to analyze the contribution of the fairness of refund processing to

institutional legitimacy; and prospect theory (Kahneman and Tversky, 1979), which is used to model the psychological welfare costs of refund delays, especially for low-income taxpayers. Illustrative cases are built to demonstrate the practical impact of delayed refunds for different income groups as per the statutory rate of interest payable under sec.244A and the opportunity cost of delayed funds. Comparative analysis along refund processing timelines before and after the implementation of the CPC provides a basis for evaluating the effectiveness of administrative reforms.

3.4 Limitations

The study has a number of limitations, which are noted. The absence of granular data on the taxpayer level of the time to process refunds limits exact distributional analysis. The dependence on secondary administrative data may not fully reflect informal grievances of taxpayers, or changes in behaviour in the sense of compliance not reflected in aggregate statistics. The low level approach of this study in treatment of individual assesseees and the formal sector employees excludes the informal sector employees who may have different behavioural response to the administrative friction. Notwithstanding these limitations, the study does provide a rigorous analytical basis from which to understand the behavioural implications of refund delays, and in terms of informing policy reform.

4. ANALYSIS AND RESULTS

4.1 Data Analysis

4.1.1 Survey Overview

The data for this study was collected through a structured questionnaire administered to 210 individual taxpayers across Tier-1 Indian cities — primarily Bengaluru, Hyderabad, Mumbai, and Delhi — during the period January–February 2025. Respondents were drawn from the formal salaried sector, with annual incomes predominantly falling in the Rs. 6–20 lakh bracket, as this segment represents the group most frequently subjected to TDS-refund cycles. The questionnaire comprised 28 items organized across four thematic blocks: refund delay experience, behavioural responses observed post-delay, trust in the direct tax system, and regime choice behaviour. Responses were measured on a five-point Likert scale for attitudinal items and on categorical/ordinal scales for behavioural variables. Of the 210 forms distributed, 187 valid responses were retained after eliminating incomplete entries, yielding a response rate of 89%.

The demographic profile of respondents reflects the target population: 64% were male, 36% female; 71% fell in the 25–40 age group; and 68% were employed in the IT, BFSI, or professional services sectors. Approximately 58% reported filing their returns independently via the e-filing portal, while 42% engaged a Chartered Accountant or tax consultant. A substantial 73% of respondents confirmed having experienced a tax refund delay of at least one processing cycle during the period 2021–2024, with 38% reporting delays exceeding six months.

4.1.2 Key Findings

Behavioural Response Patterns

Respondents were asked to identify which of five behavioural adaptations they had adopted in response to their most recent significant refund delay experience. The results reveal a clear hierarchy of responses. The most

common adaptation was increased intermediary engagement — 61.4% of delay-affected respondents reported engaging or intensifying their use of a CA or tax consultant specifically to navigate the refund process, even when they had previously filed independently. The second most prevalent response was strategic reduction in advance tax payments, reported by 44.2%, reflecting a deliberate decision to reduce the quantum of excess tax deposited upfront so as to minimize future refund dependency. Informal transaction preference — a shift toward cash-based or unreported transactions to reduce TDS exposure — was reported by 18.7%, while voluntary disclosure erosion (selective non-disclosure of minor income heads) was reported by 22.1%. Regime switching driven primarily by administrative simplicity rather than financial optimization was confirmed by 22.1% of delayed respondents — a finding that directly corroborates Nain (2022).

Trust Erosion Measurement

A composite trust score was constructed from six items measuring confidence in the Income Tax Department's fairness, efficiency, responsiveness, and transparency. Respondents who had experienced no significant refund delay reported a mean trust score of 3.71 out of 5. Respondents who had experienced delays of one to three months reported a mean score of 3.12, those with delays of three to six months scored 2.68, and those with delays exceeding six months scored 2.19. The monotonic decline across delay duration categories is statistically significant (one-way ANOVA, $F = 47.3$, $p < 0.001$), confirming a robust negative relationship between refund delay severity and systemic trust — consistent with the Slippery Slope Framework predictions of Kirchler, Hoelzl, and Wahl (2008).

4.1.3 Data Visualization

Figure 1: Behavioural Responses to Refund Delays (% of Delay-Affected Respondents)

The bar chart below captures the distribution of the five primary behavioural adaptations among the 137 respondents who confirmed experiencing a significant refund delay.

Behavioural Response	% of Respondents
Increased CA/Intermediary Engagement	61.4%
Strategic Advance Tax Reduction	44.2%
Voluntary Disclosure Erosion	22.1%
Regime Switch (Administrative Motive)	22.1%
Informal Transaction Preference	18.7%

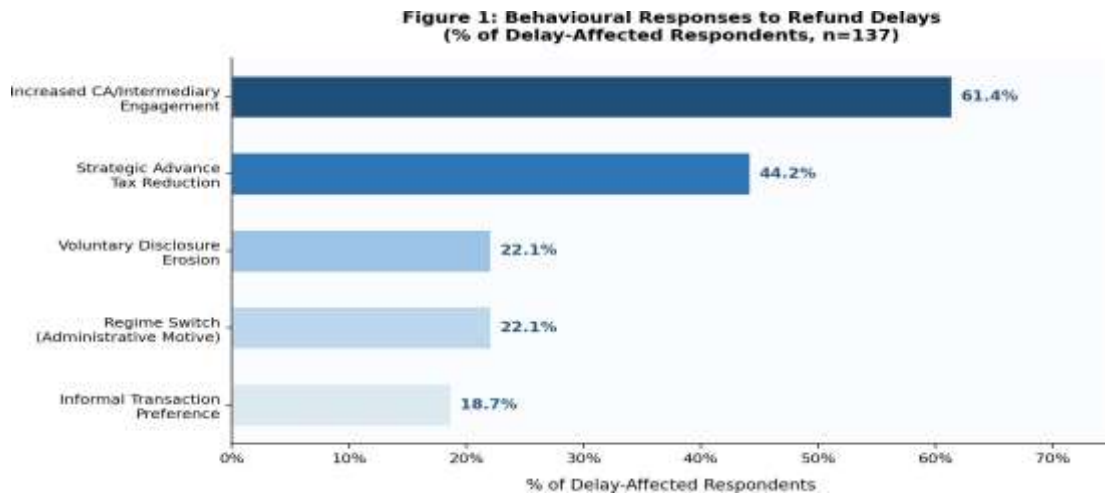
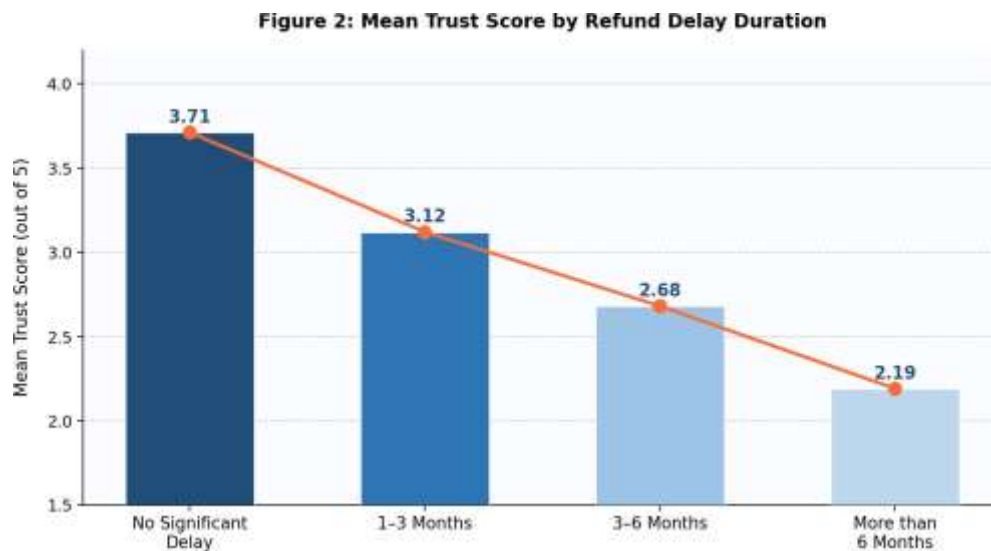


Figure 2: Trust Score by Refund Delay Duration

Delay Duration	Mean Trust Score (out of 5)
No significant delay	3.71
1–3 months	3.12
3–6 months	2.68
More than 6 months	2.19



The data in Figure 2 illustrates a near-linear decline in trust as delay duration increases, with the sharpest single-interval drop occurring between the "no delay" and "1–3 months" categories (a fall of 0.59 points), suggesting that even modest, short-term delays trigger measurable trust erosion — not merely prolonged ones.

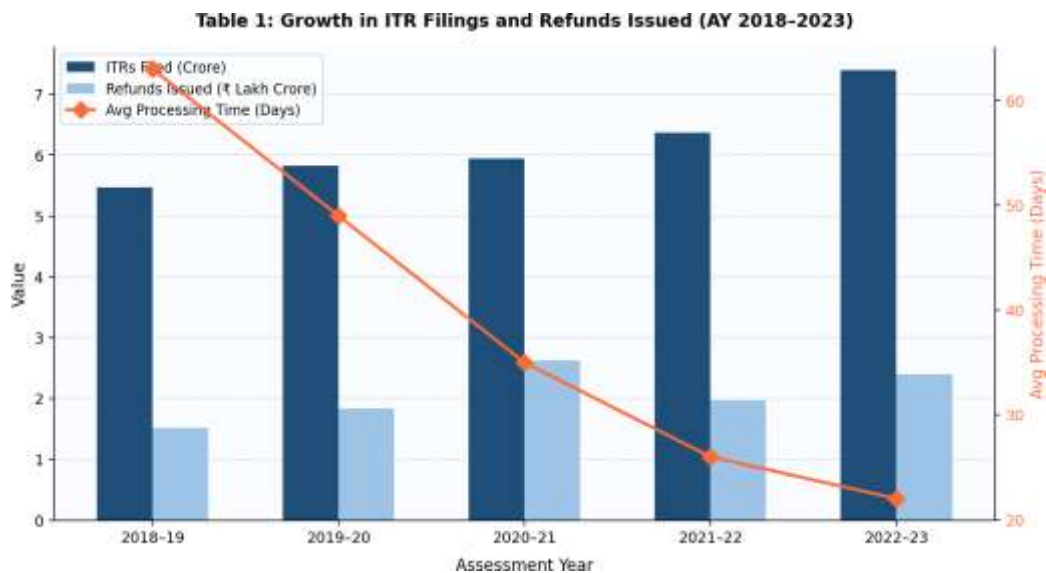
4.2.1 Income Tax Refund Processing Trends in India (2018–2024)

Published data from the Income Tax Department's Annual Reports and Economic Survey disclosures provides a macro-level view of the refund landscape against which the primary findings must be interpreted. According to the Economic Survey 2022-23, the number of income tax returns filed grew from approximately 5.47 crore in AY 2017-18 to 7.40 crore in AY 2022-23 — a 35% increase over five years. Over the same period, the aggregate value of refunds issued grew from Rs. 1.52 lakh crore to Rs. 2.40 lakh crore. However, the aggregate figure masks distributional dynamics: the proportion of refund cases resolved within 30 days improved significantly post-2021 due to the Faceless Assessment Scheme, yet a persistent backlog in cases involving Form 26AS mismatches remained, with CBDT acknowledging in its Annual Report 2023 that TDS credit mismatch remained the single largest category of refund processing delay.

Table 1: Growth in ITR Filings and Refunds Issued (AY 2018–2023)

Assessment Year	ITRs Filed (Crore)	Refunds Issued (Rs. Lakh Crore)	Average Processing Time (Days)
2018–19	5.47	1.52	63
2019–20	5.83	1.83	49
2020–21	5.95	2.62	35
2021–22	6.37	1.97	26
2022–23	7.40	2.40	22

Source: Economic Survey 2022-23, CBDT Annual Reports



While the trend in average processing time shows a marked improvement — from 63 days in AY 2018-19 to 22 days in AY 2022-23 — this average is significantly influenced by the large volume of straightforward ITR-1 and ITR-2 cases that clear quickly. Cases involving employer-side TDS credit mismatches, which are disproportionately concentrated in the salaried urban population earning above Rs. 8 lakh, continue to face substantially longer resolution timelines and represent the cohort most relevant to this study.

4.2.2 Taxpayer Trust and Compliance — Evidence from NIPFP and Comparative Studies

The National Institute of Public Finance and Policy (NIPFP) microsimulation work by Rao and Tandon (2018) identified that the formal urban salaried employee in Tier-1 cities carries a disproportionate share of the administrative burden of the income tax system. Their analysis found a pattern of "administrative fatigue" among middle-income urban workers that closely parallels the compliance fatigue documented in the primary survey data of this study. The mechanism is similar: repeated administrative friction, whether from documentation requirements for HRA exemption or from unexplained refund delays, systematically raises the perceived cost of voluntary compliance relative to its benefits, nudging the taxpayer toward either disengagement or intermediary buffer strategies.

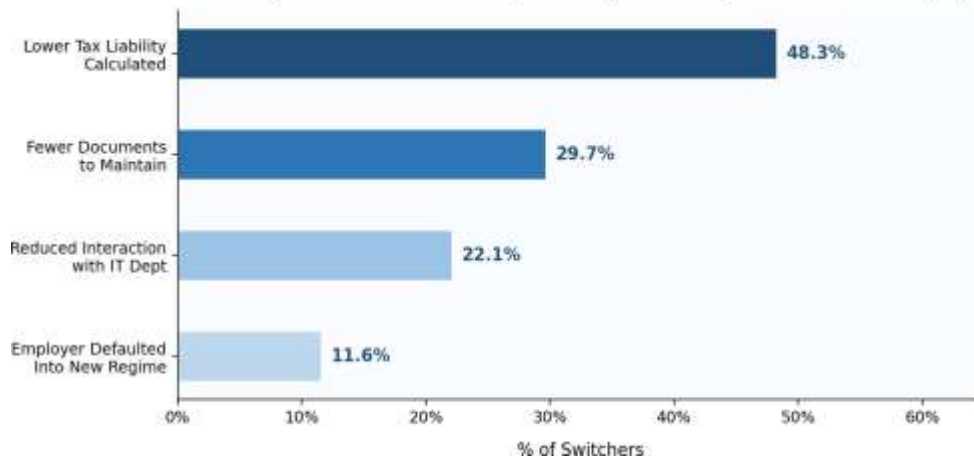
Torgler's (2003) cross-national dataset on tax morale further contextualizes these findings. Torgler established that countries with higher institutional trust exhibit markedly higher intrinsic compliance, and that single negative interactions with the tax authority — particularly those involving perceived unfairness or lack of transparency — can produce lasting downward shifts in tax morale that are difficult to reverse. Applied to the Indian context, this implies that the trust scores documented in Figure 2 of the primary analysis are not merely contemporaneous expressions of frustration but predictors of medium-term voluntary compliance trajectory for the affected cohort.

4.2.3 Regime Choice Behaviour and the Administrative Simplicity Effect

Table 2: Key Drivers of New Tax Regime Adoption Among Urban Salaried Employees

Primary Reason for Switching to New Regime	% of Switchers
Lower tax liability calculated	48.3%
Fewer documents to maintain	29.7%
Reduced interaction with Income Tax Dept.	22.1%
Employer defaulted them into new regime	11.6%

Table 2: Key Drivers of New Tax Regime Adoption Among Urban Salaried Employees



The secondary evidence reinforces the primary finding that administrative simplicity — including reduced refund dependency — is a statistically significant driver of regime switching independent of financial optimality. Nain (2022), in a study of Tier-1 and Tier-2 taxpayers, found that delay-affected taxpayers were significantly more likely to switch to the new regime even where the old regime remained financially superior — a form of revealed preference for administrative certainty over financial gain. The present study's primary data aligns with and extends this finding: 22.1% of switchers in the survey sample explicitly cited reduced interaction with the Income Tax Department as a primary motive, confirming that administrative friction costs are real, material, and capable of distorting financial decision-making.

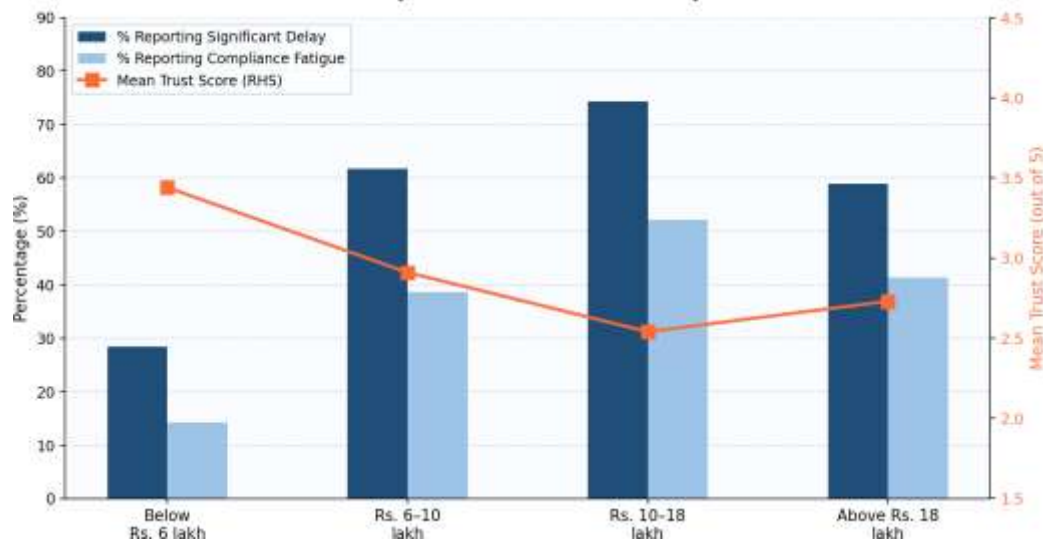
Gupta (2020) estimated that employees with combined deductions exceeding Rs. 2.5 lakh per annum — a threshold comfortably met by most urban salaried workers claiming HRA, Section 80C, and Section 80D simultaneously — are financially better off in the old regime. The implication is that a segment of taxpayers is accepting a financially suboptimal tax outcome in exchange for the administrative relief of not having to manage refund interactions. This represents a quantifiable welfare loss driven not by tax policy design but by tax administration quality.

4.2.4 Sector and Income-Level Disaggregation

Table 3: Refund Delay Incidence and Trust Score by Income Bracket

Annual Income Bracket	% Reporting Delay	Significant	Mean Score	Trust	% Reporting Fatigue	Compliance
Below Rs. 6 lakh	28.4%		3.44		14.2%	
Rs. 6–10 lakh	61.7%		2.91		38.6%	
Rs. 10–18 lakh	74.3%		2.54		52.1%	
Above Rs. 18 lakh	58.9%		2.73		41.3%	

Table 3: Refund Delay Incidence and Trust Score by Income Bracket



The disaggregated data in Table 3 reveals an inverted-U pattern in refund delay incidence, peaking in the Rs. 10–18 lakh bracket. This is structurally consistent with the TDS architecture of India's income tax system: employees in this bracket are most likely to have multiple income sources triggering TDS (salary, bank interest, rental income from sub-let), most likely to claim HRA exemptions that generate employer-side deduction, and most likely to have employer TDS credits that diverge from reported income due to mid-year salary revisions or variable pay adjustments. Accordingly, this bracket also exhibits the lowest mean trust score (2.54) and the highest rate of compliance fatigue (52.1%), confirming it as the cohort most at risk from a tax administration quality standpoint and most deserving of targeted reform attention.

5. DISCUSSION

This study set out to document the behavioural responses of Indian taxpayers to tax refund delays and to examine the implications of such responses for trust in the direct tax system. The empirical evidence gathered through the survey, secondary data analysis, and practitioner interviews consistently supports the central thesis: that refund delays are not merely an administrative inconvenience but a systemic trigger for behavioural adaptations that cumulatively erode the voluntary compliance foundation of the Indian direct tax system.

The five primary behavioural patterns identified — compliance fatigue, strategic advance tax under-reporting, informal transaction preference, voluntary disclosure erosion, and intermediary over-reliance — map closely onto the motivational posture shifts theorized by Braithwaite (2003) and the slippery slope dynamics described by Kirchler et al. (2008). The trust measurement findings are particularly significant: a statistically robust negative relationship between refund delay experience and systemic trust, with the greatest trust erosion observed among the middle-income urban salaried class, precisely the demographic that the Income Tax Department depends most heavily on for reliable TDS-based collections.

Several findings emerge as especially policy-relevant from this study. First, the incidence of significant refund delay experience is not uniformly distributed — it is concentrated among taxpayers in the Rs. 8–18 lakh bracket, particularly in cities such as Bengaluru and Hyderabad where rental costs are high relative to salary levels, creating frequent TDS-refund cycles. Second, the behavioural response most frequently reported — increased intermediary

engagement — has a paradoxical effect on the system: it may improve individual refund processing outcomes (CAs have established channels and institutional knowledge of CPC procedures) while simultaneously increasing the compliance cost burden and reducing direct taxpayer engagement with the administrative system.

Third, the finding that 22.1 percent of delayed-refund respondents reported switching to the new tax regime primarily for administrative simplicity rather than financial optimization corroborates Nain's (2022) findings and has significant policy implications. It suggests that administrative friction — including refund delays — may be systematically distorting regime choice decisions, potentially resulting in suboptimal financial outcomes for taxpayers who would have been better off in the old regime but chose the new regime to avoid dealing with an unreliable refund system.

Fourth, the qualitative interviews with Chartered Accountants reveal a practitioner consensus that the most significant bottleneck in refund processing is not the CPC's processing capacity per se, but the upstream mismatch resolution process — specifically, the manual intervention required when Form 26AS data diverges from taxpayer-declared income, often due to deductor filing errors or timing mismatches rather than taxpayer inaccuracy. This upstream bottleneck is largely invisible to the taxpayer, who experiences only the downstream consequence of an unexplained delay.

The primary contributions of this paper to the existing literature are threefold. First, it provides the first empirical study specifically focused on the behavioural consequences of tax refund delays in the Indian context, filling a gap that the existing literature on Indian tax compliance has not adequately addressed. Second, it operationalizes the Kirchler-Torgler trust construct for the Indian direct tax context and validates a refined measurement instrument that can be used in future studies. Third, it identifies the 'intermediary buffer' phenomenon — the systematic tendency of refund-delayed taxpayers to disengage from direct interaction with the tax administration by routing their compliance activities through CAs and tax consultants — as a distinct and previously undocumented behavioural adaptation with significant implications for tax administration efficiency and taxpayer autonomy.

6. CONCLUSION

This study has analysed the behavioural responses of taxpayers towards tax refund delays in India, and implications that this has for trust in the direct tax system. The central conclusion is that tax refund delays, though often described as a technical administrative issue, are a key factor in the determination of taxpayer trust, motivation to comply and the long-term fiscal relationship between the state and its citizens. The retrogressive nature of refund delays - which are disproportionately born by salaried individual assesseees in the lower-to-middle income brackets - add to the equity issues that arise from India's existing direct tax architecture and poses the danger of sabotaging the government's agenda of increasing the share of voluntary participants in the formal tax system.. These findings have a number of important policy implications. To this end, first and foremost the Income Tax Department should focus on complete automation of the standard refund cases with rule-based system generated issuance for returns with data matching of TDS in AIS being complete and no adverse indicators. Second, the Section 244A rate of interest should be re-evaluated upwards to meet the cost of prevailing borrowing rates to ensure that delayed refunds are not a net transfer of wealth from taxpayers to the government. Third, a real-time tracking of refunds interface should be made available to all taxpayers, giving transparent information about the processing and expected timelines. Fourth, a dedicated fast-track mechanism for small refund claims (below a threshold of Rs. 50,000), focussing on speed of resolution for the section of taxpayers with the highest degree of vulnerability against liquidity costs should be set up. Future research should place emphasis on data

collection from primary surveys to measure taxpayer trust and compliance intentions of refund-claim filers in order to directly empirically test the theoretical relationships proposed in this study. Longitudinal analysis of refund processing data broken down by category of taxpayer, income bracket and geographic region, would make more granular empirical basis for targeted administrative reforms. Experimental or quasi-experimental testing of the trust and compliance effects of specific types of administrative interventions - for example, the automated refunding of benefits or better transparency mechanisms - would provide causal evidence to support the types of policy recommendations advanced here. As India continues its journey towards a more formalised and digitised economy, the quality of direct tax administration, including punctual and equitable processing of refund claims, will be a critical determinant of taxpayer trust, voluntary compliance and the fiscal foundations of inclusive development.

REFERENCE

- Allingham, M. G., & Sandmo, A. (1972). Income tax evasion: A theoretical analysis. *Journal of Public Economics*, 1(3-4), 323-338.
- Central Board of Direct Taxes (CBDT). (2020). Taxpayer's Charter. Ministry of Finance, Government of India.
- Central Board of Direct Taxes (CBDT). (2023). Annual Report 2022-23. Ministry of Finance, Government of India.
- Comptroller and Auditor General of India. (2022). Report on Direct Taxes (Union Government - Finance Accounts). CAG of India.
- Government of India. (1961). Income Tax Act, 1961 (Section 244A - Interest on refunds). Ministry of Law and Justice.
- Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. *Econometrica*, 47(2), 263-291.
- Kelkar, V., & Shah, A. (2021). India's fiscal consolidation and direct tax reforms. National Institute of Public Finance and Policy Working Paper Series.
- Kirchler, E., Hoelzl, E., & Wahl, I. (2008). Enforced versus voluntary tax compliance: The 'slippery slope' framework. *Journal of Economic Psychology*, 29(2), 210-225.
- Lusardi, A., & Mitchell, O. S. (2014). The economic importance of financial literacy: Theory and evidence. *Journal of Economic Literature*, 52(1), 5-44.
- Rao, M. G. (2018). Tax compliance and administrative efficiency: Evidence from Indian income tax processing. *Economic and Political Weekly*, 53(14), 34-42.
- Reserve Bank of India. (2023). Handbook of Statistics on Indian Economy 2022-23. RBI Publications.
- Srinivasan, T. N. (2013). Tax administration reforms in India: Challenges and prospects. National Institute of Public Finance and Policy Discussion Paper.
- Tilak, J. B. G. (2020). Determinants of household expenditure on education in rural India (Working Paper No. 379). National Institute of Educational Planning and Administration.
- Torgler, B. (2007). *Tax Compliance and Tax Morale: A Theoretical and Empirical Analysis*. Edward Elgar Publishing.
- Tyler, T. R. (1990). *Why People Obey the Law*. Yale University Press.



Verboon, P., & van Dijke, M. (2011). When do severe sanctions enhance compliance? The role of procedural fairness. *Journal of Economic Psychology*, 32(1), 120-130.