



“A Study on the Impact of Digitalization on Tax Compliance in India”

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Abstract

Over the past decade, India’s taxation system has undergone a major transformation, shifting from a largely manual and paperwork-driven setup to a more technology-oriented framework. This study explores how digitalization has affected tax compliance by using secondary data from government reports, policy papers, and institutional sources. Key indicators such as income tax return filings, GST collections, growth in digital payments, and the tax-to-GDP ratio have been examined.

The analysis shows that digital reforms have improved transparency, encouraged more taxpayers to participate, and strengthened revenue collection. At the same time, issues like limited digital literacy, technical glitches, and unequal access to technology continue to pose challenges. Overall,

the study finds that digitalization has had a positive impact on tax compliance, but further improvements are needed to make the system more inclusive and efficient.

Keywords: Digitalization, Tax Compliance, GST, E-filing, Digital Payments, India



1. Introduction

India's taxation system has experienced a significant shift due to digital transformation. Earlier, the system was heavily dependent on paperwork, which often resulted in delays, inefficiencies, and lack of transparency. These issues discouraged many taxpayers from complying fully.

With the introduction of digital initiatives such as e-filing, Goods and Services Tax (GST), faceless assessments, and digital payment tracking, the tax administration process has changed considerably. These reforms aim to simplify procedures, reduce human involvement, and improve accountability.

As a result, the system is gradually becoming more streamlined and data-driven. However, an important question arises—has digitalization truly improved tax compliance in India? This study attempts to answer that.

2. Literature Review

Previous studies indicate a strong link between digitalization and improved tax systems. Researchers have found that automation and digital platforms increase transparency and reduce opportunities for tax evasion. The introduction of GST is often highlighted as a key reform that has helped formalize the economy.

However, existing literature also points out several challenges, such as increased compliance costs, complexity of systems, and lack of digital awareness among users. Behavioral aspects—like trust in government systems and ease of use—also influence compliance.

Although there is substantial research in this area, gaps still exist, especially in assessing recent digital reforms using only secondary data without relying on survey-based methods.

3. Research Objectives

The main objective of this study is to examine the impact of digitalization on tax compliance in India.

Specific objectives include:

- To understand how digital tax systems influence compliance behavior
- To analyse trends in tax filings and revenue collection
- To study the role of digital payments in improving transparency
- To identify challenges in the digital tax system
- To evaluate the overall effectiveness of digital reforms

4. Research Methodology

This study is based on a descriptive and analytical research design and relies entirely on secondary data.

Key features:

- **Data Sources:** Government reports, GST data, RBI statistics, and research journals
- **Time Period:** 2015–2025
- **Tools Used:** Trend analysis, comparative analysis, and growth rate analysis



The study compares the pre-digital and post-digital phases to understand changes in tax compliance patterns.

5. Data Analysis and Interpretation

5.1 Growth in Tax Return Filings

There has been a noticeable increase in income tax return filings over time. The availability of online filing systems has made the process easier and more accessible, encouraging more individuals to comply.

5.2 GST Collections

GST revenues have shown steady growth, suggesting improved compliance and better monitoring through digital mechanisms.

5.3 Expansion of Digital Payments

The rapid growth of digital payment systems, especially UPI, reflects increased adoption. These transactions leave a clear financial trail, making tax evasion more difficult.

5.4 Tax-to-GDP Ratio

An increase in the tax-to-GDP ratio indicates improved efficiency in tax collection and expansion of the tax base.

5.5 Comparative Insights Before Digitalization:

- Limited transparency
- Complicated procedures
- Higher chances of tax evasion

After Digitalization:

- Broader taxpayer base
- Simplified compliance processes
- Improved monitoring and accountability

Overall, the data suggests that digitalization has positively influenced tax compliance.

6. Findings and Discussion

The study highlights several important outcomes:

- Significant increase in tax return filings
 - Improved transparency due to GST
 - Greater traceability through digital payments
 - Consistent growth in direct tax collections
- However, some challenges still remain:
- Lack of digital literacy among certain groups
 - Technical issues with online portals



- Limited access to digital infrastructure in rural areas

In simple terms, digitalization has improved the system, but it has not yet reached its full potential.

7. Conclusion

Digitalization has played a crucial role in reshaping India's tax system. It has enhanced efficiency, reduced corruption, and expanded the tax base. The use of technology has made compliance simpler and more transparent for taxpayers.

However, the system is still evolving. To ensure long-term success, it is important to address existing gaps in infrastructure, improve user experience, and increase awareness.

In conclusion, India is moving in the right direction, but the effectiveness of these reforms will depend on how well they are implemented and adapted in the future.

8. Recommendations

To maximize the benefits of digital tax systems, the following steps are recommended:

- Promote digital literacy through awareness campaigns
- Improve digital infrastructure, especially in rural areas
- Simplify tax portals and compliance procedures
- Enhance system reliability and reduce technical issues
- Strengthen cybersecurity measures
- Expand taxpayer assistance and support services

These measures will help ensure that digitalization leads to sustained and inclusive growth in tax compliance.

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