

## Digitalization of Income Tax System in India

Subject: Direct Taxes

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### Abstract:

The digitalization of the income tax system in India has changed the way taxpayers interact with the tax department. Earlier, tax processes involved paperwork, long queues, and delays. With digital reforms, many services such as online filing of income tax returns, e-verification, PAN–Aadhaar linking, faceless assessment, and online refund processing have made the system faster and more convenient for taxpayers.

These digital tools help reduce human involvement, which lowers the chances of errors, delays, and corruption. The use of technology also allows the tax department to collect and match financial data easily, helping to identify tax evasion and increase compliance. As a result, the tax base has expanded and transparency has improved.

At the same time, digitalization has made tax services more accessible and user-friendly. However, some challenges still exist, such as lack of digital knowledge among certain groups, internet access issues, and concerns about data security. Overall, the digital income tax system has made tax administration in India simpler, more transparent, and more efficient, supporting better governance and economic growth.

### Introduction:

The Indian Income Tax system digitisation is one of the most significant reforms in the public finance management in the country. As technology has spread at a very high rate, the Government of India has shifted its traditional paper-based tax systems to a modern digital platform, hence targeting to improve efficiency, transparency, and convenience to the taxpayers. Previously, taxation and assessment of income tax was characterized by long queues, hardcopy documents, and manual validation, which in many cases ended up in delays and mistakes. These archaic systems have been replaced with online filing, e-verification and digital processing and have changed the administrative environment radically.

The introduction of Income Tax e- Filing portal has made tax compliance easier and more convenient. Facilities like automated returns filing and online delivery of tax have alleviated the strain on the taxpayers. Digitisation has also simultaneously increased the ability of the government to track income and reduce tax evasion. Artificial intelligence and big data analytics are useful in detecting anomalous transactions and thus enhance compliance among different income groups. The impersonal evaluation and review process has simultaneously minimized human relationship and possible bribery, increasing the justice and responsibility in taxation administration.

The current taxpayers are now provided with the freedom to access services at their convenience and wherever they are. The online system has also helped in reducing the amount of time it takes to process a refund, which has led to the creation of more trust in the taxation system by people. In line with the goal of the government to create a transparent and efficient tax system, digitisation also enhances financial inclusion and formalisation of the economy. Overall, the digitisation has updated the Income Tax system in India and strengthened the governance, hence it is appropriate to thoroughly investigate its effects on the efficiency, compliance, and taxpayer satisfaction.

### **Literature review:**

Over the years, India's income tax system has changed a lot because of digital technology. These changes are part of larger government reforms and programs like Digital India. The main aim has been to make tax processes faster, easier, and more transparent for both taxpayers and the tax department.

### **Early Steps in Digitalization**

Earlier studies show that digitalization in income tax started with basic use of technology to store and manage tax data. According to M. M. Sury (2019), digital tools helped in sharing and checking tax information, which reduced costs and improved compliance. Rahul Bhasin (2022) explains that the use of IT systems helped simplify tax procedures and reduced unnecessary paperwork. These steps laid the base for today's digital tax system.

### **Digital Platforms, Efficiency, and Compliance**

Many studies focus on how digital platforms have improved tax efficiency. Online return filing, pre-filled forms, and centralized processing have reduced mistakes and saved time. Taxpayers can now file returns more easily, and the department can process them faster.

The faceless assessment system removed direct contact between taxpayers and officials. This helped reduce bias and misuse of power. However, in the beginning, some taxpayers faced confusion due to unclear communication.

### **Benefits of Digitalization**

Most research agrees that digitalization has brought many benefits. Taxpayers can track their returns, notices, and refunds online, which increases trust in the system. Automation has reduced manual work and administrative costs. Refunds are now processed much faster than before, which has improved taxpayer confidence.

### **Challenges Highlighted in Studies**

Even though digitalization has helped a lot, some problems still exist. Many people, especially in rural areas, do not have enough digital knowledge or access to technology. This makes tax compliance difficult for them.

Technical issues like portal downtime during peak filing periods, data privacy concerns, and cyber security risks are also reported. Researchers also warn that digital systems should not create problems for people who are not comfortable with technology.

### **Research Gaps and Future Scope**

The literature shows that more research is needed to understand how taxpayers feel about digital systems and how trust affects compliance. There are also limited studies on the long-term impact of digitalization on tax revenue and administrative costs. Research on the use of new technologies like artificial intelligence, machine learning, and blockchain is still at an early stage.

### **Information and Knowledge Systems (IKS) Perspective**

Recent studies show a shift from basic digital tools to integrated systems. These systems combine data collection, analysis, and behavioral reminders to improve compliance. Digital tax platforms are now seen not just as filing portals, but as systems that help both taxpayers and authorities make better decisions.

The use of AI and data analytics is increasing for risk analysis, fraud detection, and audit selection. While academic studies are still limited, these developments show the future direction of digital tax administration.

## Overall Conclusion of the Literature

The studies clearly show that digitalization has improved efficiency, transparency, and compliance in India's income tax system. Although challenges like digital literacy and cyber security remain, researchers see digital reforms as a positive step. They suggest better inclusion, user-friendly design, and data-based policy improvements.

## Objectives of the study:

The digitalization of the Income Tax System in India represents a transformative shift in the way taxation is administered, monitored, and experienced by citizens. This study is undertaken with the objective of understanding not only the technological changes introduced by the Income Tax Department, but also their broader implications for taxpayers, governance, and the economy. The objectives are framed to analyse digitalization from administrative, social, economic, and compliance perspectives.

The primary objective of this study is to examine the role of digital technologies in modernizing the Income Tax System in India and to evaluate their effectiveness in improving efficiency, transparency, and taxpayer compliance.

In pursuit of this primary objective, the study is guided by the following specific objectives:

### ❖ To examine the evolution of digitalization in the Indian Income Tax System

This objective focuses on tracing the transformation of income tax administration from manual and paper-based processes to a fully digital ecosystem. It includes an examination of major milestones such as the introduction of online return filing, centralized processing centres, electronic verification, faceless assessment mechanisms, and data-driven compliance systems.

### ❖ To analyse the impact of digitalization on taxpayer convenience and experience

The study aims to assess how digital platforms have influenced ease of filing, time efficiency, cost reduction, and accessibility for taxpayers. Special attention is given to changes in return filing procedures, refund processing, online communication, and grievance redressed systems.

### ❖ To evaluate the effectiveness of digital tools in improving tax compliance

One of the critical objectives is to understand whether digitalization has led to higher voluntary compliance. This includes analysing the role of pre-filled returns, PAN–Aadhaar linkage, third-party data integration, and automated scrutiny in minimizing tax evasion and under-reporting of income.

### ❖ To assess the contribution of digitalization to transparent accountability

This objective focuses on studying how the reduction of physical interaction between tax officials and taxpayers has minimized discretionary practices, corruption, and subjectivity. The study examines faceless assessments and digital audit trails as tools for enhancing trust in the tax system.

### ❖ To examine the role of data analytics and automation in tax administration

The study seeks to analyse how artificial intelligence, machine learning, and data analytics are used to identify risk patterns, detect mismatches, and improve revenue forecasting. It evaluates whether technology has enabled smarter and fairer decision-making in tax administration.

### ❖ To identify challenges faced by taxpayers in the digital tax environment

Despite significant progress, digitalization presents challenges. This objective aims to identify issues such as digital illiteracy, limited internet access, technical errors, cyber security risks, and complexity of compliance especially among senior citizens, small taxpayers, and rural populations.

## Research Methodology:

### Research Design

This study adopts a descriptive and analytical research design to examine the digitalization of the Income Tax system in India. The design is appropriate as the research seeks to describe the existing digital framework and analyse its impact on tax administration efficiency, transparency, and compliance.

## Data Source and Nature of Data

The study is based exclusively on secondary data. Secondary data were selected as they provide comprehensive and reliable information on income tax reforms and digital initiatives implemented by the Government of India.

## Sources of Data

Data were collected from authentic and credible sources such as the Income Tax Department of India, Central Board of Direct Taxes (CBDT), Ministry of Finance, Reserve Bank of India (RBI), NITI Aayog, government annual reports, policy documents, academic journals, research articles, newspapers, and official digital governance portals.

## Data Analysis (Scenario-Based & Simulation-Driven)

### Scenario 1: Growth in Online Income Tax Return (ITR) Filing

Digitalization has significantly increased the number of taxpayers filing returns online.

Year	ITRs Filed (Crores)
2017–18	6.87
2019–20	6.48
2021–22	6.93
2022–23	7.40
2023–24	7.70

### Analysis:

The steady increase in ITR filing shows that digital platforms have made tax compliance easier and more accessible. The introduction of pre-filled forms, Aadhaar -based verification, and mobile-friendly portals encouraged more citizens to file returns voluntarily.

### Simulation:

If manual filing still existed, growth would be slow due to paperwork, physical visits, and long queues. Digital filing has reduced these barriers, leading to higher participation.

### Scenario 2: Reduction in Income Tax Refund Time

Year	Average Refund Time
Before 2016	60–90 days
2018–19	30–45 days
2020–21	15–20 days
2023–24	7–10 days

**Analysis:**

Digital processing and direct bank transfers have drastically reduced refund delays.

**Simulation:**

Earlier, manual verification and cheque processing caused delays. Now, electronic verification and automated processing enable faster refunds, increasing taxpayer trust.

**Results:**

The analysis of secondary data reveals that digitalization has had a substantial positive impact on the Indian Income Tax System. The introduction of online return filing and electronic verification has simplified compliance procedures and reduced dependence on physical documentation. Centralized Processing Centres (CPCs) have enabled faster processing of returns and quicker issuance of refunds, leading to increased taxpayer satisfaction and trust in the system. Faceless assessment and appeal mechanisms have significantly reduced direct interaction between taxpayers and tax officials, thereby minimizing discretionary practices and corruption. The use of data analytics, artificial intelligence, and third-party information has strengthened the detection of tax evasion and under-reporting of income, resulting in improved voluntary compliance. Additionally, pre-filled returns and PAN–Aadhaar linkage have improved accuracy and ease of filing for taxpayers.

**Conclusion.**

The digitalization of the Income Tax System in India marks a defining shift in the country's approach to fiscal governance. What was once characterized by lengthy paperwork, delayed processing, and extensive human intervention has now evolved into a streamlined, technology-driven system focused on efficiency, transparency, and taxpayer-centric service delivery. This transformation reflects India's broader commitment to digital governance and institutional modernization. The findings of this study indicate that digitalization has significantly enhanced the operational efficiency of income tax administration. Processes such as return filing, verification, assessment, refund issuance, and grievance redressal have become faster and more reliable. The introduction of centralized processing and automated systems has reduced manual errors and minimized delays, benefiting both taxpayers and tax authorities.

However, the study also highlights important challenges that need to be addressed. The digital divide remains a significant concern, particularly for senior citizens, rural populations, and small taxpayers who may lack digital literacy or reliable internet access. Technical glitches during peak filing periods and concerns regarding data privacy and cybersecurity also require continuous attention. These challenges underline the fact that digitalization must be inclusive, secure, and adaptive. Despite these limitations, the overall impact of digitalization on India's income tax system is overwhelmingly positive. The reforms have made tax administration more efficient, predictable, and citizen-friendly. They have contributed to greater fiscal discipline, reduced compliance costs, and improved the credibility of the tax system.

In conclusion, digitalization of the Income Tax System in India is not merely a technological upgrade but a fundamental transformation in public finance management. With sustained investment in technology, taxpayer education, cyber security, and system reliability, digital tax administration can continue to evolve as a powerful instrument for transparent, efficient, and equitable governance. The study reaffirms that digitalization is central to building a modern tax system that supports economic growth while strengthening trust between the state and its citizens.

- Digitalization has transformed India's income tax system from a manual, paper-based process into a technology-driven, efficient, and transparent system.
- Introduction of e-filing, centralized processing, and online verification has significantly reduced time, cost, and human intervention in tax administration.
- Faceless assessment and appeal mechanisms have enhanced fairness, accountability, and transparency, reducing corruption and discretionary practices.

- Use of data analytics, AI, and third-party information has improved voluntary tax compliance and strengthened detection of tax evasion.
- Digital platforms have improved taxpayer convenience through faster return processing, quicker refunds, and online grievance redressal systems.

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