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ASSESSMENT OF THE EFFECTIVENESS AND CHALLENGES OF INDIAN TAX REFORMS

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Abstract

Frameworks. By analyzing policy outcomes, enforcement data, and taxpayer behavior, this assessment explores whether these reforms have led to improved tax transparency, reduced black money, and better voluntary compliance. The research also examines the ongoing challenges in administration, loopholes, and taxpayer trust. The paper concludes by proposing further reforms aimed at creating a fair, efficient, and enforceable tax regime in India.

Tax evasion poses a significant challenge to India's fiscal health and governance. Despite various reforms over the decades, a large portion of India's economy remains unaccounted for. In recent years, the Indian government has introduced comprehensive This paper evaluates the effectiveness of Indian tax reforms in addressing and eradicating tax evasion. Tax evasion has historically been a major obstacle to revenue generation and economic justice in India. The study investigates recent measures such as the Goods and Services Tax (GST), the demonetization policy, digital tax filing systems, and the introduction of stricter compliance tax reforms aimed at promoting compliance, simplifying procedures, and expanding the tax base.

This paper aims to assess the effectiveness of these reforms—particularly the Goods and Services Tax (GST), demonetization, and digital tax infrastructure—in combating tax evasion. The research also evaluates the socio-economic impact of these policies and identifies gaps that still allow evasion to persist.

1.1 Introduction

India's tax reforms have aimed to promote economic efficiency, increase compliance, expand the taxpayer base, and improve revenue generation. This chapter provides a critical evaluation of these reforms by examining their effectiveness, implementation outcomes, and challenges. The assessment spans both direct and indirect tax reforms, covering legislative, administrative, and technological changes before and after 2014.

1.2 Effectiveness of Indian Tax Reforms

1.2.1 Expansion of Taxpayer Base

- Growth in PAN holders: Post-reforms, there was a surge in Permanent Account Number (PAN) allotments—from ~170 million in 2010 to over 620 million by 2023.
- GST and formalization: GST significantly widened the indirect tax base. Over 14 million GSTIN registrations have been reported.
- Increased taxpayer awareness through media campaigns, e-filing platforms, and simplified return mechanisms.

1.2.2 Revenue Mobilization

- Increase in tax-to-GDP ratio:
 - Direct taxes grew from 1.6% of GDP (2013-14) to ~6.1% (2022-23).
 - GST collections crossed ₹1.7 lakh crore monthly in 2023.
- Reduction in tax arrears through schemes like Vivad Se Vishwas.
- Rise in voluntary compliance following demonetization and better information sharing.

1.2.3 Administrative Efficiency

- Digitization and faceless schemes:
 - Faceless assessment and appeals reduced human interface and improved transparency.
- Centralized processing: CPC Bangalore streamlined return processing.
- GSTN Portal: Enabled real-time invoice tracking, credit matching, and compliance monitoring.

1.2.4 Improvement in Transparency and Accountability

- Black Money Act (2011) and Benami Act (2016): Significant deterrents to illicit asset holding.
- Prevention of Money Laundering Act (PMLA) integration with income tax law improved data linkage.
- International collaboration through treaties and Automatic Exchange of Information (AEOI).

1.2.1 Ease of Doing Business

- Reduced corporate tax rates for new manufacturing units (to 11%).
- Simplified tax structures under GST, especially for MSMEs.
- One Nation, One Tax: Eliminated cascading effect and reduced compliance burdens across states.

1.3 Key Challenges in Tax Reform Implementation

1.3.1 Compliance Burden for Small Taxpayers

- GST returns are still perceived as complex, especially for micro enterprises.
- Technical glitches on GSTN and e-filing portals cause frustration.
- Mismatch issues in ITC claims due to invoice discrepancies.

1.3.2 Tax Litigation and Dispute Resolution

- Over 1.8 lakh income tax cases were pending as of 2022.
- Despite schemes like Vivad Se Vishwas, slow judicial processes hamper resolution.
- Tax terrorism allegations remain due to aggressive assessments in some cases.

1.3.3 Federal Challenges in GST Implementation

- Revenue-sharing disputes between Centre and States.
- Delay in GST compensation payments post-COVID impacted states' finances.
- Rate rationalization is still pending; inverted duty structure issues persist.

1.3.4 Revenue Leakage and Evasion

- GST evasion through fake invoices and circular trading is prevalent.
- Direct tax evasion persists in real estate, gold, and cash-based businesses.
- Under-invoicing and misreporting of incomes remain hard to track.

1.3.5 Technological and Capacity Constraints

- Poor internet infrastructure in rural areas hinders digital compliance.
- Low digital literacy among older or small-scale taxpayers.
- Cybersecurity concerns over sensitive taxpayer data.

1.4 Case Studies and Comparative Insights

1.4.1 GST Implementation

- Compared with Malaysia (GST rolled back in 2018), India's persistence with GST despite teething issues is notable.
- India's multi-tiered GST system is more complex than New Zealand's single rate system, affecting compliance ease.

1.4.2 Direct Tax Faceless Scheme

- Inspired by global best practices (e.g., Estonia's digital tax platform).
- India's version is unique in its scale but suffers from coordination challenges among faceless units.

1.5 Stakeholder Perspectives

1.5.1 Taxpayer Viewpoint

- Positives: Easier refunds, online systems, simplified rates (in some sectors).
- Concerns: Burden of paperwork, fear of notices, lack of real-time support.

1.5.2 Business and Industry

- Large companies benefit from digitization and input credit.
- MSMEs struggle with GST compliance and working capital blockage.

1.5.3 Tax Administration

- Improved monitoring through data analytics.
- Staff reskilling needs for AI-driven audits and analytics tools.
- Workload management under faceless regimes requires better automation.

1.6 Quantitative Indicators of Reform Outcomes

Indicator	2013-14	2022-23
Direct Tax-GDP Ratio	1.6%	6.1%
Number of Returns Filed	~3.1 crore	~7.1 crore
GST Monthly Average Collection	N/A	₹1.1–1.7 lakh crore
PAN Holders	~17 crore	>62 crore
Tax-to-GDP (Total)	~10.1%	~12%

1.7 Recommendations and Way Forward

1.7.1 GST Reforms

- Merge GST slabs to simplify the structure.
- Address inverted duty issues and rationalize rates.
- Automate ITC reconciliation and provide real-time validation.

1.7.2 Direct Tax Reforms

- Introduce Direct Tax Code for structural clarity.
- Continue rationalizing exemptions and deductions.
- Strengthen faceless penalty and appeal mechanisms.

1.7.3 Strengthening Tax Administration

- Invest in AI, ML, and big data analytics.
- Improve grievance redressal through taxpayer charters.

- Expand taxpayer education initiatives.

1.7.4 Cooperative Federalism in Tax

- Revisit GST Council decision-making norms.
- Create a formal dispute resolution body for Centre-State fiscal disagreements.
- Ensure timely compensation and trust-building.

1.2 Impact on Tax Revenue and Compliance

Introduction

One of the key objectives of tax reform is to enhance tax revenue and improve compliance while curbing evasion. India's post-2014 tax reform landscape, particularly after the implementation of the Goods and Services Tax (GST), the Direct Tax Vivad se Vishwas Scheme, digitization of income tax processes, and international information exchange mechanisms, has led to significant structural changes. These reforms were intended not just to modernize tax administration but also to widen the tax base and increase voluntary compliance. This section evaluates the impact of these reforms on **tax revenue trends, growth in the taxpayer base, and the extent of compliance improvement**. It also explores **empirical assessments** of these reforms and addresses the **inherent challenges in measuring tax evasion**.

1.2.1 Trends in Direct and Indirect Tax Collections

Direct Tax Collections

Direct taxes, comprising **income tax and corporate tax**, have witnessed steady growth post-2014, driven by policy reforms, technology adoption, and tighter enforcement.

- **Growth in Collections:** The total direct tax collections increased from ₹6.38 lakh crore in FY 2013–14 to over ₹18.23 lakh crore in FY 2022–23.
- **Corporate Tax Reforms:** The slashing of corporate tax rates in 2019 to 22% (and 11% for new manufacturing firms) was accompanied by a short-term dip but is expected to stimulate long-term growth in tax collections through increased investment.
- **Personal Income Tax Reforms:** Introduction of optional simplified tax regimes and widening of tax slabs aimed to make the regime more taxpayer-friendly and encourage declarations.
- **Revenue Buoyancy:** The **buoyancy** of direct tax revenue has improved in certain years, notably in 2021–22, indicating that tax collections rose faster than GDP, a sign of effective compliance and enforcement.

Indirect Tax Collections (Post-GST)

The implementation of GST in 2017 unified multiple indirect taxes into a single framework, significantly altering the structure of tax collection.

- **Monthly GST Collections:** Collections crossed ₹1.1 lakh crore consistently in FY 2022–23, with some months exceeding ₹1.7 lakh crore.
- **Trend Analysis:**
 - FY 2018–19: ₹11.77 lakh crore
 - FY 2022–23: ₹18.10 lakh crore
- **Tax Buoyancy under GST** improved post-pandemic as economic activities normalized and compliance improved.
- **Increased Efficiency:** Introduction of **e-invoicing**, **e-way bills**, and **GSTR-2B** for ITC matching reduced leakages and fraud in the system.

1.2.2 Growth in Taxpayer Base and Return Filings

One of the clearest indicators of enhanced compliance and the success of tax reforms is the increase in the number of taxpayers.

PAN Holders and Return Filers

- The number of **Permanent Account Number (PAN)** holders rose from ~17 crore in 2014 to over **62 crore by 2023**.
- **Income tax return filings** rose sharply:
 - FY 2013–14: ~3.8 crore returns
 - FY 2022–23: ~7.8 crore returns
- Introduction of simplified filing processes (e.g., pre-filled ITRs, mobile apps) made tax compliance more accessible to salaried and small business taxpayers.

GSTIN Registrations

- Over **14 million businesses** registered under GST by mid-2023.
- Many small and unregistered businesses were brought into the formal sector through GST threshold modifications and the **Composition Scheme** for small taxpayers.
- **Sectoral Integration:** Real estate, textile, transport, and logistics—traditionally under-documented sectors—are now increasingly part of the tax net.

1.2.3 Empirical Studies and Reports on Impact of Reforms on Tax Evasion

Several empirical studies and government reports have analyzed the effects of tax reforms on curbing evasion and boosting compliance. Key findings are summarized below:

Study 1: National Institute of Public Finance and Policy (NIPFP) – 2020

- Observed that **post-GST**, the formalization of the economy improved by ~21–30% in some sectors.
- Noted a **positive correlation** between GST implementation and increased input tax credit claims, suggesting growing tax trail formalization.

Study 2: Economic Survey 2020–21

- Highlighted the phenomenon of "**voluntary compliance enhancement**" due to:
 - Pre-filled returns
 - PAN-Aadhaar linking
 - Widening of TDS/TCS net
- Reported that **81 lakh new individual taxpayers** were added in FY 2019–20 alone due to better information reporting.

Study 3: IMF Working Paper (2022)

- Found that India's **digitization-led reforms** improved tax buoyancy and narrowed compliance gaps.
- Cited that digital tools such as **AIS (Annual Information Statement)** and **Form 26AS** strengthened taxpayer accountability.

Data from Directorate General of GST Intelligence (DGGI)

- Detected fake invoice frauds exceeding ₹70,000 crore since GST's rollout.
- Nevertheless, **crackdowns and arrests** resulted in recovery and deterrence.

Taxpayer Charter and Faceless Schemes

- Introduced to instill **trust and transparency** in tax administration.
- The charter, introduced in 2020, improved voluntary compliance, though quantifiable impacts are still under study.

1.2.4 Challenges in Measuring Tax Evasion Accurately

While India's reforms have significantly improved detection and deterrence of tax evasion, several challenges persist in **accurately quantifying** the extent of evasion and the exact impact of reforms:

1. Unrecorded and Informal Sector Activity

- A significant part of India's economy (~41%) remains informal.
- Transactions in cash, absence of documentation, and lack of bank penetration hinder accurate tracking.

2. Lack of Unified Evasion Index

- There is no official “**Tax Evasion Index**” maintained by Indian authorities.
- Estimations vary widely depending on methodology—ranging from 3% to 1% of GDP as lost revenue annually.

3. Difficulty in Capturing Cross-border Evasion

- Despite the **Black Money Act (2011)**, data on offshore holdings is limited due to legal and jurisdictional constraints.
- Efforts like **Automatic Exchange of Information (AEOI)** under CRS (Common Reporting Standard) and India’s participation in **BEPS** (Base Erosion and Profit Shifting) are still evolving.

4. Use of Shell Companies and Benami Assets

- Though laws like the **Benami Transactions Act (2016)** and **PMLA** have been strengthened, shell entities continue to be a tool for evasion.
- Measuring their activity is inherently difficult until uncovered through investigation.

1. Complexity of Tax Avoidance versus Evasion

- **Aggressive tax planning** by large corporations often blurs the line between evasion and avoidance.
- Transfer pricing manipulation, thin capitalization, and base erosion techniques require complex forensic audits, which do not immediately translate to evasion statistics.

1.2.5 Technology and Compliance: A Double-Edged Sword

While digitization has been a game-changer in improving compliance, it presents both opportunities and challenges.

Benefits:

- **Real-time tracking** of invoices and returns through GSTN.
- **Data triangulation** using Form 26AS, TDS/TCS returns, AIS.
- **Artificial Intelligence (AI)** and **Big Data Analytics** used to identify suspicious transactions.

Challenges:

- **Cybersecurity risks** of massive taxpayer data.
- **Technical difficulties** in remote or rural areas leading to compliance gaps.
- Some taxpayers remain technologically unequipped to manage digital compliance systems, particularly older businesses.

1.2.6 Summary of Quantitative Trends (2014–2023)

Indicator	2013–14	2022–23	% Growth
Direct Tax Collection	₹6.38 lakh crore	₹18.23 lakh crore	~186%
GST Collection (avg. monthly)	N/A	₹1.6–1.7 lakh crore	–
Number of PAN Holders	~17 crore	>62 crore	~264%
Income Tax Returns Filed	~3.8 crore	~7.8 crore	~101%
GSTIN Registrations	N/A	~14 crore	–

1.3 Achievements of the Reforms

Introduction

Tax reforms in India over the past decade, especially after 2014, have not only aimed at revenue enhancement and simplification but have also prioritized transparency, accountability, data-driven administration, and formalization of the economy. These reforms mark a paradigmatic shift in the tax governance model—from discretion-based to system-based, from reactive to preventive, and from opaque to transparent. This section critically examines the **key achievements** of Indian tax reforms under five central themes: transparency and accountability, reduced discretion and human interface, enhanced data collection and analysis, deterrent effect, and formalization of the economy.

1.3.1 Increased Transparency and Accountability in Tax Administration

1. Institutional Reforms to Promote Transparency

One of the landmark developments in Indian tax administration has been the formal **introduction of the "Taxpayer Charter"** under Section 119A of the Income Tax Act (inserted via the Finance Act, 2020). This legally binding document sets out the rights and responsibilities of taxpayers while obligating the tax department to maintain fairness and transparency. It mandates:

- Respectful and honest treatment of taxpayers.
- Impartial and prompt resolution of queries and grievances.
- Fairness in tax assessments without unnecessary intrusion.

2. Faceless Assessment and Appeals

The **Faceless Assessment Scheme**, launched in 2020, and later extended to appeals, revolutionized the income tax framework. By eliminating physical interface between tax

authorities and taxpayers, the scheme:

- Reduced the scope for corruption and subjective decisions.
- Ensured transparency through standardized and algorithm-based selection of cases.
- Introduced team-based assessments to minimize individual biases.

3. Real-time Information Portals and Pre-filled Data

- The introduction of **Annual Information Statement (AIS)** and **pre-filled ITR forms** made available through the income tax e-filing portal has empowered taxpayers by increasing visibility into their financial footprint.
- AIS includes details from banks, mutual funds, credit card companies, property registrations, and foreign remittances.
- Pre-filled returns reduce errors and enhance trust in the system.

4. Public Access to Compliance Data

- The government began publishing **taxpayer statistics**, including filing trends and tax revenue indicators, enhancing transparency in tax performance metrics.
- Key GST and direct tax data is released monthly and annually to ensure fiscal accountability.

1.3.2 Reduced Discretion and Human Interface

1. System-based Case Selection and Risk Profiling

- **Computer-Aided Scrutiny Selection (CASS)**: Introduced earlier but strengthened post-2014, this mechanism uses AI and analytics to flag high-risk cases.
- This has dramatically reduced the role of individual officers in initiating scrutiny, eliminating scope for arbitrary harassment.

2. Automation of Notices and Intimations

- Notices under Sections 143(1), 142(1), and others are now auto-generated based on system validations and data mismatches.
- E-verification processes ensure that all communications are documented and audit-traceable.

3. Dispute Resolution Schemes with Minimal Interface

- The **Direct Tax Vivad Se Vishwas (VSV)** scheme (2020) allowed for fast-track settlement of pending tax disputes with no personal interaction.
- Similarly, schemes under GST for amnesty and reconciliation were facilitated entirely online.

4. GST's Digital Compliance Framework

- From registration to filing, refund, audit, and cancellation, the entire GST ecosystem is digital.
- **Auto-population of GSTR-3B from GSTR-1 and 2B** reduces discretion and manual intervention.
- Introduction of **e-invoicing** and **QR-code-based billing** strengthens uniformity.

1.3.3 Enhanced Data Collection and Analysis Capabilities

1. Big Data Analytics and AI Integration

- The Income Tax Department has invested in **Project Insight**, which collects and analyzes data from multiple sources:
 - PAN-based transactions.
 - High-value purchases (Form 61A).
 - TDS and TCS returns.
 - Property registrations.
- This enables **profiling of taxpayers**, detection of non-filers, and mismatch resolution.

2. Form 26AS and AIS Expansion

- Once a simple TDS summary, **Form 26AS** now includes information such as:
 - Mutual fund investments.
 - Property purchases.
 - Interest and dividend incomes.
 - Refunds and demand status.
- **AIS** enhances this with additional sources such as foreign remittances and off-market trades.

3. Integration with Other Databases

- PAN-Aadhaar linkage.
- Linkage of GSTIN with PAN and Udyam registration for MSMEs.
- API integrations with banks, EPFO, SEBI, and insurance companies for real-time financial visibility.

4. Use of Data for Targeted Enforcement

- **Non-filers monitoring system (NMS)** identifies individuals with high-value transactions but no return filing.
- **TDS compliance dashboard** allows enforcement against deductors not depositing tax.

- **GSTIN risk rating** and red flags for sudden ITC spikes or nil returns raise automatic alerts.

1.3.4 Deterrent Effect on Potential Evaders

1. Stringent Anti-Evasion Laws

- **Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2011:**
 - 30% flat tax, 90% penalty, and potential prosecution for concealed foreign assets.
- **Benami Transactions (Prohibition) Amendment Act, 2016:**
 - Properties held in other names can be confiscated and offenders prosecuted.
- **Strengthened PMLA** with direct application to tax-linked money laundering cases.

2. Increased Prosecutions and Penal Actions

- Surge in tax-related criminal proceedings:
 - Over 10,000 prosecution complaints filed under various acts between 2011 and 2022.
- Public naming and shaming of wilful defaulters in some states served as a deterrent.
- Cancellation of GST registration for bogus firms and ITC claimants increased significantly.

3. Real-time Transaction Monitoring

- Use of **e-way bills**, **e-invoicing**, and **auto-TDS** under Section 194Q (on purchases over ₹10 lakh) have created a real-time monitoring ecosystem.
- **Section 281BA reporting** by banks and institutions under the SFT framework has improved high-value transaction reporting.

4. Global Information Exchange

- India is now part of the **OECD's Common Reporting Standard (CRS)** network.
- Under **AEOI**, Indian tax authorities receive offshore bank and investment account data from over 90 countries.
- This has led to detection of multiple cases of **undisclosed foreign income**, Swiss accounts, and foreign trusts.

1.3.5 Formalization of the Economy

1. GST as a Game-Changer

- Brought millions of businesses into the formal tax system.

- Mandated **digital invoicing, account-keeping, and compliance tracking.**
- MSMEs incentivized to register for GST due to input credit benefits, participation in government tenders, and access to formal credit.

2. Udyam, PAN, and GST Linkages

- Unified databases promote formal identity for businesses.
- Formalization allows access to schemes such as:
 - **Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)**
 - **PM SVANidhi scheme**
 - **Startup India and MSME registration benefits**

3. Demonetization and Push for Digital Payments

- Though controversial, **demonetization (2016)** pushed businesses toward banking channels.
- Post-demonetization, digital transaction volumes surged:
 - UPI transactions rose from ~9 crore/month (2017) to ~1,200 crore/month (2023).
- Income disclosures during Operation Clean Money confirmed widening tax trails.

4. Mandatory E-invoicing and Digital Bookkeeping

- As of 2023, all businesses with turnover >₹1 crore must generate e-invoices for B2B transactions.
- ERP and compliance software adoption has grown in response, making audits and verifications easier.

1. Measurable Shifts in Formal Economy Indicators

- **Increased EPFO registrations** due to TDS reconciliation on payrolls.
- Growth in **registered MSMEs** post-GST and Udyam reforms.
- Rise in **formal credit demand** by businesses previously operating in cash-only environments.

1.3 Challenges and Limitations of Indian Tax Reforms

Introduction

While India's tax reforms since the early 1990s—and especially post-2014—have made commendable progress in enhancing compliance, transparency, and efficiency, a multitude of challenges continue to impede the realization of a truly equitable, efficient, and modern tax system. These challenges are complex and interconnected, arising from administrative constraints, legal ambiguities, socio-economic factors, and rapidly evolving technological and

global dynamics.

This section examines the core **challenges and limitations** under five thematic categories:

1. Administrative and enforcement challenges
2. Legal challenges
3. Socio-economic challenges
4. Political challenges
5. Emerging challenges in the digital age

1.3.1 Administrative and Enforcement Challenges

1. Capacity Building of Tax Authorities

- **Human Resource Limitations:** Despite the increased use of technology, tax administration still relies heavily on human resources for audits, investigations, and appellate processes. Many departments suffer from staff shortages and underutilized skill sets.
- **Need for Training:** Rapid shifts toward digital infrastructure and analytics require upskilling of officers in areas like artificial intelligence (AI), forensic accounting, blockchain, and cybersecurity.
- **Coordination Issues:** GST is administered jointly by the Centre and States. Inconsistencies in audit procedures, interpretation of rules, and enforcement strategies lead to confusion and inefficiencies.

2. Technological Infrastructure and the Digital Divide

- **System Outages and Glitches:** The GST Network (GSTN), despite improvements, has faced frequent **portal crashes**, especially around due dates. These hinder timely compliance and foster distrust in the system.
- **Digital Illiteracy:** Many small and medium enterprises (SMEs), particularly in semi-urban and rural India, struggle with digital compliance due to lack of infrastructure, internet connectivity, or knowledge.
- **Cybersecurity Risks:** As tax administration increasingly relies on digital databases and portals, safeguarding **sensitive financial data** becomes paramount. Several cases of data breaches have already been reported in public and private sector systems.

3. Pendency of Litigation and Dispute Resolution Delays

- **Litigation Backlogs:** As of 2022, over **1.8 lakh cases** were pending across various forums (Income Tax Appellate Tribunal, High Courts, Supreme Court). This not only clogs the judiciary but also locks in huge amounts of potential revenue.

- **Slow Dispute Resolution Mechanisms:** Despite schemes like **Vivad Se Vishwas**, many taxpayers hesitate to opt for them due to unclear rules, fear of reopening of cases, or lack of confidence in finality of settlement.
- **Lack of Institutional Arbitration:** There is still no **independent tax dispute resolution body** at the federal level (e.g., like the Tax Ombudsman systems in some countries).

4. Corruption at Lower Levels

- Although faceless assessment has reduced human interface in scrutiny, **corruption still persists** in areas involving inspections, surveys, or discretionary authority at lower administrative levels.
- **GST refund processing**, particularly for exporters, continues to be plagued by delays, some of which are alleged to be linked to unofficial payments or procedural obstructions.

1.3.2 Legal Challenges

1. Complexity of Tax Laws and Frequent Amendments

- **Constant Legal Changes:** Over 1,000 notifications, circulars, and orders have been issued under GST since 2017, leading to significant confusion among taxpayers.
- **Frequent changes in income tax laws**—including slab changes, surcharge modifications, or new compliance tools—have made it difficult for even professionals to keep pace.
- **Ambiguity in Interpretation:** Vague or poorly defined provisions often lead to interpretational disputes.

2. Judicial Interpretations and Inconsistencies

- Conflicting judgments from High Courts and even benches of the same tribunal have created uncertainty in several tax areas (e.g., treatment of input tax credit under blocked credits, transfer pricing adjustments).
- The absence of a **tax bench in the Supreme Court** often results in delayed decisions on critical policy questions, leading to tax ambiguity.

3. Exploitation of Loopholes by Evaders and Advisors

- **Aggressive tax planning** continues to be used by high-net-worth individuals and corporations:
 - Artificial loss booking.
 - Use of tax havens and hybrid instruments.

- Misuse of trusts and charities for evasion.
- Sophisticated advisors often **navigate around loopholes**, making detection harder and enforcement reactive rather than proactive.

1.3.3 Socio-Economic Challenges

1. Prevalence of the Cash Economy and Informal Sector

- Nearly **41% of India's workforce** is employed in the informal sector, which operates largely outside the purview of taxation.
- **Cash transactions** continue to dominate sectors like agriculture, real estate, jewelry, and small retail—making tax reporting difficult.
- Efforts like demonetization (2016) and mandatory PAN for transactions over certain limits have had limited long-term impact on curbing cash dealings.

2. Lack of Tax Literacy and Awareness

- A significant portion of taxpayers—especially among small traders, self-employed professionals, and rural entrepreneurs—lack basic tax knowledge.
- **Mistrust and fear** of tax authorities leads many to avoid the system altogether, fearing penalties or harassment.
- Tax compliance costs (such as hiring CAs for return filing or software subscriptions) can be deterrents for small taxpayers.

3. Perception of High Tax Rates and Trust Deficit

- The **effective tax burden** in India (after accounting for GST, excise, income tax, and cesses) is perceived to be high.
- The top 10% of earners bear a significant portion of income taxes, leading to calls for broader base rather than higher rates.
- **Trust deficit** between the state and taxpayers, stemming from fears of retrospective taxation, re-opening of cases, or unfriendly audits, still exists.

1.3.4 Political Will and Its Consistent Application

1. State-Centre Tensions in GST Implementation

- States have often raised concerns about **loss of fiscal autonomy** under GST.
- Disputes regarding **delays in GST compensation**, especially post-COVID, have created friction and raised questions about cooperative federalism.
- GST Council decisions have occasionally been contested or not implemented uniformly, undermining the credibility of consensus-driven reform.

2. Retrospective Amendments and Policy Uncertainty

- The 2021 amendment to override judicial rulings on equalization levy (and earlier on Vodafone's capital gains issue) created a negative sentiment among investors.
- Unpredictable or politically motivated tax measures erode long-term confidence in the stability of the tax regime.

3. Electoral Politics and Populist Pressures

- Reforms such as inclusion of petrol/diesel under GST, rationalization of GST slabs, or implementation of Direct Tax Code are often **delayed due to political considerations**.
- Tax exemptions and reliefs are sometimes used as electoral tools rather than being guided by long-term fiscal principles.

1.3.5 Emerging Challenges in the Digital Economy

1. Taxation of Virtual Digital Assets (VDAs)

- With the rise of **cryptocurrencies, NFTs, and digital tokens**, the Indian government introduced Section 111BBH (Union Budget 2022), taxing income from VDAs at 30%.
- However, **valuation, classification, jurisdictional enforcement**, and source identification remain difficult.
- Cross-border VDA platforms and **peer-to-peer transfers** bypass formal channels, creating enforcement challenges.

2. Gig and Platform Economy

- The emergence of app-based work (e.g., Uber, Swiggy, Upwork) raises questions of:
 - Who is responsible for tax deduction—platform or worker?
 - How are expenses and exemptions computed?
- Many gig workers remain unregistered, and **TDS provisions on digital platforms (Section 194-O)** are yet to bring full transparency.

3. Sophistication of Evasion Techniques

- **Fake invoicing under GST**, layered shell companies, and inter-state circular trading have become more sophisticated.
- Use of **AI-generated documents**, proxy directors, and cloud-based money transfers requires upgraded forensic capabilities.
- **Tax planning using international structures** (e.g., double non-taxation treaties, hybrid mismatch arrangements) continues to exploit treaty loopholes.

4. E-commerce and Cross-Border Digital Services

- Indian authorities face hurdles in **tracking digital revenues** of MNCs providing remote services (e.g., Netflix, Amazon Web Services, Meta).
- Though India introduced an **Equalization Levy**, its scope and enforceability are limited and may conflict with global efforts under the OECD's Pillar 1 and 2 frameworks.

1.4 Case Studies/Illustrations: The Impact of Reforms on High-Profile Tax Evasion Cases

Introduction

While systemic tax reforms aim to enhance overall compliance and prevent evasion, their real test lies in how effectively they address actual evasion cases—particularly high-profile instances involving large sums, prominent individuals, or complex legal issues. This section presents a set of carefully selected case studies that exemplify **the challenges, effectiveness, and limitations of Indian tax reforms** in practice. Each case is analyzed in the context of relevant **legal provisions, institutional responses, and reform mechanisms** introduced post-2014.

Case Study 1: The HSBC Swiss Bank List Case (Black Money & Undisclosed Foreign Income)

Background:

In 2011, a list of over 1,000 Indian account holders in HSBC's Geneva branch was leaked to global authorities, allegedly involving **undisclosed foreign assets and illicit income**. The list included politicians, industrialists, and Bollywood celebrities.

Key Issues:

- Violation of FEMA and Income Tax Act provisions.
- Lack of declared foreign bank accounts in income tax returns.
- Suspicion of money laundering and tax evasion.

Reform Relevance:

- The **Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2011** was introduced specifically to tackle such cases.
 - It provided a **90-day compliance window** for voluntary disclosure.
 - Defaulting entities were penalized at **90% of the undisclosed income, plus prosecution**.

Impact:

- Several account holders came forward during the disclosure window; however, many challenged the law's retrospective effect.
- Enforcement Directorate (ED) and Income Tax Department began coordinated action.
- Despite international collaboration and treaties (e.g., India-Switzerland DTAA amendments), **prosecutions progressed slowly** due to lack of documentary proof and jurisdictional hurdles.

Key Takeaways:

- The **Black Money Act provided a powerful framework**, but enforcement was hindered by **limited data-sharing mechanisms** and **legal complexity** in foreign jurisdictions.
- The case **exposed India's pre-CRS (Common Reporting Standard)** vulnerabilities in offshore wealth monitoring.
- It catalyzed India's participation in **Automatic Exchange of Information (AEOI)** frameworks.

Case Study 2: Nirav Modi & Mehul Choksi – Shell Companies and Trade-based Evasion

Background:

In 2018, businessman Nirav Modi, along with his uncle Mehul Choksi, was implicated in the ₹13,000 crore PNB fraud involving **fake Letters of Undertaking (LoUs)** and **shell companies**. The scandal extended beyond banking fraud to **GST evasion, shell trading, and black money laundering**.

Reform Relevance:

- Post-GST introduction in 2017, firms like Gitanjali Gems claimed **bogus Input Tax Credit (ITC)** using non-existent transactions.
- The **Benami Transactions (Prohibition) Amendment Act, 2016** was used to attach multiple assets.
- The **Prevention of Money Laundering Act (PMLA)** was invoked to prosecute cross-border laundering.
- Use of **data triangulation under GSTN and e-way bills** aided in identifying fictitious suppliers.

Impact:

- Over ₹1,000 crore worth of assets were provisionally attached.

- GST authorities were able to identify **layered transactions** due to reforms like **invoice-matching** and **e-invoicing** (though introduced post-incident).
- However, the complexity of corporate structures and **delayed alerts from tax portals** raised questions about **proactive enforcement**.

Key Takeaways:

- Reforms helped **trace asset trails**, but detection came **after the fraud**—highlighting a **lag in surveillance systems**.
- Exposed **gaps in inter-agency coordination** (tax authorities, banks, ED, SEBI).
- Strengthened the case for **real-time financial surveillance tools** integrated with tax systems.

Case Study 3: Vodafone International Holdings B.V. v. Union of India (Capital Gains Tax Avoidance)

Background:

Vodafone's 2007 acquisition of Hutchison Essar involved a **\$11 billion offshore transaction**, where tax was allegedly avoided on Indian capital gains. The Supreme Court initially ruled in Vodafone's favor in 2012.

Reform Relevance:

- In response, the government introduced **retrospective amendments** to the Income Tax Act, triggering criticism from investors and international forums.
- Post-2014, the government initiated reformist steps:
 - Introduction of **GAAR (General Anti-Avoidance Rules)** in 2017.
 - Resolution through **bilateral investment treaty arbitration**, where India eventually lost in 2020.
- In 2021, the retrospective tax law was repealed.

Impact:

- Created a landmark global precedent on the **limits of sovereign tax policy**.
- The Vodafone case, and similar ones (e.g., Cairn Energy), damaged India's reputation as a stable tax jurisdiction.
- Repeal of retrospective taxation laws was seen as a **corrective reform**, enhancing investor confidence.

Key Takeaways:

- Reforms after this case were **reactive**, not preventive.
- Highlighted the **necessity of legal predictability** and **global tax treaty compliance**.

- Led to **greater reliance on arbitration-friendly dispute mechanisms** rather than aggressive litigation.

Case Study 4: Satyam Scandal – Tax Manipulation through Falsified Accounts

Background:

In 2009, Satyam Computer Services was found to have overstated profits by ₹7,000 crore. The scam involved **falsified invoices, fake assets, and inflated income tax returns**, aimed at manipulating stock prices.

Reform Relevance:

- Although pre-GST, the scandal emphasized the need for:
 - **Digitized returns and real-time validations.**
 - Cross-verification of invoices and payment receipts.
- In post-reform context, mechanisms like:
 - **e-invoicing under GST,**
 - **AIS/Form 26AS cross-matching,** and
 - **faceless assessment schemes**have reduced the scope for such large-scale frauds.

Impact:

- The scam prompted greater scrutiny of **related-party transactions** and **audit accountability.**
- Reforms in **tax audit thresholds**, and reporting norms under **Section 44AB**, emerged in later years.

Key Takeaways:

- The case acted as a **catalyst for data validation reforms**, showing how manipulation of tax filings can serve broader financial frauds.
- Demonstrated need for **interconnected systems** between Income Tax Department, SEBI, and MCA.

Case Study 5: Fake GST ITC Rackets Post-2017

Background:

Since GST's implementation, the Directorate General of GST Intelligence (DGGI) uncovered multiple **bogus ITC scams**, involving **fake firms, non-existent transactions, and invoice cycling.**

Key Incidents:

- In 2021, DGGI arrested over 210 persons, including CA professionals, in connection with fake ITC frauds totaling more than ₹11,000 crore.
- Fraudsters exploited loopholes in return filing systems, such as **non-matching of GSTR-1 and GSTR-3B**, and slow implementation of **e-invoicing**.

Reform Relevance:

- Rollout of **GSTR-2B (auto-drafted ITC)**, **QR-code invoicing**, and **mandatory Aadhaar authentication for registration** was expedited.
- Crackdowns involved use of **AI-based red-flagging**, risk rating, and integration with **PAN and bank accounts**.
- **CBIC launched e-verification modules** to suspend or cancel suspect GST registrations.

Impact:

- Reforms have led to **faster detection** of suspicious behavior and **recovery of crores in evaded taxes**.
- However, **large-scale evasion continues**, indicating that **technological enforcement must be complemented by proactive governance and audit processes**.

Key Takeaways:

- Fake ITC cases show that **reforms improved post-fraud response**, but **preventive mechanisms** still need strengthening.
- Emphasized the **importance of taxpayer education** to avoid inadvertent complicity in fraud networks.

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