

# Tax Administration Reform: End of Tax Disputes in India?

MDIM Journal of Management  
Review and Practice  
2(1) 46–60, 2024  
© The Author(s) 2024  
DOI: 10.1177/mjmrp.231222348  
mbr.mjmrp.mdim.ac.in



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## Abstract

A long-due Indian direct tax administrative reform for removing the taxpayers' plight and widening the tax base gained momentum by introducing the faceless assessments and appeals scheme coupled with taxpayers' tax charter. Following a descriptive approach, the study assesses whether the reform would end the tax disputes. Albeit, ideally, any tax system should be simple, efficient, transparent, and free from conflicts. The Indian taxation saga indicates an infamous tug-of-war between the taxpayers and the revenue-seeking tax officers. Serving strange tax demand notices and retrospective amendments of the tax laws created a phobia of 'tax terrorism' in honest taxpayers' minds. Considering this, the government followed the digital route with no physical interaction between the taxpayers and tax officers for tax assessments and appeals. Moreover, fixing the responsibilities of the taxpayers and tax officers would minimize tax disputes substantially if addressing the apprehensions and teething problems appropriately, addressing the apprehensions and teething problems.

## Keywords

Tax reform, tax administration, tax terrorism, tax evasion, FAS

## Introduction

The World Bank's Paying Taxes Study Report, 2020 ranked India at 115th, indicating poor tax compliance, albeit the rank improved compared to 2019 (PWC, World Bank Group, 2020). Tax literature concedes that the simple tax system positively correlates with high tax compliance. Per contra, high compliance

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costs coupled with stringent regulations and harassment could likely impede investments and encourage tax evasion. Again, tax structure changes significantly impact the growth engine through multiple proxies such as investment decisions, overall productivity, and work-leisure behaviors (Neog & Gaur, 2020). Tax collections are essential for providing welfare and security to any country's citizens besides carrying out development activities. The tax administrator should collect taxes like a bee used to collect nectar from the flowers, that is, painlessly. However, the Indian taxation saga paints an infamous face-off between the taxpayers and the revenues. Media reports and increasing trends of income tax litigation report that the tax officers exert pressures on the taxpayers to collect additional revenues for fulfilling their targets or harassing them by enforcing different provisions of the harsh tax laws, tantamount to so-called 'tax terrorism'. Interestingly, the taxpayers are largely risk-averse and rational. Still, the tax officials treat them as potential evaders and apply legally permissible coercive actions (Alm, 2012), keeping the faith of the honest taxpayers with the tax administration. Fixing unrealistic fixed money-value targets per geographical area for the tax officers instead of any data analytic by the Ministry of Finance (MoF) has its roots in the United Progressive Alliance (UPA)-II regime. It continues in the National Democratic Alliance (NDA)-I & II periods. In June 2019, the MoF amended the provisions of section 276CC of the Income Tax Act, 1961, by an upward revision of the compounding fees to INR 2,000 per day for non-filing the returns within the due date. Furthermore, the retrospective amendments in Sections 132(1) and 132(1A) of the Act, respectively, during the Union Budget 2017, by redefining the terms 'reasons to believe' and 'reasons to suspect' further create phobia in the minds of the honest taxpayers. Considering the honest taxpayers' hardships and as a damage control measure against the infamous tax terrorism stigma, the Prime Minister (PM), on 13th August 2020, launched a platform for 'Transparent Taxation—Honoring the Honest' with faceless assessment and tax charter for the taxpayers and tax officers having rights and responsibilities with immediate effect while faceless appeal, with effect from 25th September 2021, is a commendable step indeed.

The direct tax amnesty scheme 'Vivad Se Vishwas (VSV)' launched in the Union Budget 2020 and subsequently extended up to 31st August 2021, reported over 1.32 lakh declarations covering tax disputes worth INR 99,765 crore settling long-pending tax disputes substantially (Punj, 2021). Considering the significant amount of blocked tax revenues in litigation, the government attempted to rationalize the income tax system and introduced the VSV and Faceless Assessment Scheme (FAS). Still, during the last decade, direct tax revenue as a proportion of the gross domestic product (GDP) reported a significant downfall. As progressive taxation, direct tax as a proportion of GDP should consistently grow. In contrast, the proportion of indirect tax should decrease, and the latter should not exceed the former. Surprisingly, from the financial year 2013–14, the indirect tax proportion exceeded the direct tax proportion, although, in 2021–22, both remained equal to 5.4% and estimated that from the 2022–23 fiscal the direct tax would reach 5.5% while indirect tax would reduce to 5.2%. Notably, in 2017–18, the total tax revenues as a proportion of GDP were reported at 11.2%, which

was reduced to 10.8% in 2021–22 and in 2022–23, estimated to reduce further to 10.7%, likely giving a clarion call for immediate action by the government (Mishra, 2021). Expressing his deep concerns and criticizing the government's tax policies, the former union Finance Minister (FM) Mr P. Chidambaram stated that this trend indeed indicates that people are accumulating wealth and evading income taxes while people at large are paying indirect taxes and bearing the burden of the mass, indicating loopholes in the existing direct tax system and poor tax base (Roy, 2022).

The tax literature indicates that personal income tax (PIT) choice consists of a choice of tax base and tax rate schedule. At the same time, the former depends primarily on the earnings ability of the assessee, albeit having wider variations. Interestingly, earnings ability is unlikely to be monitored for tax purposes, and labor income proxies for the tax base. Subsequently, the tax schedule derives from the tax base. Apart from labor income, other demographics as predictors of tax collection documented in the literature include age, gender, and height (e.g., Best & Kleven, 2013). Research also paints multinational firms' general corporate income tax (CIT) avoidance practices and strategies, particularly by tax rate avoidance, tax base avoidance, and even combining both (Sikes & Verrecchia, 2020). The saga of global tax reforms suggests a reduction in tax rates coupled with tax base widening policies. The US tax reforms witnessed a significant decrease in the marginal tax rates with tax base-broadening measures. At the same time, Canada pictured reductions in both—PIT and CIT rates with simultaneous tax base widening (Sancak *et al.*, 2011). Germany introduced tax reforms for fiscal consolidation, reduced rates of both CIT and PIT and even depreciation allowances. Latin America has evidence of high inflation, triggering tax reforms for consistent revenue flows (Focanti *et al.*, 2013), while Sweden reduced PIT significantly by broadening the value-added tax base. Again, politically motivated tax reforms implemented for fiscal needs, reduced marginal tax rates, and intense lobbying for tax exemptions result in varied equilibriums (Ilzetzki, 2018). Admittedly, only 1.5 crores Indians pay income tax in a country of more than 140 billion, that is, merely 1.07% of the population pays income taxes. At the same time, the figure in the USA is 22%, in China 10%, in Mexico 15%, and in Germany 14% (Chakravarty, 2020). At the same time, India is an exception since her per capita income is INR 1.40 lakhs while people with more than INR 5 lakhs effectively pay income taxes. India's high-income inequality refers to a low tax base since only 3% of the working class pays income taxes while that of the USA is 5% and the UK is 4%, respectively. Again, when the income tax threshold is much higher than the country's per capita income, many people stay beyond the income tax, indicating a lower tax base (Chakravarty, 2020).

The newly launched FAS would likely accelerate tax revenue collections by disposing of the tax disputes expected by the government, welcomed by the tax experts but with reservations. Due to the Covid-19 pandemic, the government rippled with a sluggish economy and contraction in tax revenue collection, planned to collect revenues from the untapped or under-tapped sources by introducing tax administration reform. This maneuver becomes a stratagem for financing mammoth health expenditures with simultaneous multiple planned and

non-planned expenditures. While launching the FAS, faceless appeal, and the taxpayers' charter, the Hon'ble PM referred to the tax administration reform as 'honoring the honest taxpayers' and reinforced that the future of the Indian tax reforms would be on 3Ts: trust, transparency, and technology. Ironically, scrutiny of the facts shows that the substantial reductions in the number of taxpayers in the 2019–20 fiscal year were due to the tax exemptions extended up to INR 5 lakhs in the Union Budget of 2019, along with the varying demographic profiles of the tax base (Lokeshwarri, 2020). The apprehension of the PM is unlikely to be refuted entirely, as tax noncompliance is the biggest hurdle for the revenues of developing countries (IMF, 2015). Accordingly, the study motivates to assess whether the Indian income tax administration reform, as envisaged, would reduce tax disputes.

## **Tax Disputes**

Income tax is the most equitable and complicated among current taxes. The determination of taxable income is an arduous process. Accordingly, the system's success depends on the cooperation between the taxpayers and the tax officials. Tax compliance is taxpayers' decisions informed by their perceptions. If the tax administration relies on fully exploiting fiscal illusion, it would be unlikely to mobilize large amounts of tax resources. The tax officers presume that most rational taxpayers either underreport their incomes or claim deductions not subject to independent verification. The taxpayers are unlikely to be caught and penalized for cheating and tax evasion. In contrast, an effective tax administration should ideally require setting an environment that would motivate spontaneous and voluntary tax compliance. Surprisingly, the Indian tax saga has remained controversial over the last few years, where tax officers, by and large, emphasize excessively in tax collections rather than computing the taxable income accurately. Taxpayers remained burdened in justifying their claims for deductions and exemptions, which often end with litigation and tax revenues stuck for several years. Tax literature concurs that complexity and procedural justice contributed to higher tax noncompliance and enhanced tax evasion (Deb & Chakraborty, 2017). The taxpayers are unlikely to be placed at the mercy of tax inspectors and even confronted with administrative proceedings unchecked by judicial review. In January 2014, the then Gujarat Chief Minister, Mr Narendra Modi, asserted that every taxpayer is unlikely to be dishonest. Still, in a U-turn, the former Union FM Mr Arun Jaitely, under his leadership in 2017, had defended the government's decisions that the opposite of tax terror is unlikely to be a tax haven. This locution is self-explanatory and reveals how the government was adamant about collecting taxes. India's image of a 'hub of doing business' further deteriorated worldwide when it served INR 40,000 crores in Minimum Alternate Tax demands to Foreign Institutional Investors during the NDA-I regime. Moreover, the Income Tax Department (ITD) commenced serving strange tax demand notices and surprisingly amended the tax laws retrospectively; all those created a phobia of 'tax terrorism' in the taxpayers' minds. International experience also compelled us to acknowledge that tax risk management as a part of the corporate risk management strategy

significantly affects the strategic planning and operations of the corporate assesseees (Neuman et al., 2020). Allegedly the line of demarcation between honest and dishonest taxpayers is blurred as assessed by the attitudes of the Indian tax officers. The taxpayers refer to such attitudes as tantamount to the infamous 'tax terrorism'. The tax officers argue that they have yet to leave any stone unturned in scrutinizing the tax assessments and deductions claimed by the taxpayers before disallowing a few of those as bogus or irrelevant. Per contra, taxpayers report that the tax officers misinterpreted the laws despite their simple interpretation. Such a tug of war consumed the tax administration's substantial amount of time and resources, creating an unnecessary diversion from detecting and dealing with instances of tax evasion. Tax experts argue that the government is responsible for 'tax terrorism' by setting unrealistic tax targets for the tax officials, who, in turn, have exaggerated their powers to harass the taxpayers for fulfilling their stiff targets. The tax officers' attitudes were punitive, resulting in accelerated tax terrorism.

Table 1 presents the age-wise pendency of the total arrears of direct taxes under the categories of 'disputed demand' and 'undisputed demand'. The data shows that total disputed demand pending between 1 and 2 years constituted 64% of the

**Table 1.** Age-Wise Pendency of the Total Arrears of Direct Taxes under the Categories of 'Disputed Demand' and 'Undisputed Demand' Separately for Corporate and Non-Corporate Taxpayers as on 30 September 2019 [INR in Cr.].

Tax Revenues Raised but Not Realized	>1 Yr and ≤2 Yrs	>2 Yrs and ≤5 Yrs	>5 Yrs and ≤10 Yrs	>10 Yrs	Total
Corporation tax under dispute	287017.8	190279.1	19504.06	5356.8	502157.8
Income tax under dispute	351414.1	122375.7	12058.72	8823.1	494671.6
Total disputed demand	638431.9	312654.8	31562.79	14179.9	996829.4
Corporation tax not under dispute	80625.4	39186.09	4386.26	1932.86	126130.6
Income tax not under dispute	66152.71	22527.57	3375.46	986.8	93042.54
Total demand not under dispute	146778.1	61713.67	7761.72	2919.65	219173.2
Corporation tax not realized	367643.2	229465.2	23890.33	7289.66	628288.4
Income tax not realized	417566.8	144903.3	15434.18	9809.9	587714.1
Total tax revenues not realized (disputed + undisputed)	785,210	374368.5	39324.51	17099.56	1,216,003

**Source:** Standing Committee on Finance (2019, p. 25).

disputed demand. Similar information for more than 2 years but less than 5 years stood as 31.36%, whereas the figures for more than 5 years but less than 10 years is 3.16%, and for more than 10 years, the figures show as 1.48% respectively. Regarding total demand not under dispute, the figures for the stated period stood as 66.96%, 28.15%, 3.54%, and 1.35%, respectively. Furthermore, the total unrealized revenues (disputed + undisputed) concerning the outstanding amounts in relative terms for the stated timeline stood at 64.57%, 30.78%, 3.23%, and 1.42%, respectively. The data reveals that around 81.97% of the blocked amount is under litigation (disputed), which is unlikely to be recovered soon, albeit the VSV scheme launched on 1st February 2020, is likely to recover its substantial portion. Consequently, the tax administration should take appropriate measures to collect the blocked revenues, earmarked as 'Total Demand not under Dispute'.

Table 2 documents the number of direct tax appeals pending with the multiple judicial fora. It indicates that appeals pending with the Commissioner of Income Tax (Appeal) registered an increasing trend for the 5 FYs. Appeals pending with the Income Tax Appellate Tribunal (ITAT) report a decrease in the FY 2015–16 vis-à-vis 2014–15. After that, they registered an increasing trend for the consecutive 2 FYs and then marginally dropped in the FY 2018–19 by 0.65%. Pending appeals sub-judice with the High Courts (HCs) decreased by 6.25% in 2015–16 compared to 2014–15 and registered increasing trends consecutively for 3 FYs. In 2018–19, the numbers dropped by 0.78% vis-à-vis 2017–18. Appeals pending with the Supreme Court (SC) report a fluctuating trend where in 2015–16, the number of cases dropped by 4.62% compared to 2014–15 and after that registered an increasing trend. In 2018–19 it reported a hike of 2.08% year-on-year basis. The blocked direct tax revenues and pending cases indicate that tax litigations substantially increased in recent years. Even the Direct Tax Expert Committees identify multiple factors breeding tax disputes like unrealistic revenue maximization approach catalyzing setting stiff tax collection targets, extreme conservative attitudes by the tax officers fearing vigilance inquiries, the complete absence of accountabilities of the actions by the tax officers, inadequate or lack of knowledge about the assessee's complex business models in the dynamic business world and even reluctant attitudes of the top officials in releasing clarification/notification at the outset of any controversial tax treatments unless litigants approach the Tribunals/Courts. The Standing Committee on Finance Report 2019

**Table 2.** Direct Tax Appeals Pending Before Different Judicial For a [in Nos.].

Financial Year (FY)	CIT(A)	ITAT	HC	SC	Total
2014–15	232,126	103,238	34,281	5,661	375,306
2015–16	258,898	91,971	32,138	5,399	388,406
2016–17	290,227	92,386	38,481	6,357	427,451
2017–18	321,841	92,817	39,066	6,224	459,948
2018–19	341,484	92,205	38,758	6,354	478,801

**Source:** Vivad Se Vishwas Scheme, Government of India, Ministry of Finance, Department of Revenue, Lok Sabha Unstarred Question No. 1678, p. 2, dt 02/03/2020.

also pointed out that as of 31st August 2019, INR 1,217,749 crores were 'difficult to recover' and stuck in litigation since frivolous tax demands raised by the revenues (Standing Committee on Finance, 2019, p. 24).

## **Tax Administration Reform**

The modern-day tax administration is a complex system with multiple objectives—from raising tax revenues to achieve social and economic objectives. Attainment of those objectives is likely to introduce amendments to the tax laws, restructure the organization, impart rigorous training to the tax officers for implementing the tax laws and policies, and expedite the assessment procedures for collecting revenues. Since the tax policy and administration are closely linked, the tax administration should, therefore, comprehend the internal mechanism having flexibility for promoting the practical application of the said tax policy to correct fiscal imbalances, especially in developing countries (Ahmad & Stern, 1991). In developing economies like India, the tax administration is confronting several challenges, including a shortage of staff, inadequate compensation, increasing numbers of taxpayers, and inadequate support from the accounting and legal fraternities. The challenge seems magnified by the pressures to achieve the target tax revenue collections and explore the untapped avenues. The poor state of tax administration remains a stumbling block for lower levels of tax compliance coupled with higher compliance costs and increasing trends of filing litigation. Several Committee recommendations guided tax reforms in a post-liberalized India. These include the Tax Reforms Committee of Raja J. Chelliah (1991, 1992 & 1993), Advisory Group on Tax Policy, and Tax Administration for the 10th Plan led by Dr. P. S. Shome (2001), Report of the Task Force on Direct and Indirect Taxes led by Vijay Kalkar (2002), and Reports of Tax Administration Reforms Commission led by Dr. P. S. Shome (2014 & 2015).

In the past 33 years, the Indian tax system attempted to simplify the tax assessment procedures, moderating the tax rates in conformity with international standards and widening the tax base with better enforcement. Still, taxpayers will likely perceive only some of those attempts in the same tune. The thrust and direction of the tax reforms were motivated mainly by accelerating revenue collections with minimal distortions and plugging the loopholes. The term 'simplification of the tax system' is a relative term for taxpayers as it is the ease of filing returns for most of them. In contrast, others presume it simple to explain the jargon, provisions, rules, and notifications, albeit; practical implementation is more significant than the theoretical simplification. The FAS and tax charter indicated the Modi government's commitment towards a transparent people-centric robust tax system, reinforcing that the future of the Indian tax system reform rests upon 3Ts.

The FAS process consists of serving notices to the taxpayers and transferring all the assessment-related documents post-assessment to the assessing officers (AOs) through 26 steps that would record centrally with the National E-Assessment Centre (NEAC). The scheme empowers the NEAC to assign verification units, or



technical units, to redress tax officers' queries regarding any such assessment matter, which would likely expertise the tax officers with the mechanism for its smooth implementation. The assessment procedures would be de-linked from the location of the taxpayers. They would be distributed randomly to tax officers nationwide, substantially minimizing corruption. The nomenclature 'faceless appeal' is self-explanatory and dynamic based on the artificial intelligence (AI) technique which would ultimately replace the territorial and manual appellate proceedings before CIT(A). Digitally all the documents related to taxpayers' appeals would be verified electronically by the tax officers of any jurisdiction. This action would bring more transparency in the tax dispute resolution process by minimizing the chances of taxpayers' grievances. The formal procedure of serving show-cause notices through NEAC having an audit trail ensures that the taxpayers have sufficient time to respond to last-minute rush for tax demands and unprecedented additions in the assessments. The system would arrange a video conference (VC) for the taxpayer whenever requested instead of any personal appearance could be a game-changer as the conversion is supposed to record in the system, which, like an affidavit filed in a Court, is unlikely to be alerted subsequently. Unsatisfied taxpayers could approach the Principal Commissioner of Income Tax of the concerned zone if they violate any right(s) of the charter or if any assessment issue arises. The recent order of the Central Board of Direct Taxes (CBDT) indicating that the income tax surveys, an intrusive action, would be carried out 'with utmost responsibility and accountability' likely to substantially minimize the harassment and choirs of the tax officers the so-called 'tax terrorism'.

Earlier, the CBDT introduced a mandatory document identification number, quoting the same in all its communication with the taxpayers towards its gradual process of bringing transparency in dealing with taxpayers. Whenever the Revenues are, the returns would choose to apply AI and data mining tools without any human interference, likely to eliminate the possible corruption of the system. If implemented effectively, the system will be unique worldwide and could be the global benchmark in the compliance mechanism process. The FAS also introduces structural changes in the tax administration by dividing the tax authorities into assessment, verification, technical, and review units. These steps could lead to specialization and efficiency in terms of time, costs, and resource savings and improved assessment quality. Moreover, as envisaged, the FAS would also bring more transparency, efficiency, and accountability to the tax administration. Regarding the tax charter containing 14-point obligations for the revenue and 6-point duties of the taxpayers, the Revenues will be more accountable. This accountability is likely to permeate all its operations ranging from real-time decisions, collecting the right amount of taxes, maintaining the privacy of the taxpayers' details, and respecting their dignities, in line with the prevailing tax charters of a few Western economies.

## **The Challenges**

Almost a year after abolishing the Tax Ombudsman Institution, the central government, in line with the UK and Australia, introduced the taxpayers' charter,



which is unlikely to have stemmed from any legal provisions of the Income Tax Act 1961. Tax experts came out with several areas for improvement of the accord. Zone-based steep revenue targets assignments to tax officers likely impede its successful implementation. The voluminous online submission of returns and explanations of deductions and exemptions would be claimed primarily by the corporate taxpayers having complex business models, which could require clear communication to shun misunderstanding, ambiguity, and even litigation. Further, small taxpayers must have exposure to the FAS mechanism to capitalize on its embedded benefits. Since the FAS is a fully digitalized mechanism, robust system support and a mammoth capacity-building exercise would be indispensable for its seamless implementation and successful operation (Memani, 2020). As the domestic tax laws have inadequate provisions on the taxation of some business models, conflicts are likely to emanate during the successful execution of the FAS. Tax officers apprehended that the FAS could create a logistical problem, and they wondered whether the existing pending cases would be put on hold or reach a settlement in the current system. The faceless appeals are likely to increase demands as the taxpayers are unlikely to get any fair chances to explain their standpoints, which could reach the IT Tribunals.

The tax consultants with vast experience have cautioned that by and large, assesseees prefer to argue physically before the IT Commissioners. In the FAS appeal proceedings, they are unlikely to get fair chances. The risk of confirmation or enhancement of tax demands would be substantial. It also apprehended that the taxpayers, whenever any faceless order is challenged and disposed of in any faceless appeal, are unlikely to get any relief. On the contrary, it would compel them to carry forward the matter in the subsequent levels of judicial proceedings. Historically, tax inspectors showed excessive meticulousness. Even in minor cases having marginal revenue involved substantially destroyed the credibility of the tax administration with a simultaneous setback to the honest taxpayer's morality and confidence. Accordingly, the success of the FAS depends mainly on the tax culture and mindset of the taxpayers and tax inspectors, which, in the Indian taxation context, probably be a Herculean task on both fronts (Lavi, 2020). The Faceless Appeal Scheme, 2021, mandates the Commissioner (Appeals) to allow requests for personal hearings via VC with predetermined schedules communicated through the National Faceless Appeal Centre (NFAC), where the faces of the authorities would remain blurring. Still, the scheme's success must be tested soon in a country like India with low bandwidth.

Historically, the Indian tax administration introduced an e-filing system with effect from September 2004, initially voluntary for all categories of assesseees, subsequently became mandatory for all the corporate assesseees from July 2006, and from the assessment year 2012–13, it became compulsory for those with an annual income of more than INR 10 lakh. Extant literature demonstrates that multiple influencing factors play significant roles in e-filing adoption, such as perceived credibility, behavioral control, attitude and subjective norms, and the catalyst role of the tax advisor (see Lu et al., 2010). Adopting Information and Communications Technology (ICT) in tax filing depends on several theoretical underpinnings, such as the theory of planned behavior, technology acceptance

model, innovation diffusion theory, model of personal computer utilization, and unified theory of acceptance and use of technology. E-filing research applies some of these theories worldwide, for example, in India, Australia, Malaysia, Taiwan, and the UK (Lai & Choong, 2010; Ojha et al., 2009). Research further suggests that strengthening state capacity and collecting tax revenues are central agendas, especially in developing economies (Pomeranz & Vila-Belda, 2019). Accordingly, the role of ICT becomes paramount in cracking down on instances of tax evasion (Slemrod et al., 2019). Albeit e-filing services are accessing measurable benefits to the taxpayers and tax administration in terms of convenience, time and cost-saving, accuracy, security, reduced processing time, and efficiency. Studies report that taxpayers are primarily reluctant to access the online filing system (Venkatesh et al., 2013). Moreover, trust in the government and technology is critical for e-filing success. An online tax-filing system remains valid till the users can access the net benefits (e.g., minimal errors, lower communication costs, real-time information processing, and faster refund processing) and assay the risk assessments.

A close review of the related literature indicates that multiple challenges in the e-filing mechanism have become impediments. Studies have pointed out that the e-filing mechanism has suffered due to inconsistency in the information used in different tax filings, conflicting tax laws in multiple jurisdictions, selection of appropriate income tax return (ITR) satisfying the conditions for selection, computation of deductions, and taxable income, risk of hacking the personal data while filing the returns accessing cyber centers, filling the correct tax deducted at source in the ITR, presence of multiple Form 16, stuck in getting documents for claiming the house rent allowance exemption, unable to provide timely submission of tax proofs to the employer, nonpayment of advance tax and even forgetting the required password for filing the returns. To counter the stated e-filing challenges, the government should chalk out strategies and efforts for promoting the usefulness of the e-filing by investing in a campaign, adding more web-based tutorials and videos, extending 24×7 online services in the month of filing, enhancing security features, and installing sophisticated firewalls. Furthermore, the tax authority should encourage early payment with minimal rebates or letters of appreciation to avoid the last-minute rush and associated traffic jams. The management must ensure that the system can absorb the high traffic volume.

## **The Way Forward**

A good tax administration generally should reflect three essential components: determination, calculation, and payment. The system requires information, knowledge, and a modus operandi of treating the assesseees (Shome, 2019). Considering tax administration features and for smooth implementation of the FAS, the tax inspectors dealing with the assessments, scrutiny, refunds, and technicalities should be rigorously trained with the complex provisions of the Act to minimize the litigation chances substantially. Furthermore, the provisions of the Act, rules, and notifications should be made taxpayers-friendly and rationalized

for higher tax compliance. Interestingly, the FAS system itself is based on trusting the taxpayers, which would likely influence the tax morale aspects; hence tax administration should emphasize the four key drivers of trust to improve the tax morale: fairness, equity, reciprocity, and accountability, in line with the literature (Prichard *et al.*, 2019). A tax administration is unlikely to work in a vacuum. It has a close association with the public at every stage, and accordingly, the people's attitudes are likely to reflect in a good tax administration. For effective implementation of the tax policies, tax administration should substantially improve the information-sharing network and access the database of banks and financial institutions for tracking the financial transactions of the taxpayers well in advance before commencing the assessment. Apart from accessing financial data, there should be enhanced coordination between the direct and indirect tax administrations and central and state tax administrations.

Undoubtedly the tax officers' stringent tax assessment procedures created a lousy image and phobia of the tax administration in the minds of honest taxpayers, which probably induced a belief of discriminatory treatment. Accordingly, tax noncompliance precedence likely accelerated. Instances of the FAS and appeal endeavors primarily depend on the modalities and rules framed with the simultaneous robust technological support system. In the last couple of years, the Indian tax administration tremendously improved its taxation aspects, such as online filing, automation of withholding tax, real-time assessments, and issuance of refunds. Still, it must work regarding taxpayers' confidentiality and privacies, noncoercive measures for tax collections, and hassle-free refunds with a quick disposal of disputes without any judicial inferences. To manage litigation and tax disputes, the government took several steps *inter-alia* by enhancing the monetary limit for filing appeals, setting up a Dispute Resolution Panel (DRP), and resolution mechanisms through Advance Pricing Agreements, Double Taxation Avoidance Agreements, and Safe Harbor Rules. Moreover, to reduce litigation, the government decides not to file appeals in matters involving specific questions of interpretation of the law, akin to any pending case before the HCs and SC (Bajaj, 2022).

The ICT-based new technologies revolutionized the business world and tax administrations by decreasing information collection costs and providing real-time information, emphasizing digitalization, robotization, machine-to-machine technologies, and blockchain (Vishnevsky & Chekina, 2018). Tax administrations are applying big data analytic-based sophisticated techniques and tools to improve taxpayers' services and tax compliance and implement new audit mechanisms. Such an online audit mechanism produces multiple benefits, from minimizing face-to-face interactions between taxpayers and tax inspectors, reducing tax compliance costs, and increasing tax collections to enhancing global transparency in automatic information-sharing networks. Research validates the significance of information in tax enforcement, albeit it remains concentrated in the developed nations but developing economies recently joined the rally (Almunia & Lopez-Rodriguez, 2018). These network effects significantly improve the cost-effectiveness of the tax enforcement policy by increasing voluntary tax compliance.

Albeit the current study is conceptual and assesses the efficacy of the Indian tax reforms in general and FAS in particular, it discusses a few selective taxpayers (users) of the FAS and some practitioners (tax consultants) for a better understanding of the pertinent issues involved in the practical application of the scheme. During a personal and virtual interview with the taxpayers and practitioners, some exciting facets of the scheme were identified, primarily alleging that it circumvents the principle of natural justice. The CBDT earlier 2019 launched the 'E-assessment Scheme, 2019', which contained detailed procedures for the conduct of faceless assessment proceedings not confined to scrutinizing assessment proceedings for assessing income but even extended to proceedings carried out before the DPR, penalty proceedings (Patnaik et al., 2021). The scheme assigned a new title as FAS, 2019, and applicable for best judgment assessments under the Income Tax Act. During personal interviews, the users and tax consultants admitted that the faceless assessment had made the assessment process and even other proceedings faster, ensuring adequate time utilization. Apart from high-speed internet, which has a challenge for remote areas such as large parts of the northeastern states, and hilly areas of Himalayan regions, those taxpayers seeking a personal hearing with an AO must make their requests approved by the Chief Commissioner or Director General of Income Tax in charge of the concerned Regional Faceless Assessment Centre (RFAC). The sample taxpayers argue that their rights to a hearing could be seriously prejudiced in case they are denied or left in the discretions of the tax authorities. Furthermore, most respondents indicated that since the hearing under the scheme took place under VC mode and without a physical hearing, they confronted a herculean challenge to present their arguments in tax matters involving complex business models.

Regarding the automatic exchange of information (AEOI), India signed the inter-governmental agreement with the USA on 9th July 2015 to tackle tax evasion by obtaining information regarding US residents' and citizens' offshore financial accounts. Surprisingly, prior studies document that although the US is unlikely to be a tax haven, it is a preferred destination for wealth accumulation by foreign individuals requiring secrecy and tax-evasion opportunities having a high degree of bank secrecy and tax exemptions for nonresident individuals (Cotorceanu, 2015). Further, the complexities of setting up shell companies in the United States have been relatively comfortable vis-à-vis other tax havens. As per the agreement, the Indian financial institutions would provide necessary information to the Indian tax authorities, who would share it with the US counterparts and vice-versa. Moreover, countering the challenge of offshore tax evasion and stashing unaccounted money abroad required cooperation among the tax authorities. Accordingly, India, a leading member of other G-20 and The Organization for Economic Cooperation and Development members, developed a Common Reporting Standard (CRS) on AEOI. Notedly, on an annual basis, being a signatory member, India accesses information about the account holders having statuses of nonresident Indians and persons of Indian origins. With such consistent reporting by the various financial institutions, India could significantly evade tax evasion attempts. For implementing the CRS and IGA, Section 285BA of the Income Tax

Act and relevant rules and forms were accordingly amended. India signed tax information exchange agreements with 21 countries (tax havens), which would enable the exchange of information, including banking and ownership information, between the signing countries for tax purposes.

Even though many countries, including India, entered multiple treaties regarding the exchange of tax information to minimize tax evasion, related literature indicates that these treaties are unlikely to reduce tax evasion (De Simone et al., 2020). Transferring capital by opening bank accounts with a minimal fee from a nontax heaven nation to a tax heaven nation (outbound deposit) is a simple matter likely to accelerate tax evasion significantly. Considering this gravity, Indian tax authorities should frame stringent rules for evading tax evasion and amend the tax treaties accordingly. In conclusion, the FAS is a significant tax reform that has taken place in recent years and is an aptly appropriate step in improving the ease of doing business and bringing more transparency to the tax system. However, its success largely depends on the stakeholders' joint responsibilities.

### Declaration of Conflicting Interests

The author(s) declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

### Funding

The author(s) received no financial support for the research, authorship, and/or publication of this article.

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