*Original Article*

# Section 263 of the Income Tax Act and Tax Collection Contractions: A Trade Off

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**Abstract**

On 6 April 2023, the Supreme Court, while upholding revision powers of the Income Tax Commissioner vide section 263 of the Income Tax Act, observed that the Commissioner is empowered to revise against any erroneous orders of the assessing officer, mainly if those orders are detrimental and adversely affecting Revenue's interest. However, India is confronting direct tax collection contractions and has witnessed a substantial surge in tax litigation in different judicial fora since the last decade. Against the backdrop of this judgement, the study examines whether tax collection contraction would find a solution and the chances of reducing tax litigation.

**Keywords**

Tax contractions, Supreme Court, section 263, tax evasion

## Introduction

After the deadly COVID-19 pandemic, globally governments revisited their fiscal policy frameworks to counter the mammoth health expenditures and sustainability challenges of public finance (Caselli et al., 2022). Moreover, the green transition, a galloping debt burden, an ageing population and sustainable development goals compelled them to reframe their public finance strategies (Benedek et al., 2021). Public finance literature suggests that two different but related concepts, tax buoyancy and tax elasticity, are widely preferred for measuring tax revenue

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responses to changes in national income. Tax buoyancy indicates the total percentage change in tax revenues to the percentage change in the tax base, proxying the GDP. On the other hand, tax elasticity measures the changes in tax revenues due to changes in income or tax rates. Interestingly, despite rich literature on tax elasticity (see Mourre & Princen, 2019), tax buoyancy is preferable to shun the challenges associated with applying the former. Such preferences include the challenges related to applying the tax elasticity, for example, gathering substantial information about developments in the various tax bases, the need for accuracy in changes in tax rates or exemptions, collection lags, tax evasion (TE) and differences in accounting systems, which create stumbling blocks. Admittedly, weak tax enforcement and tenuous tax compliance attitudes catalyse TE, litigation, substantial tax base elasticity and lower tax progressivity.

The endogenous public finance literature reports that a low tax-to-gross domestic product (GDP) ratio is a common phenomenon in most developing economies (Hassan et al., 2021). However, to meet government spending, such a ratio should be around 15% (Umar et al., 2019). Due to multiple factors like faulty tax collection systems and poor governance systems, the tax gap in developing economies pushes them into the plight of the balance of deficit. Considering those, countries mostly lean towards foreign aid, and research conceded its significant positive impact on promoting their economic growths and improving living standards (Yahyaoui & Bouchoucha, 2021). In contrast, the ill effects of foreign aid, for example, erosion of institutional efficiency leading to low tax collection (Wen et al., 2023). Voluminous foreign aid catalyses administrative volatility and mismanagement, eventually leading to inefficient tax collection. On the other hand, good governance significantly enhances tax revenues by minimising TE, standardising tax rates and implementing transparent tax revenue reporting. However, a few studies report increased corruption reduces tax revenues (Amoh & Nakyea, 2019). Literature reports that governance substantially impacts corruption and tax collections by reducing the former while increasing the latter. Moreover, tax collections were significantly impacted by the combination of an effective tax system with simultaneous tax reforms (Gnangnon & Brun, 2019). Research further reports a partial influence of governance on tax collections (Timmons & Garfias, 2015).

Behavioural responses to taxes are shaped by the enforcement environment (Slemrod, 2019), and political institutions affect tax capacity (Weigel, 2020). However, research candidly reports that it is insufficient to support that stricter tax enforcement affects the distribution of the tax burden (Alstadsæter et al., 2022). The reasons for this are primarily due to difficulties in measuring and observing TE and, second, the tax enforcement policies and tax rates exclusively fall under the domain of the same government, creating a bottleneck to measure such simple correlational evidence (Keen, 2012). The efficiency costs (i.e., missing revenue) of collecting tax revenues for poorer countries are exorbitantly high, ultimately absorbing the positive revenue impact of stricter tax enforcement (Waseem, 2018). Indian saga documents substantial tax revenue stuck in litigation in different judicial fora, leading to the promulgation of the Vivad-Se-Vishwas (VSV) Act of 2020 (Deb, 2022). Whether such undesired effects are likely to occur depends on the tax base's sensitivity to the tax rate. However, empirical evidence indicates that base responses are sensitive to different factors, such as tax rate change, taxpayer classes and the definition of tax base (Slemrod, 2019). Stricter tax enforcement broadens the tax base and reduces the marginal efficiency cost of taxation. Consequently, the effect of a tax rate increase becomes less costly. Furthermore, political leadership significantly impacts tax compliance and strict tax enforcement policies. The Indian Prime Minister's 'Honouring the Honest' policy to bring transparency to the direct tax system is likely to reduce TE and tax litigation substantially, as the literature indicates.

For deriving insights into the taxation system, it is necessary to assimilate its interaction with the quality of institutions and economic structure. In the Indian context, research documents direct tax collection contractions (see Deb, 2022). During the past few years, the Indian direct tax system has undergone rationalisation processes such as the introduction of simplified return forms *Sahaj* (ITR-1) for salaried taxpayers and Sugam (ITR-4) for the Hindu Undivided Families and small business taxpayers; the removal of the dividend distribution tax; the enactment of the VSV Act of 2020 for settling the pending direct tax disputes; and the Faceless Assessment Scheme (FAS), which enables assessment proceedings electronically without any physical interaction between assessees and tax officials. All those steps indicate the government's intention to increase tax compliance and revenue collection with minimum pain to the taxpayers. On the other hand, the government introduced retrospective amendments in sections 153C, 132(1) and 132(1A), for example, to broaden the scope of search and seizures, thereby curbing TE. The recent upholding of Section 263 by the Supreme Court (SC) further empowers the Commissioner of Income Tax (CIT) to exercise his revisional powers if the Assessing Officer (AO)'s order causes 'prejudice to the interest of the revenue', which, in other words, empowers the government to enhance tax compliance and thereby tax revenues.

On 6 April 2023, the SC reiterated by holding that the CIT could exercise his revisional powers under section 263 of the Income Tax Act (ITA), 1961, over the AO's erroneous orders only if those caused prejudice to the Revenue's (Income Tax Department) interest (*The Commissioner of Income Tax 7 v. Paville Projects Pvt Ltd*, 2023). The SC earlier ruled that the CIT could exercise his revisional powers if any of the conditions are satisfied, that is, the assessment order passed relying on any erroneous assumptions of facts or any incorrect application of law or if the AO failed to apply his mind in passing such order. Furthermore, before passing an order, the CIT must satisfy that (a) the AO's order is not only erroneous but also (b) prejudicial to the Revenue's interests. Both those conditions must be satisfied before exercising the revisional powers under section 263(1), and if any of those conditions are absent, the revisional powers are unlikely to be exercised. The phrase 'prejudicial to the interests of revenue' must be read in conjunction with AO's erroneous order. Consequently, every erroneous order is unlikely to be treated as prejudicial to the Revenue's interest.

Admittedly, where two possible views exist, and the AO has preferred one such view, it cannot be treated as an erroneous order merely because the CIT disagrees unless such an order is bad and unsustainable in law (*Malabar Industrial Co. Ltd.*

*v. Commissioner of Income Tax*, 2000). The CIT is not sitting in an appeal while exercising his revisionary powers (*Commissioner of Income Tax-Gujarat-II v. Kwality Steel Suppliers Complex*, 2017). Admittedly, the phrase 'prejudicial to the interests of Revenue' is neither defined in the ITA nor an expression of art. However, in its ordinary meaning, it is not confined to loss of tax but has a wider import (*Dawjee Dadabhoy & Co. v. S. P. Jain*, 1957; *Commissioner of Income Tax-Mysore v. T. Narayana Pai*, 1975; *Commissioner of Income Tax v. Gabriel India Ltd*., 1993). Any tax loss is also explicitly treated as prejudicial to the interests of revenue (*Commissioner of Income Tax v. Minalben S. Parikh*, 1995). Consequently, the AO's assessment order must suffer from grievous errors before treating it as prejudicial to Revenue's interests (*Venkatakrishna Rice Co. v. CIT*, 1987). Where an assessee does not earn a sum but is assessable on his disclosure, the AO's assessment order accepting the same needs to be revised. However, it is prejudicial to Revenue's interests (*Rampyari Devi Saraogi v. CIT*, 1968; *Tara Devi Aggarwal v. CIT*, 1973). Interestingly, the CIT is empowered to consider any material which came to light even after AO's assessment order for exercising his revisional powers vide section 263(1) (*CIT v. Shree Manjunathesware Packing Products and Camphor Works*, 1998; *South India Steel Rolling Mills v. CIT*, 1997). Section 263(2) empowers the CIT to pass a revisional order, at most two years from the end of the relevant financial year in which such order was passed, seeking a revision. However, the said period is not related to the assessee's date of receipt of the order (*The Commissioner of Income Tax, Chennai v. Mohammed Meeran Shahul Hameed*, 2022).

Against those backdrops, the present study adopts a qualitative study design to assess whether the SC judgement would address the direct tax contractions and reduce the tax litigation.

## Tax Collection Theories

Historically, tax collection methods were vibrant vis-à-vis modern methods. The literature documents three broader categories of tax collection methods, namely, share contracts, rental contracts and wage contracts, extensively applied globally. Governments preferred any such methods primarily to assess the volumes of tax revenues, associated tax bases and unparalleled efforts of tax collectors. In preference to modern-day government tax officials as tax collectors, in earlier days, private tax collectors were used to engaging for the job, entering an agency relationship with the government. The theoretical frameworks explaining tax collection focus on market imperfections research. Literature indicates that three categories of market imperfections lead to the appointment of private collectors. The first category refers to the *capital market imperfections* where governments could not raise funds from the market and used to sell a part of tax revenues to private collectors against advance payment (Pamuk, 2004). The second category highlights the *insurance market imperfections* motivating the governments for risk aversion of highly unpredictable tax revenues in favour of the tax collectors, for example, France (Matthews, 1958), but subsequent studies criticise those practises questioning the tax collection abilities of the governments (Johnson, 2006). The third approach refers to the *labour market imperfections,* indicating that applying agency theory ingredients a variant of tax collection, which is primarily contractual. Taxation research in the UK and France mainly prefers to apply this theory *(*Priks, 2005). The variants of contractual methods of tax collection have three groupings. The first group referred to the *share contract,* which indicates the proportionate sharing of tax revenues between the government and the collector, primarily practised in France, India, China and Medieval Egypt (White, 2004). The second group is *a fixed rent contract category.* Under this, the tax collectors agree with the government for tax collection accession rights against a predetermined fixed amount payable to the government, keeping aside their share, popularly known as 'tax farming'. This practice was prevalent in Earthshine Republican Rome, the Abbasid Empire, France, England, other European countries, and even modern Tunisia. Another method frequently used by the Ottoman and Mughal governments and France is *direct bargaining* to finalise the payment amount in a rental contract (White, 2004).

Engagement of private tax collectors or agencies was typical worldwide, for example, in the US, but this practice gradually declined in the 19th century after bureaucratical supremacy (Jang & Eger III, 2019). India is not an exception, and such practise was common in the erstwhile princely states and subservient British India. Literature suggests that 'tax delinquency', like TE, adversely impacts fiscals and equality (Mikesell, 1976). Tax delinquency catalyses increased tax collection costs with simultaneous revenue losses, compelling the government to enforce stringent measures, a costlier exercise for the government and taxpayers. Tax delinquency is also considered a mechanism that could shift honest taxpayers toward non-compliance, contravening the cardinal principle of equity in taxation. Such reduced compliance further increases tax collection costs with simultaneous decreases in revenue collections. Literature documents skewed studies attempted on TE, especially after the seminal works of Becker (1968) and path-breaking research of Allingham and Sandmo (1972). However, they overlooked tax collection facets. Subsequently, research focuses on tax audits, amnesty and compliance (Mikesell & Ross, 2012). Moreover, property tax delinquency, tools for tax compliance and delinquency control were also studied extensively (Mikesell, 1976).

The *agency theory* (Jensen & Meckling, 1976) postulates that tax collection combines the applicable tax rate, tax bases and significant collection efforts. Determining tax rates and bases falls under legislative jurisdiction, but the exertion of significant collection efforts only generates revenues. Consequently, the level of tax revenues depends on tax collection effort and other factors, ceteris paribus. The theory suggests that the delegation behaviour of agents (tax collectors) usually deviates from the motive of the principal (government), which causes innate agency problems. The principal (government) introduces a fair compensation package for the tax officers (agents) for the latter's sincere tax collection efforts, thereby countering agency problems. The *agency theory* posits that pecuniary rewards linked with performance significantly motivate agents to increase their efforts. Different types of self-regulation theories argue that since public service institutions are motivated to achieve their goals, public employees put their efforts into achieving public goods and services. A few of those theories primarily preferred in taxation research include, for example, the *social cognitive theory* (Bandura, 1986), the *self-determination theory* (Deci & Ryan, 1985) and *the public service motivation theory* (Perry & Wise, 1990).

## Tax Collection Contractions

A high level of tax compliance is the focal point for any well-functioning state. Governments usually revisit their tax collection guiding provisions for evading TE's inherently hidden nature, primarily generated from cash transactions, for example, trade-specific self-employed services. Governments apply enforcement mechanisms to enhance tax compliance. However, recent research concludes that taxpayers' motivation significantly influences tax compliance (Torgler, 2022). The literature suggests that successful tax collection cannot be the exclusive outcome of the exertion of power on errant taxpayers (Alm & Torgler, 2011); instead, it is the combined outcome of the human behavioural intuition of patriotism (love) and *deterrence* (fear of punishment) (Boulding, 1981), as psychic stress significantly influences tax compliance behaviour (Dulleck et al., 2016). The Economic Survey 2022–2023 indicates direct tax registered a 26% growth from April–November 2022. The Central Board of Direct Taxes, on 3 April 2023, notified the provisional figures of direct tax collections for the financial year 2022–2023, reporting a 17.63% growth on a year-on-year comparison basis.

The Indian tax system, since the last decade, has witnessed not only tax buoyancy but also a substantial surge in tax litigation in different judicial fora (see Deb, 2022). The Indian tax system allows a taxpayer either an administrative, appellate or writ remedy after passing an assessment or reassessment order by the AO. Feeling aggrieved with the assessment order, the assessee has the right to apply within one year of receipt instead of following the appellate route before the CIT seeks revision of the order. The aggrieved assessee can also approach the First Appellate Authority by preferring an appeal against the impugned orders passed by the AO and CIT (Appeal). The first appellate authority is at the bottom of the four-tier appellate hierarchy and subsequent fora, including the Income Tax Appellate Tribunal (ITAT), HC and SC. Admittedly, amendments of sections 132(1) and 132(1A) w.e.f. 1 October 1975 with retrospective effect re-explaining twin terms, that is, 'reasons to believe' and 'reasons to suspect' as affirmed by the SC (*Director General of Income Tax (Investigation) Pune and Ors. v. Spacewood Furnishers Pvt. Ltd. and Ors.*, 2015; *ITO v. Seth Brothers,* 1969; *Pooran Mal v. Director of Inspection (Investigation), Income Tax*, 1974) and recent upholding of retrospective amendment of section 153C w.e.f. 1 June 2015 by the Apex Court (*Income Tax Officer v. Vikram Sujitkumar Bhatia*, 2023) certainly empower the Revenue to unearth undisclosed incomes and to increase tax compliance and revenues. However, those amendments likely created an apprehension regarding unnecessary harassment, at least in the minds of honest taxpayers. Such apprehension has its basis as the SC heavily relied upon earlier two judgements (*ITO v. Seth*

*Brothers,* 1969; *Pooran Mal v. Director of Inspection (Investigation), Income Tax*, 1974), holding that Revenue is not bound to record the reasons before authorising the search, which needs to be disclosed to the warrant receiver (*Dr. Pratap Singh v. Director of Enforcement*, 1985). Such apprehension is probably to accelerate in light of another earlier SC judgement where the Court observed that the grounds for search do not fall in its jurisdictional review; instead, it will examine whether 'reasons to believe' for search under section 132 have rational relevance (*S. Narayanappa v. CIT*, 1967).

## Role of Tax Administration

Research affirms a combination of enforcement and cooperation in tax compliance decisions and three core compliance paradigms, namely 'enforcement', 'service' and 'trust/social' shape tax compliance behaviours (Alm & Torgler, 2011). Admittedly, tax authorities prefer to use service or trust/social approaches instead of the enforcement approach for tax compliance (Braithwaite, 2007) and promote procedural fairness, assuming they belong to the same community as the taxpayers. The economics of crime approach (Becker, 1968) supports *the enforcement (or deterrence) paradigm,* postulating that rational taxpayers prefer to pay a small amount of tax, assuming marginal utility deriving from such payment is lower than that of directly using foregone tax payments. Again, the model of Allingham and Sandmo (1972) indicates tax compliance is a trade-off between perceived benefits and non-compliance costs; taxpayers deter tax obligation unless detected and punished. Literature suggests that the probability of tax audit and tax compliance is inversely related (Alm & Malézieux, 2021). Furthermore, audit rates significantly improve tax compliance related to cash transactions, and access to audit information leads to more compliance. The *service paradigm* emphasises the tax administration's pivotal role in rendering multiple services to fellow citizens and formulating tax policies and user-friendly forms for filing returns (Alm & Torgler, 2011). The underlying basis of the *trust/social paradigm* is trustworthy, conducive and supportive relations between the taxpayers and the government, which will likely lead to improved tax compliance (Kirchler et al., 2008). Again, audit remorse studies document that enforcement is closely related to taxpayers' trust in the governance, motivation, dedication and commitment to tax compliance, even balancing concepts of trust and power likely to improve tax compliance significantly.

Theoretically, a good tax administration should consist of three indispensable components—determination of tax, calculation of tax and payment of tax (Shome, 2019). The modern-day tax administration is a complex system that intends to achieve multiple objectives ranging from raising revenues to social and economic well-being. Consequently, the legislation brings amendments to tax laws, tax bases and tax rates; restructures organisation; rationalises tax filing procedures and imparts rigorous training to tax officers. In developing economies like India, the tax administration confronts tough challenges regarding an inadequate workforce, poor compensation structure, growing numbers of taxpayers and abysmal support from the accounting and legal fraternities. Such a challenge is further intensified by the unrealistic pressure to meet the tax revenue collection target per geographical area, even exploring the untapped avenues. Consequently, a poor state of tax administration creates a stumbling block for optimum tax compliance, a higher compliance cost and a growing litigation rate.

The post-liberalisation era witnessed several committee recommendations about tax reforms. P. S. Shome Committee on Tax Administration Reforms (2014 & 2015), Vijay Kalker Committee on Direct and Indirect Taxes (2002), P.S. Shome Advisory Group on Tax Policy and Tax Administration (2001) and Raja J. Chelliah Committee on Tax Reforms Committee (1991, 1992 & 1993) are prominent. In the last three decades, the Indian tax system witnessed sea changes, from simplifying the assessment and filing procedures, rationalising tax rates in line with global trends, widening tax bases and entering bilateral and multilateral tax treaties with tax haven countries. However, related literature suggests that entering tax treaties will unlikely reduce TE (De Simone et al., 2020). Tax reforms are being introduced; to date, the core objective of the tax administration confines revenue collection with minimal distortions and plugs the loopholes, resulting in a piling up of litigation in different judicial fora. The Indian taxation saga pictures an infamous faceoff between the taxpayers and tax officers for exemptions, deductions and disallowed expenses. Indiscriminate serving of notices and frequent amendments in tax laws, even retrospectively, likely created a phobia of 'tax terrorism' in honest taxpayers' minds. A long-due direct tax administrative reform for removing the taxpayers' plight and widening the tax base gained momentum in August 2020 by introducing the FAS coupled with the taxpayers' tax charter. The initiative reveals the commitment of the government towards a fair, transparent and citizen-centric robust tax system reinforcing the future of the Indian tax reforms on the pillars of 3Ts—trust, transparency and technology.

## Conclusion

The study explains the Indian direct tax collection contractions and the role of the tax administration in addressing those challenges, particularly by exercising revisional powers of the CIT as per the provisions of section 263 of the ITA. Those revisional powers fall under the broader category of the *enforcement paradigm,* which certainly has its inherent contribution to tax collection. Albeit the enforcement measures significantly improve tax compliance and collection, the substantial role of trust/social approaches still needs to be refuted (Chan et al., 2023). Literature documents that pre-fill the filing of tax returns improve tax compliance significantly (Doxey et al., 2021), and the Indian tax administration can motivate taxpayers in line with these research findings. As peer effects enhance tax compliance (Chan et al., 2023), the tax administration could inspire taxpayers for such compliance by arranging awareness programmes and felicitating the consistent tax-compliant assessees. As moral suasion is likely to increase tax compliance (Torgler, 2022), policymakers may chalk out tax policies which could comply with more taxpayers.

Reverting to tax administration, the extensive use of information, communication and technology (ICT), such as artificial intelligence (AI), Big Data and the Internet of Things, has become embedded and inherent in any tax administration. However, endogenous research suggests a need for more empirical evidence indicating the achievement of objectives of efficiency, effectiveness and taxpayer satisfaction through robust ICT development (Mallick, 2021). Interestingly, despite significant investments in ICT in developed and developing economies, the desired objectives are unlikely to be achieved (Omar et al., 2020). As the tax system is highly dependent on its ecosystem, adopting ICT is unlikely to lead to its success (Kochanova et al., 2020). Motivated by global experience, Indian policymakers have attempted to rationalise the direct and indirect tax systems during the last decade. Several steps, including FAS and mandatory e-filing, are prominent, but controversy and tax litigation remain. Moreover, with the extensive e-filing in developed countries, there are unlikely increases in the e-filing rate (Mashabela & Kekwaletswe, 2020). Consequently, mere ICT adoption could unlikely bring significant changes in the Indian tax system. Critical issues such as TE and tax disputes could likely report a downfall through the enactment of the VSV Act, other amnesty schemes, FAS and robust use of ICT, but controversy remains.

The 'World Bank's Paying Taxes' Study Report, 2020, indicates India ranked 115, a poor tax compliance state (PWC, World Bank Group, 2020). Considering such stigma and substantial blocked revenues in litigation, the government promulgated the VSV Act, 2020, and launched the FAS scheme to rationalise tax compliance. Those steps are commendable, indicating the government's preference for tax collection strategies—either extending the service and trust or through enforcement. Theoretically, as progressive taxation is a direct tax, such as income tax, as a proportion of GDP should consistently grow; such growth would be more than the growth rate of indirect tax. Nevertheless, during the last decade, this proportion reports a significant downfall. Surprisingly, the indirect tax-to-GDP ratio has suppressed the former since 2013–2014; albeit in 2021–-2022, the former supersedes the latter and reports 5.97%. However, the government estimates that in 2022–2023, the former would exceed 5.5%, and the latter would reduce to 5.2% (Mishra, 2021). In the last couple of years, the government's role in increasing direct tax collections from untapped sources and widening the tax base has been significant. However, the government faced intense criticism for creating an environment of 'tax terrorism'. Taking into cognisance honest taxpayers' hardships and as a damage control measure against the stigma of alleged 'tax terrorism', in August 2020, the government launched a platform for 'Transparent Taxation-Honouring the Honest' along with FAS and a tax charter for the taxpayers and tax officers. A critical review of all those measures indicates that the government prefers combining different strategies like *enforcement, service* and *trust/ social paradigms* in tax compliance, as affirms the literature (see Boulding, 1981).

The government needs to adopt a multi-dimensional approach for higher tax compliance, acknowledging a broad spectrum of underlying factors and motivations for tax compliance. The government may apply a slippery slope framework for synthesising facets of enforcement and voluntary tax compliance since successful tax collection is unlikely an orchestra of exercising power. Threats that could motivate immediate tax compliance could be more problematic for long-term commitments. The government should emphasise high net-worth individuals such as celebrities, business tycoons and politicians instead of targeting salaried taxpayers and small businesses. Revenue could provide videos, short stories and news of honest taxpayers (the role models) on its website, likely accelerating tax compliance. However, the commitment effect enhances tax compliance, that is, taxpayers who discharged their tax obligations earlier are likelier to be tax compliant. Furthermore, Revenue could use digital technologies and AI to reduce transaction costs while giving positive feedback through awards and rewards to honest taxpayers, which, in turn, is likely to improve tax compliance, as research indicated (Koessler et al., 2019); however, the success rate is unimpressive (see Kochanova et al., 2020).

The study offers multiple *practical implications* for stakeholders such as the government, Revenue, taxpayers, tax practitioners and tax researchers. First, results can be widely applicable to governments attempting to raise their tax systems' efficiency and equity. Second, upholding the CIT's revisional power for Revenue's interest against the erroneous orders of the AOs has its linkage in literature, which documents that stricter tax enforcement significantly impacts the optimal shape of the tax schedule (Rubolino, 2023). Third, the judgement fortifies India's robust tax enforcement system, as third-party information could spur tax complaints but be challenging in weak tax enforcement economies. Fourth, the judgement could be a clarion call for the errant AOs to refrain from passing erroneous assessment orders, predominantly against Revenue's interest. However, the lack of expert AOs could likely lead to passing erroneous orders and improved tax administration, that is, a higher staff-to-taxpayer ratio could significantly boost tax collections, as literature reported (Basri et al., 2022). Fifth, in light of the study, Revenue could revisit blocked income tax amounts in litigation, particularly pending before the CITs, as the government could finance public goods through higher tax rates despite significant under-compliance and tax revenues stuck in litigation, which significantly affect public goods quantitatively and qualitatively compared to financing those stemming from non-tax revenues. Sixth, the judgement is likely to catalyse a quick settlement of tax disputes and shun the chances of TE. It will further demotivate if there is any remote alleged unholy nexus between the assessees and AOs since the CITs could reverse the AOs' erroneous and biased assessment orders. Seventh, tax practitioners could use the report to revisit their clients' tax planning, as mere satisfaction of the AOs would only sometimes serve their clients' purposes. Accordingly, they could chalk out tax planning complainants with tax laws and advise their clients to avoid TE. Finally, the study could demotivate TE and improve financial development, as the CIT is empowered to reverse AO's erroneous assessment orders that are hurting Revenue's interest. It affirms the concurrent validity of recent research, which underscores a negative correlation between financial development and TE (Allam et al., 2024).

The users of the study report should consider its *limitations* before generalisation. It prefers a qualitative design, and the inherent characteristics of this design limit the study results. It confines itself to a sole objective regarding tax collection contractions and its probable solution in the backdrop of the SC ruling.

Consequently, *future research* could address the implications of judgement in tax collection and litigation rate reduction using databases and primary data collected from different stakeholders. Future empirical studies could consider multiple variables and robust statistical tools to provide better insight into the research problem, as the trend indicated in the current study. The excluded variables, such as the association between financial development and TE, the size of the shadow economy, and financial market development, could be studied in the future by proxying the SC ruling. Additionally, empirical research could investigate whether the ruling could significantly demotivate TE and increase tax complaints, surging tax collections and diminishing Revenue's litigation expenses. Future studies could address the public finance effects of stricter tax enforcement, specifically how the SC ruling could impact tax compliance, tax collection contractions and managing tax disputes and litigation.

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