

INTERNATIONAL JOURNAL FOR LEGAL RESEARCH AND ANALYSIS



Open Access, Refereed Journal Multi-Disciplinary
Peer Reviewed

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THE GHOST IN THE MACHINE: ARTIFICIAL INTELLIGENCE VS GAAR IN INDIA

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Abstract

Artificial Intelligence has been a system and tax administration that has transformed the manner in which tax compliance and tax avoidance occurs. In India the government has come up with the General Anti-Avoidance Rules of the Income Tax Act to prevent the manner in which people avoid taxes. But with the advent of Artificial Intelligence technologies, such as machine learning and automated decision-making systems, things are now even more complex. In this paper, the author discusses the operation of the Artificial Intelligence and the General Anti-Avoidance Rules in India. According to it, it is possible to evade taxes using Artificial Intelligence but it can as well be used by the government to implement tax rules. The issue is that Artificial Intelligence causes difficulties in determining who evades paying taxes since it is not always obvious who took the decision.

The paper examines the legislations and regulations that regulate taxes as well as the actions of other countries in addressing tax evasion. It also examines the application of Artificial Intelligence by the Indian government in enforcing tax laws including ensuring that individuals abide by GST laws. Such applications include risk profiling and automated scrutiny, all of which are being performed using Artificial Intelligence. The paper says that while the General Anti-Avoidance Rules are still important for stopping tax avoidance they need to be updated to deal with the challenges posed by Artificial Intelligence. It recommends that the government ought to reform the laws under Artificial Intelligence in a transparent manner to build capacity of tax institutions and collaborate with other nations to ensure that tax regime is equitable. This will contribute towards the establishment of a transparent and accountable tax ecosystem. The use of Artificial Intelligence, in tax administration is an issue that needs to be addressed and the General Anti-Avoidance Rules need to evolve to address the challenges posed by Artificial Intelligence.

1. Introduction

Our lifestyles with technology are evolving at an extremely rapid pace. This is most so when it comes to the economy. The modes of tax collection by countries. One of the changes, which are currently occurring, is Artificial Intelligence or AI in short. It is transforming the manner in which individuals abide by tax regulations and the manner in which they strategize on their taxes. India is among those nations which are rapidly expanding in digital world. It is applying technology in gathering taxes such as data analysis and automation. India is at a time when it needs to ensure that people do not evade paying taxes hence they have come up with General Anti-Avoidance Rules. GAAR is a transformation in the way India handles individuals that attempt to evade payment of taxes. It was launched in 2012. Started being used in 2017. According to GAAR, when a person is evading paying taxes in an unfair manner the tax authorities will be able to intercept. It is a change of the manner in which the things were done in the past since currently the tax authorities are in a position to examine every case and come up with what is just. The gist of GAAR is that individuals are supposed to pay taxes on what is actually occurring and not only what is enshrined in the law.

However, with AI becoming more a part of our financial systems things are getting more complicated. AI has the capacity to analyze a plethora of data to save money on taxes and do all this in a short time. This implies that individuals are not those who are evading paying taxes. Computers are doing it as well. This leaves numerous questions as to how GAAR is going to work in a world where AI is doing most of the decisions. Of interest here is the concept of The Ghost in the Machine. It discusses the possibilities of machines to make decisions that are not comprehensibly known to us. This becomes an issue in taxes since the issue at hand is whether one is doing something or not and we need to know why. When the decisions are being made by a computer, then one cannot know what is happening. There is an opinion that AI will simplify the task of collecting taxes and make it more effective. They say it can assist nations to raise taxes and ensure that citizens are obeying the regulations. Some are concerned that AI will make it harder to understand what is happening, and ensure that everyone is playing fair. Goods and Services Tax AI is already being implemented to collect taxes in India. The government is examining tax returns on computers to locate those who are not paying their due. It also implies that AI allows big corporations that have ample funds to seek a method of evading taxation and that may complicate the ability of the government to keep pace. So, we need to take another look at GAAR and how it works with AI. GAAR remains to be quite significant in ensuring that individuals do not evade paying taxes. It was made to fit into a

world where the decision-making process was in the hands of the people. Now AI is making more decisions and we have to determine how to make GAAR work in this new world. The paper will discuss the interaction of AI and GAAR, both technologically and policy-wise. It will explore what is not working and will analyze the practice of other countries. Lastly, it will propose a few changes that can be made to ensure that AI is utilized in a fair and transparent manner.

2. Research Questions

1. What is the impact of Artificial Intelligence on the tax avoidance strategies in India?
2. How far can GAAR go in countering AI-based tax evasion schemes?
3. What are some of the limitations of GAAR when it comes to handling algorithmic decision-making?
4. What are ways to use AI to improve enforcement by tax authorities?
5. What do the legal and policy changes to bring AI and anti-avoidance into alignment?

3. Methodology

The present research uses a simple method of examining the interaction between Artificial Intelligence and the General Anti-Avoidance Rules in India. Since this paper is on law and technology, we adopted a layered method to ensure that we get a clear understanding of the ideas that can be analyzed deeply and understand how they can be connected with the rules.

3.1 Nature of Research

This research is primarily concerned with interpretation of the laws and regulations as regards tax avoidance and computer regulation in India. We examined legislative acts, judicial rulings and policy guidelines governing these aspects. The kind of research is appropriate in comprehending the General Anti-Avoidance Rules since it allows us to examine the concept behind such rules like examining the true meaning behind things not only how they appear but to ensure that things are done with a true business purpose. Another way in which technology, particularly Artificial Intelligence influences taxation was also considered at the time. It assists us in comprehending the functioning of Artificial Intelligence systems with regard to taxes and their implications. Through integrating the viewpoints of technology, we are able to observe the interaction of the rapidly evolving world of Artificial Intelligence and the more fixed legal systems.

3.2 Sources of Data

Our research was conducted using only available information as it is typical of legal research. This information can be classified into two categories, namely, primary and secondary legal materials.

3.2.1 Primary Legal Sources

Our key sources are:

Part 1, section 199(1): Income Tax Act 1961, the sections relating to the General Anti-Avoidance Rules.

Any changes to the Finance Act of 2012.

- Official circulars and explanations about how the General Anti-Avoidance Rules are implemented
- Critical components of the Goods and Services Tax system that makes use of Artificial Intelligence to comply.

We also considered notable court cases to see how judges have reasoned over the years regarding tax avoidance. The cases such as the one between Vodafone International Holdings BV and the Union of India and another one between the Union of India and Azadi Bachao Andolan allowed us to observe how the General Anti-Avoidance Rules can be incorporated into the scheme of the anti-avoidance laws in India.

3.2.2 Secondary Sources

We used other sources such as:

Articles on journals on Artificial Intelligence and taxes.

Reports and guidelines of the international bodies such as the Organisation for Economic Co-operation and Development.

Day 2: Policy papers and working papers of Indian think tanks and research institutions.

Books and scholarly literature on the use of algorithms in government and legal theory.

Through these sources, we were able to have valuable insights into the theory and practice of using Artificial Intelligence in tax governance.

3.3 Analytical Framework

We used a critical approach to evaluate if the current General Anti-Avoidance Rules are enough to deal with tax avoidance that uses Artificial Intelligence. We have based our analysis on three legal concepts:

1. Seeing what things mean not merely the way they appear.
2. Making sure things are done for a business purpose
3. Examining whether the purpose of the main purpose is valid.

We discussed all these concepts within the framework of the decisions made by algorithms to determine any difficulties in the process of comprehending and implementing the rules.

The concepts of: are also used in our study based on the ideas of technology law.

- opacities of algorithms.
- the automatic decision making process.
- gaps in accountability

This strategy will allow us to determine whether the rules of the General Anti-Avoidance Rules are good enough. As well, whether they are able to perform in complex technological settings.

3.4 Comparative Method

To bring our analysis into further depth we applied a legal approach based on consideration of the way other nations approach Artificial Intelligence through tax administration and anti-avoidance regulation. We learned about other countries such as United States, European Union and the members of the Organisation for Economic Co-operation and Development to learn about practices in:

- frameworks for governing Artificial Intelligence
- electronic tax compliance systems.
- algorithmic responsibility standards.

It is beneficial to compare various approaches since the issues of Artificial Intelligence in taxation are not country-specific, and the ways countries react to them are often conditioned by the international trends and international collaboration in terms of taxes.

3.5 Case Study Approach

Despite our study being primarily focused on comprehending the laws we also relied on a narrow case study in order to demonstrate how Artificial Intelligence functions in taxation. An example of using the Artificial Intelligence tools to match the data profiling risks and send automated notices is the use of automated systems to comply with Goods and Services Tax in India. The case study aids in bridging the gap between the analysis and the real practice in the field of administration where algorithmic governance is implemented in the tax administration field.

3.6 Study Limitation.

Although we have approached it in this way, there are few limitations to our study. First Artificial Intelligence technologies are evolving at a fast pace, which is why legal frameworks and practices of administration are continuously evolving. This complicates it to make a judgment on the effectiveness of regulations in the long run. Second since most Artificial Intelligence systems employed by corporations and tax authorities are proprietary and confidential we were unable to obtain technical information. This restricted our capabilities of analyzing algorithms.

In addition, we concentrate primarily on taxation and the General Anti-Avoidance Rules to the Income Tax Act but with some mention on indirect tax systems, such as the Goods and Services Tax. Although such a focus is needed to make our analysis consistent, it may not be exhaustive of all the applications of Artificial Intelligence in taxation.

3.7 Justification of Methodology

The nature of our research question, which is at the crossroads of law, technology and public policy, justifies our approach. Had we simply looked at data it would not have been sufficient since we do not have access to information about proprietary Artificial Intelligence systems. If we had only looked at the laws we would have missed the aspects of algorithmic decision-making. The combination of methods allowed us to ensure the balanced and comprehensive assessment of the impact of Artificial Intelligence on the General Anti-Avoidance Rules. Such a combined methodology enables our study to be useful, not only to the literature on legal education but also to the debate on the future of taxation in the digital era and the future interaction of Artificial Intelligence and the General Anti-Avoidance Rules, in India.

4. Learning GAAR in India.

The General Anti-Avoidance Rules or GAAR is a reform of the Indias tax laws. In a way, GAAR is a means of preventing tax avoidance by people. It was added by the Finance Act in 2012. Started being used from 1 April 2017. General Anti-Avoidance Rules is included in the Income tax Act, 1961 in Chapter X-A. This implies that tax authorities can deny tax benefits when they believe that an individual is attempting to avoid tax in a manner that is not within the permissible one.

4.1 Rationale and Evolution of legislation.

The introduction of GAAR was due to globalization and sophisticated planning of taxation.

Prior to GAAR India had Specific Anti-Avoidance Rules or SAAR. Nevertheless, these guidelines could not prevent the fact that people could find loopholes to them. There was a court case, Union of India v. Azadi Bachao Andolan. The court said that people have the right to plan their taxes in a way that reduces their tax bill. This also indicated that the existing rules were not robust.

One more large case was the Vodafone International Holdings BV v. Union of India. The court said that some offshore deals were not taxable. This brought about a great deal of controversy. Demonstrated that India required a more effective government that would prevent tax evasion. The government came up with GAAR to bring India's tax rules more in line, with standards. Other investors feared that there would be unfair use of GAAR. Thus, the government did not implement it until 2017. It was proposed by a committee known as the Shome Committee that there was a need to have safeguards and clarity.

The concept and scope of GAAR is discussed in 4.2.

When other rules are failing to curb people evading taxes, GAAR is a means of doing so. It is applicable in cases where an individual is attempting to receive a tax benefit in an inadmissible manner. The arrangement is bad when its primary goal is to receive a tax benefit and does something that is not normal such as creating fake rights and obligations. As an example, when one goes out to form a company simply to dodge taxes that is not a company. This type of thing can be prevented with the use of the General Anti-Avoidance Rules. GAAR is one method of ensuring that individuals are contributing their quota of taxes.

4.3 GAAR Major Doctrines.

4.3.1 Substance Over Form

The idea of "substance over form" is really important to GAAR. It implies that tax individuals need to determine what is happening with a transaction and not its appearance on a paper. The tax people would want to ensure that no one can escape paying taxes by arranging dealings in a manner that would be legal but not realistic in life.

Under Section 97 a deal is considered to be not very real if:

It does not actually alter risks of the business or the money that flows in.

It is a process of circulating money.

It contains people or components that are simply there to assist the deal to work.

The rule is particularly crucial when the companies are complex in their structure and it is difficult to look at what actually occurs with their transactions. The idea of "substance over form" are key to making sure that people pay their fair share of taxes. GAAR and the concept

of substance, over form help the tax authorities to investigate transactions and ensure they are real.

4.3.2 Main Purpose Test

A deal is the main purpose test with respect to GAAR. It implies that the tax planning authority needs to determine whether the primary motive, in doing something is to receive a tax benefit. The significance of this test is that it examines the intentions of individuals with regard to what they desire to accomplish through a transaction.

The main purpose test assists in ensuring that the tax regulations are not enforced in a manner that is not fair. It is at times difficult to determine what people were thinking when they made a deal particularly when it has got to do with complex money issues or a computer system, which makes decisions related to rules.

4.3.3 Abuse/Misuse of Law.

The General Anti Avoidance Rule is also applicable to arrangements which lead to the misuse or abuse of provisions. This concept of General Anti Avoidance Rule is indeed massive because it is not about the fact that people are not adhering to the rules it is just that there are circumstances where the taxpayers seek to exploit the law to obtain tax benefits which they are not entitled to obtain. The General Anti Avoidance Rule is targeting individuals who attempt to take advantage of loopholes, in the law to pay tax than what it is expected to pay.

4.4 Procedural Safeguards and Implementation.

The General Anti Avoidance Rule has granted much power to those in power so they have incorporated some rules in order to ensure that it is not abused.

- The General Anti Avoidance Rule can only be applied when the tax savings exceed an amount which is three crore rupees.

Before they can use the General Anti Avoidance Rule, the people in charge must obtain permission of a ranking official and a team of an approval of the General Anti Avoidance Rule.

- The individual who is paying the tax is allowed an opportunity to present his/her side of the case.

The Central Board of Direct Taxes has provided certain instructions as well to make it clear on how the General Anti Avoidance Rule is to be applied. It is said that it must be used sparingly and not always. These regulations exist, to ensure that the taxation rules are applied correctly and, that the General Anti Avoidance Rule is applied in a manner that everyone is aware of what to expect when it comes to paying taxes and the General

Anti Avoidance Rule.

4.5. Tax avoidance in the courts.

Over time, tax avoidance has been dealt with by Indian courts. They have examined this law with a keen eye but they have also considered what the law is actually attempting to communicate. The past courts ruled in such cases as the one in McDowell and Co. Ltd. V. CTO in which they stated that tax avoidance is not permissible and that individuals should not enter into tax avoidance arrangements. But in such situations as Azadi Bachao Andolan the courts were more lenient and told them that it was alright to think smartly about your taxes.

4.6 GAAR in Practice: Challenges and Criticism

There is use of GAAR. It is not perfect. Among the issues is that it can be subjective and individuals might not be aware that they are engaging in something. The General Anti-Avoidance Rules is a statute and this may not be easy to comprehend.

People are also concerned that GAAR can be utilized in a manner. They believe that the government can utilize it in targeting individuals or businesses. The General Anti-Avoidance Rules is an instrument and it must be applied wisely.

4.7 GAAR Relevance in Digital and AI Era.

The digitalization of businesses and AI-based financial systems have greatly changed how GAAR works. Previously the tax avoidance schemes depended on individuals making choices and establishing structures.

They now tend to take advantage of automated systems which are able to streamline tax outcomes immediately.

This change brings up questions, about GAAR:

- How can we use the main purpose test to computer-made decisions?
- How do we check if digital transactions have commercial value?

What is misuse as far as automated tax compliance systems are concerned?

These questions show that we need to rethink GAAR because of technologies.

GAAR needs to be updated to deal with these changes and ensure it still works effectively.

4.8 Critical Evaluation

The General Anti-Avoidance Rules is an instrument yet not an ideal one. It needs to be updated to deal with the changing world. We need to make sure that GAAR is fair and effective and

that it is used in a way that's good, for everyone. The General Anti-Avoidance Rules is an act and it must be exercised with caution. GAAR is one method of ensuring that individuals are paying their taxes and it is a significant aspect of the Indians tax system.

One of the critical tests to invoke GAAR is the “main purpose test. It also demands that the tax authorities prove that the main purpose of the arrangement is to receive a tax advantage. This test adds a subjective aspect to the analysis because it entails the evaluation of the motive of the transaction.

Although this requirement serves as a protection against arbitrary application, it also poses evidence problems, especially where complex financial structures or algorithmic decision-making models are involved.

5. Artificial Intelligence in Taxation.

One such change is the introduction of Artificial Intelligence in taxation systems. It is transforming the collection and enforcement of taxes. Previously people used to do all things manually that was sluggish and not very effective at arresting people who were attempting to evade tax payments. And now that there is an abundance of data and computers are improving it is possible to make things easier and more accurate with the help of Artificial Intelligence by tax authorities. This is also taking place in India where the government is employing technology to help things. Artificial Intelligence in taxation is like a computer system that can do things that normally require intelligence. It is able to seek patterns and make predictions and decisions independently. The algorithms in these systems are trained on a large amount of data in order to be able to find things that are not normal and make good decisions. The use of technologies such as machine learning, language processing and data mining in tax administration is on the increase. Machine learning assists systems to improve with time and natural language processing assists them to interpret what people are saying. Data mining is used to discover information in large datasets.

India has been using Artificial Intelligence in taxation for a while now. The implementation of the Goods and Services Tax in 2017 was one of the giant leaps. This formed a digital platform of tax filing and compliance that creates a large amount of data that can be acted on by Artificial Intelligence tools. This has assisted in establishing mechanisms of ensuring individuals obey tax laws such as automatic cross-referencing of tax returns. Assessment and appeals have also been introduced by the government and it minimizes interactions of people with the authorities of taxes. Artificial Intelligence is capable of a lot in taxation. It is capable of risk assessment

and profiling taxpayers, which assists authorities to make decisions on whom to audit and allocation of their resources. It is also capable of detecting fraud by identifying some patterns that may show that someone is out to cheat. Anomaly detection Artificial Intelligence systems are able to detect things that humans would find difficult to detect. It can also be used in automated scrutiny and audits that is time and resource saving. The use of Artificial Intelligence in taxation has a lot of advantages. It is able to process a vast amount of data in a short time which is useful in decision making. It is also able to minimize errors. Make tax assessments more accurate. It can encourage equity and uniformity in decision-making with the help of algorithms. Also, automation has the potential to minimize expenses. Improve the utilization of resources by help tax authorities.

However, there are also some challenges with using Artificial Intelligence in taxation. A large problem is the data quality since Artificial Intelligence systems require data to be effective. The system can make decisions in case the information is not true or full. The other problem is that of bias since this may occur when the system is trained on biased data. This will have consequences. Transparency is also lacking and thus it may be difficult to know the process on how decisions are made. The use of Artificial Intelligence has changed the way people comply with tax laws. It is now so that the taxpayers are followed around. Their transactions are being studied on an ongoing basis. This has added to the burden of taxpayers. It has also minimised the possibility of engaging in traditional tax avoidance strategies. At the time Artificial Intelligence has helped taxpayers, especially big companies to come up with more sophisticated tax planning strategies. The application of Artificial Intelligence in taxation worldwide is one of a series of trends towards digital transformation. International bodies such as OECD are encouraging the use of technology in tax systems. Artificial Intelligence tools are being applied in countries such as the United States and the European Union in detecting fraud and checking compliance. Artificial Intelligence has enhanced compliance with tax and efficiency in India. It has also revealed that there exist loopholes, within the existing system of law. The government should revise the legislations and regulations to address the issues of Artificial Intelligence. This includes making sure that the system is transparent, accountable and fair. While Artificial Intelligence is a tool it needs to be used in a way that is fair and transparent.

6. The use of Artificial Intelligence to avoid taxes.

The Artificial Intelligence or AI is becoming increasingly better and even more so it is not only assisting the taxes it is also altering the manner in which individuals seek to evade taxes. People

would do so in the past. Attempt to evade payment of taxes and now the Artificial Intelligence or AI is doing it on their behalf. The Artificial Intelligence or AI is applying computer programs to determine how to pay the least taxes. A significant amount of information such as tax laws and financial records can be examined using these computer programs. Discover methods of saving on taxes. As an illustration, the Artificial Intelligence or AI can help big companies to transfer their money to other countries with lower tax rates. The reason why this is a problem is that it is not just to individuals who are required to pay higher taxes.

The Artificial Intelligence is exceedingly quick. Is able to process a lot of information within a few seconds. This implies that the companies will be able to make modifications to their tax plans within a short time in case of the tax laws being altered. The companies are playing a game in which they are avoiding paying taxes and the government is in pursuit of them. The issue is, though, that the Artificial Intelligence or AI is not transparent it is a box. The government is not able to understand how the companies are applying the Artificial Intelligence or AI to evade paying taxes. This complicates the government in knowing whether the companies are up to something.

The Artificial Intelligence is also assisting the companies to develop financial structures that are not easy to comprehend. This is a puzzle and it is difficult to know what is happening by the government. An example is the Artificial Intelligence or AI can assist companies to create companies and transfer money to evade paying taxes. The Artificial Intelligence is also posing a challenge since it is complicating the government with what is equitable and what is not. There are regulations against tax evasion by the government. The Artificial Intelligence or AI is rendering the application of these rules difficult.

In India the use of the Artificial Intelligence or AI in tax avoidance is not well known but it is likely to become more common in the future. The government should be cautious and ensure that it is doing justice to all. The Artificial Intelligence or AI is transforming the way individuals consider tax evasion. No longer is it the people attempting to evade paying the taxes it is the Artificial Intelligence or AI doing it on their behalf. The government has to contend with this and it will have to find new means of tackling it. The Artificial Intelligence or AI is turning tax evasion into a quicker, more coded and more confidential affair. The government should be caught up and ensure that everybody is paying their taxes.

The use of the Artificial Intelligence or AI in tax avoidance is also creating an imbalance between big companies and the government. Large corporations are well off. Is able to evade paying taxes using the Artificial Intelligence or AI but the government does not enjoy the same level of resources. This is not fair. It is complicating the work of the government. Finally the Artificial Intelligence or AI is transforming the manner in which we consider tax evasion. The government has a big challenge in it.

7. The Main Antagonism: AI vs GAAR.

The Artificial Intelligence and the General Anti-Avoidance Rules interaction presents a clash of technology and the law. General Anti-Avoidance Rules are created to prevent the intention of people to avoid taxes by considering what they plan to do. Artificial Intelligence deals with algorithms that are not necessarily demonstrative. This makes it hard to apply the General Anti-Avoidance Rules to tax arrangements that use Artificial Intelligence. The question we must ask is whether our existing laws are good. The issue of what people mean to do lies at the centre of this conflict. The General Anti-Avoidance Rules are based on the so-called purpose test to determine whether the primary aim of a person is to receive a tax advantage. Automated computers, rather than humans, make the decisions with Artificial Intelligence. The algorithms that people generate are used in these computers. The outcomes are composed of complex procedures that might not reflect what they intend to do. And then the question arises whether we can claim that it is either the individual who created the algorithm or the algorithm who uses it or the algorithm itself.

The other large issue is determining whether something is economically significant. The General Anti-Avoidance Rules say that authorities can ignore arrangements that do not have economic value. In the case of Artificial Intelligence, it is difficult to distinguish whether there is any economic value in something. The algorithms are able to plan parts that contain parts and its parts look good. By considering all the parts separately, we might find that they are not really purposeful. These plans are difficult to demonstrate not to be real. The Artificial Intelligence systems are also not transparent and as such it is difficult to obtain the evidence which we require to invoke the General Anti-Avoidance Rules. We should demonstrate that one was supposed to receive a tax benefit and that his or her plan was not economically viable. It is difficult to get this evidence when the decisions are made by algorithms which we cannot understand. We are not able to see the algorithms and comprehend their functioning. It can hardly be investigated. We can also hardly say what laws are applicable in the case of Artificial

Intelligence. The tax schemes based on Artificial Intelligence tend to cover transactions in countries and digital assets not located anywhere. This renders it difficult to determine what laws to rely on and what to do with countries in order to implement them. Efforts are being put in place to solve these problems but they are yet to yield.

The clash of Artificial Intelligence and the General Anti-Avoidance Rules is also an indication of an issue between our legal systems and our technological systems. Making adjustments in our laws is slow. Artificial Intelligence is able to evolve rapidly and discover new means to do things. This implies that our technology has led our laws. All these difficulties notwithstanding, we cannot say that Artificial Intelligence and the General Anti-Avoidance Rules do not work harmoniously. We can in fact use Artificial Intelligence to enforce our tax laws by providing us with tools to locate tax plans. The issue is that we should amend our legislation to cooperate with Artificial Intelligence. We should consider what Artificial Intelligence is capable of and enact laws that are compatible with it. Lastly the battle between Artificial Intelligence and the General Anti-Avoidance Rules is no technical issue. It is an indication of a transformation, in the way we manage our economy, and the way we run it. As Artificial Intelligence changes our systems our laws need to change to address new risks and make sure that we are fair, transparent and responsible. The General Anti-Avoidance Rules and Artificial Intelligence must strive to transform our tax system to be more desirable.

8. AI as an Enforcement Tool for GAAR

Tax enforcement is a deal of Artificial Intelligence. It can assist in locating individuals who attempt to evade payment of taxes. A lot of information can be analysed using Artificial Intelligence. Discover patterns that may not be obvious to people. This proves quite beneficial to the General Anti-Avoidance Rules that are more of a guideline to prevent tax evasion by individuals. Artificial Intelligence is already being applied in making tax enforcement in India. It is capable of examining a multitude of information, such as tax filings and bank accounts. This assists the tax folks in identifying individuals who may have been evading taxes. Artificial Intelligence can also be used to forecast the potential risk of a tax evader. One-way Artificial Intelligence assists in the form of providing people with a risk score. This score is determined by what they have done previously and how they have behaved. This score can be used by the tax people to determine who to probe into. Artificial Intelligence may also be used to identify patterns that may indicate that one is attempting to evade taxes.

Audits can be assisted by Artificial Intelligence as well. It is able to examine tax returns. Identify errors or inconsistencies. Artificial Intelligence is a technique they implement in India to compare tax returns and identify anomalies. This is useful in ensuring that the amount of taxes people are paying. Artificial Intelligence also is efficient in examining connections among corporations and individuals. It is able to identify trends which could indicate that someone is evading taxes. This is quite useful to the tax people since it can assist to locate people who attempt to conceal their cash. In India, the tax people are also employing what is known as assessment. This implies that the tax individuals do not need to physically meet with the taxpayers. This system is supported by Artificial Intelligence. It may examine the tax returns. Determine whether or not all is well.

Enforcement is not the only good use of Artificial Intelligence. It also can assist in improving tax policies. It is able to scan a great deal of data. Identify trends that could indicate that the tax policies should be amended. This is quite beneficial as it can assist the tax people to identify how to curb tax evasion. Artificial Intelligence has certain issues in enforcement of taxes. One of the issues is that it may be overdependent on machines. The tax people should ensure that they are not merely relying on Artificial Intelligence. Also using their own judgment. Artificial Intelligence is helpful at pattern recognition. It lacks an appreciation of the details of tax law. The other issue is that Artificial Intelligence is not easily understood. The tax individuals must be capable of justifying their decision. When a machine has made the decision, it can be difficult to know why. This is an issue since the tax individuals must be transparent and equitable. The issue of privacy and security of the data is also a concern. The tax people need to make sure that they are protecting people's information and not using it in a way that's not fair. This is essential as individuals must have confidence in the tax system. Tax individuals in India should ensure that they possess the infrastructure and training on how to make good use of Artificial Intelligence. This is highly significant since Artificial Intelligence can only be as good as those who are utilizing it.

Finally, Artificial Intelligence is a means of tax enforcement. It would assist the tax people to locate individuals who are evading taxes and make the tax system more equitable. It needs to be used in a way that is transparent and fair. The tax people need to make sure that they are using Artificial Intelligence in a way that's good, for everyone not just the tax people. Artificial Intelligence and tax enforcement are closely. One of the significant components of improving the tax system is Artificial Intelligence.

9. Comparative Perspective: AI and Anti-Avoidance in the World.

Artificial Intelligence and tax evasion are not the only issues that challenge India. They belong to a shift in the governance of taxes worldwide that is facilitated by digitalization and new technologies. Artificial Intelligence is now being applied in the tax systems of many countries. Modifying their laws to prevent tax evasion by individuals. We can understand how to improve our tax system by examining the actions of other countries. The Organisation for Economic Co-operation and Development is on the forefront in preventing tax avoidance. They have a scheme known as Base Erosion and Profit Shifting which works to ensure that the companies pay taxation in the country in which it is operating. The Organisation for Economic Co-operation and Development is also considering the impact of digitalization and Artificial Intelligence transforming taxation. They think that tax systems should be able to share information in time and use advanced analytics to stop tax avoidance.

The tax department in the United States is applying the Artificial Intelligence and machine learning in capturing individuals who are not paying their taxes. They apply such technologies to find patterns in tax filings that do not appear right. The United States has also laws to prevent individuals evading taxes such as the economic substance doctrine. These laws are similar to India's General Anti-Avoidance Rules. They employ additional data analytics and technology. The European Union is taking an approach. They are employing technology and legislation to prevent tax evasion. They have put regulations that prevent evasion of tax by companies. They are in the process of drafting a new legislation to control Artificial Intelligence. This law will make sure that Artificial Intelligence systems are transparent and accountable.

The tax department in the United Kingdom is utilizing data analytics and Artificial Intelligence to identify individuals that fail to pay their taxes. They have a system that searches information sources to identify individuals who are evading taxes. The United Kingdom has too a General Anti-Abuse Rule which is analogous to General Anti-Avoidance Rules of India.

Yet, a great number of developing nations can hardly keep up with these changes. They lack funds and technology to implement Artificial Intelligence in their tax system. This implies that they are susceptible to evading taxes. Among the things that we can learn about countries is the need to collaborate to prevent tax avoidance. Artificial Intelligence and tax avoidance usually entail -border transactions and countries must cooperate to eliminate them by sharing information. The other crucial requirement is to ensure that the Artificial Intelligence systems

are responsible and transparent. This is particularly crucial when making decisions in taxation, which may be of consequence.

These examples can be learnt by the Indian government. India has somewhat advanced with the application of Artificial Intelligence to administer tax. More work needs to be done. The government must ensure that the laws are transparent as well as the tax system being equitable and predictable.

To sum up the issues of Artificial Intelligence and tax evasion need a kind of response. India must also modernize its tax regime to align with the dynamics of the digital economy as well as ensure that it is equitable and efficient. Through collaboration with other nations, responsible utilization of technology India can develop a modern and functional tax system. The use of Artificial Intelligence in tax administration is a part of this. The tax department can use Artificial Intelligence to apprehend individuals evading taxes and it can streamline the tax system. Another factor to ensure is that Artificial Intelligence systems are open and responsible in order to have people trust the tax system. Artificial Intelligence cannot be used to apprehend tax evaders. It is also a means to make the tax system more efficient and effective. By using Artificial Intelligence, the tax department can process tax filings quickly and accurately and it can provide better service to taxpayers.

On the whole, the major secret of a tax system is to strike the right balance between the application of technology to streamline the system and ensuring that the system is just and transparent. Artificial Intelligence may be a means of creating this balance but it will not substitute human judgment and supervision. The Indian government should consider the experiences of countries when it is developing its tax policy. The European Union and the United Kingdom, as well as the Organisation for Economic Co-operation and Development, all have something to learn. India can come up with a modern, effective and fair tax system by learning through such examples. AI will keep on transforming the manner in which taxes are managed. It is important that the Indian government would be ready to embrace such changes and apply Artificial Intelligence in a manner that is beneficial to both the tax department and taxpayers.

Ultimately the objective of the tax system must be to ensure that everybody pays his/her taxes. One of the tools that can be used to accomplish this objective is Artificial Intelligence, however,

it is not a replacement of good tax policy and fair administration. Artificial Intelligence and other technologies will determine the future of tax administration. The Indian government must be ready to accommodate these changes and to leverage them to develop a fair, efficient and effective tax system. The tax department does not use Artificial Intelligence. It is also a means of streamlining the tax system to make it more efficient and effective to the taxpayers. Artificial Intelligence is able to provide taxpayers with service and more precise information regarding their taxes.

10. Legal and Ethical Concerns in AI-Driven Taxation

A change is to integrate Artificial Intelligence in our tax systems. On the one hand it is truly efficient. It assists the individuals in charge to locate tax evaders and simplify paperwork. Conversely, it causes us to consider what is really fair. With tax departments beginning to make decisions using Artificial Intelligence, we need to discuss the issue of privacy, transparency and fairness to individuals.

The following is a glimpse of the issues we are grappling with:

1. Privacy vs. Surveillance Trade-off.

Artificial Intelligence requires much data. In India initiatives such as Project Insight and GST analytics are gathering a plethora of information everywhere. This is to apprehend individuals involved in system cheating. The question that the taxpayers ask themselves is: Is my data safe? A border between catching a tax evader and the government spying on us all the time is a line.

2. The "Black Box" Problem

Among the facts about Artificial Intelligence is that we are not aware of how it makes decisions. It is like a box. Enter data exit decision. We are ignorant of what goes on inside. In case an Artificial Intelligence system determines that you have to pay money or that you have to undergo an audit, you should be informed of the reasons. When the tax officials are unable to describe the working of the Artificial Intelligence system how can any one be blamed when it commits an error?

3. Algorithmic Bias

Artificial Intelligence is not naturally fair. It is informed by data and when the data contains old biases the Artificial Intelligence system will only recreate them. This implies that there are those who may be targeted frequently or that things that are perfectly legal may be viewed as suspicious. In a complex system of rules such as

GAAR, already requiring a high degree of human judgment, a biased Artificial Intelligence system may turn things incredibly unfair in a very short period of time.

4. The Lost Human Factor.

Taxation does not concern numbers. It is a people and economic affair. It should have a human touch.

The application of Artificial Intelligence in taxes is one step towards automation of all things. Although it may simplify things, we should not ignore the other side of the law. We should strike a balance whereby we apply technology in order to make the system better without sacrificing our privacy or our right, to an explanation.

When we are able to develop Artificial Intelligence that is open, impartial and managed by actual individuals we will be able to create a more efficient tax system that benefits all. Not only its developers. We must ensure that the Artificial Intelligence systems are equitable and are beneficial to all individuals, both taxpayers and tax officials. We should not be controlled by Artificial Intelligence.

11. Conclusion

The introduction of Artificial Intelligence (AI) and General Anti-Avoidance Rules (GAAR) interface in India is a significant milestone in the history of tax governance. This paper has explicitly indicated that the infusion of AI into the financial market at a high rate has had significant effects on the general set-up of tax avoidance. Although GAAR is a tool that has been created to help resolve the problem of aggressive avoidance of taxation, the advent of AI-driven decision-making has demonstrated some grave structural weaknesses in this regime.

Basically, there are some principles on which the GAAR is based and these are the main purpose test, commercial substance and the principle of substance over form. All these principles are based on a human-centric decision-making model. Yet, with the advent of AI-powered processes, this fundamental premise of human-centred decision-making is challenged. The reason is that AI-based processes are based on an algorithmic decision-making process that does not always attribute to the notion of intent.

As the analysis in this paper has explained, the purpose of AI in tax avoidance and enforcement is two-fold. To begin with, AI enables corporations to avoid taxes. Corporations are able to develop very intricate tax evasion plans with the assistance of AI. Such plans are dynamic and can easily avoid the tax laws. These measures are dynamic and very advanced. They are able

to cheat the tax laws. They are also imbedded in financial systems. This renders it hard to control these strategies. Secondly, AI helps to enforce taxes. Tax authorities can easily monitor tax compliance with the assistance of AI. This simplifies the enforcement of tax.

Artificial Intelligence and General Anti Abuse Rule are one-to-one. General Anti Abuse Rule and Artificial Intelligence are related to each other. This relationship demonstrates that it is not only opposing forces between Artificial Intelligence and General Anti Abuse Rule. They are even transforming one another. Artificial Intelligence should not be regarded as a challenge in the context of the implementation of tax regulations. Rather, we should realize that Artificial Intelligence is transforming the manner in which we administer taxes. The actual issue is not whether to prevent technology to transform things. Concerning adapting the law to the new reality. The fact that other countries are doing similar things also helps in backing the thesis of the paper.

For example, the United States, the European Union and the United Kingdom have all realized that Artificial Intelligence needs to be a part of tax governance. They have even ensured that they have rules to curb it. Things, such as the OECD BEPS framework and Tax Administration 3.0 reveal the importance of transparency in order to integrate the data and collaborate with the international community to address the issues of taxes. General Anti Abuse Rule and Artificial Intelligence are transforming the manner in which we consider taxes. We need to adjust to these changes.

As regards India, there has been significant advancement in the adoption of AI in the area of taxation, especially with projects in GST analytics, faceless assessment, and data-driven compliance systems. Nevertheless, unlike these developments in the AI systems in taxation, the legal environment in regard to GAAR has not been in line with such developments. Its further dependence on subjective ideas like intent and purpose is not conducive to a successful solution to AI-based tax evasion.

The law and ethics of AI systems bring about additional complications to this situation. Data privacy, bias in AI systems, transparency, and accountability are some of the issues that create pertinent questions with respect to the legitimacy of AI systems in taxation. The threats to the principles of natural justice and due process are the possibility of invasive surveillance and the untransparency of AI systems.

In this respect, it is apparent that, on the basis of such findings, the future of tax governance in India would be based on the way that the principles of law could be reconciled with the technological development. Although the concept of GAAR is clear and well defined, there is a need to redefine and perhaps restructure the same to make sure that it supports the developments in algorithmic decision-making. This would mean going beyond the human motive to make sure that there is an objective way of judging the occurrence of tax avoidance in the environment of AI. Nevertheless, the introduction of AI within the framework of tax enforcement measures must be accompanied by equal measures in terms of ensuring safety as well.

Thus, in conclusion, the metaphor of the “Ghost in the Machine” represents the conundrum that has been explored in this paper. Although AI is the ghost, an invisible but powerful force that is at work in the tax machinery in India, the issue that policymakers and law scholars have to grapple with is to make this ghost visible. This would entail coming up with structures to see to it that the Ghost in the machine can be controlled.

The Indian tax system is looking at a test, with Artificial Intelligence and General Anti Avoidance Rule. This is an opportunity and a challenge to India to improve on its tax system. India must employ technology and ensure the legislation is powerful and just. By so doing India can create a tax system that actually works to deter tax evasion. It must be just as well as comprehensible. India has to be ready to change and adapt to things. This implies that Artificial Intelligence should be employed by India to ensure that the tax system is equitable and beneficial to all. India can actually make a tax system with the assistance of Artificial Intelligence. Artificial Intelligence should help India to ensure that taxes are fair and easy to pay.

12. Suggestions and Recommendations

The ever-changing interface of Artificial Intelligence (AI) and the General Anti-Avoidance Rules (GAAR) in India calls for a forward-looking and multi-dimensional policy strategy. The issues of AI-based tax evasion, as demonstrated in the different chapters of this paper, cannot be addressed with the traditional legal measures. Instead, the combination of legislative action, implementation of technologies, the formation of institutions, and ethical governance is the call of the time to create a resilient, equitable, and prospective tax system. To address these emerging challenges, it is suggested that the following policy recommendations be put in place

to have a stronger Indian tax system.

Among the main suggestions, the necessity to introduce legislative changes that would help to make GAAR relevant to the modern period would be offered. Although GAAR provides a broad and adaptable framework to address the cases of tax avoidance, the dependence on the meaning of the main purpose and commercial substance limits the use of the specified rules to the cases of algorithmic decisions. Therefore, it is imperative to specifically include provisions that would tackle AI-driven cases. This would entail broadening the definition of the word arrangement to incorporate algorithmically generated transactions and introduce certain parameters to establish tax avoidance where human intent is otherwise hard to establish.

One more closely linked to the problem of reforms in the legislative field is the necessity to promote the use of Explainable Artificial Intelligence (XAI) in tax administration. Lack of transparency in decision-making processes is the biggest issue with AI. To ensure that GAAR is well implemented, tax authorities must be in a position to justify their decisions and be in a position to give the taxpayers reasons as to why they have made the decisions that they have. The use of explainable AI would thus be instrumental in ensuring transparency, which would not only improve GAAR enforcement but would also increase the acceptability of AI in tax administration.

The other area that reform is much needed is in the institutional capacity building area. An effective use of AI in tax administration would entail a human resource, which has the necessary knowledge to understand and efficiently work with complex technological systems. This would then need a significant amount of funding on the training of tax officers in fields like data analytics, machine learning, and digital forensics. The creation of specialized departments in tax departments to focus on AI and data analysis would greatly boost capacity building in tax authorities.

Vitality of the development of technological infrastructure cannot be stressed enough. Although India has achieved a lot in the digitalization of its taxation systems, it is still urgent to invest in state-of-the-art technology and data management systems. Another aspect of using AI to the full potential is consolidating various data systems and enhancing cybersecurity. Moreover, developing indigenous AI systems that are more suitable to the Indian environment can be more beneficial in eliminating dependency on external systems.

Taking into consideration the fact that the problem of AI-driven tax evasion is global in character, collaboration in the sphere on the international level is of utmost importance. In this connection, it is proposed that India participate more in the international activities in the field of BEPS via the OECD initiative and the Tax Administration 3.0 initiative. Also, the enhancement of the international cooperation in the field of information exchange with the help of such instruments as automatic exchange of information (AEOI) and country-by-country reporting (CbCR) can be useful in this respect. Standardization of local regulations with international regulations can also increase investor confidence.

A development of a detailed ethical and regulatory framework in AI in taxation is also of importance. The principles of transparency, accountability, fairness, and proportionality should guide the use of AI in taxation. Guidelines on how data, accountability, and processes should be used in decision-making should be formulated to ensure that no abuse is experienced and to ensure that the rules are in line with the principles put forth in the constitution. It is significant that independent bodies such as audit bodies be formed to ensure that any type of abuse of power is checked.

The issue of data privacy, as well as taxpayer rights, should be a major focus of AI systems. There should be sufficient data protection policies and the sensitive information will not be accessed or abused. This will involve adoption of best practices as far as data encryption, anonymization and access is concerned.

The other recommendation that is highly significant is that there should be a balance between regulation and ease of doing business. On the one hand, it is necessary to strengthen GAAR, and AI-based regulation, but on the other hand, there should not be excessive regulation, which can be a hindrance to investors. A balance between ease of doing business, clarity, as well as fairness, should be established. This will incorporate guidelines, advance rulings and also a consistent application of laws. Voluntary compliance with the law should also be encouraged through simplified compliance as well as taxpayer education.

Enforcement via a risk-based approach may also contribute to the effectiveness of AI and GAAR. This may be achieved through optimal resource allocation, and reduction of unwarranted compliance to low-risk entities. This is also where AI systems will be especially useful since they can work with large amounts of data to determine patterns and optimize the

allocation of resources.

Lastly, there is a need to develop a culture of innovation and adaptive governance. The reason is that technology keeps on changing and evolving and legal structures should be in a position to adapt to these changes. To keep up with the new technological advancements, reviewing and updating the laws, policies, and administrative practices are necessary. To this extent, communication with different stakeholders can be quite useful in bringing useful information to the table in order to make sure that policies are informed and balanced.

Finally, to overcome the issues of AI-driven tax evasion, it is implied that the comprehensive and integrative solution should be proposed, which will unite law reforms, the development of technologies, and ethical governance. With modernization of the GAAR, AI capabilities, institutionalization, and global standards, India can create a robust, transparent, and fair tax system. It is not only that the successful execution of these recommendations will empower the efficiency of tax collection in India but also that the nation will be in a position to take the centre stage in the dynamic world of digital taxation.

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