



KAMARAJ IAS ACADEMY
Only IAS Academy by Grandson of "Perunthalaivar Kamarajar"

India Strengthens Responsive Tax Governance Through Income-tax Act, 2025 and Technology-Driven Tax Administration Reforms

Published On: 28-07-2026

Recent Developments:

- On the **167th Income Tax Day**, the Union Finance Minister outlined the **5Rs of Responsive Tax Governance** and highlighted the implementation of the **Income-tax Act, 2025**, signalling India's transition towards a **simplified, technology-driven and taxpayer-centric** tax administration. The reforms emphasise greater **tax certainty, voluntary compliance, reduced litigation and digital governance**.

Tax Governance System in India:

Meaning and Objectives:

- Tax Governance** refers to the institutional, legal and administrative framework through which the government **levies, administers, collects and enforces taxes** in a transparent, accountable and citizen-centric manner.
- The system aims to **mobilise public revenue, encourage voluntary compliance, minimise tax evasion, promote ease of doing business and support inclusive economic growth** through a fair and efficient taxation framework.

Institutional Framework:

- The **Department of Revenue**, under the **Ministry of Finance**, formulates tax policies and supervises the overall tax administration.
- The **Central Board of Direct Taxes (CBDT)** administers **direct taxes**, including **Income Tax and Corporate Tax**, under the **Income-tax Act**.
- The **Central Board of Indirect Taxes and Customs (CBIC)** administers **Goods and Services Tax (GST), Customs Duty and Central Excise Duty** on specified products.
- The **GST Council**, established under **Article 279A** of the Constitution, recommends **GST rates, exemptions, threshold limits and structural reforms**, strengthening **cooperative federalism**.
- India's tax administration increasingly relies on **digital platforms, artificial intelligence, data analytics and integrated information systems** to improve compliance and reduce administrative costs.

Key Features of India's Tax Governance:

Digital Tax Administration:

- India has adopted **faceless assessment and appeal mechanisms**, significantly reducing physical interaction between taxpayers and tax authorities.
- Initiatives such as **PAN 2.0, Income Tax Business Application (ITBA) 2.0, IEC 3.0, Kar Saathi** and the **SAKSHAM NUDGE Framework** leverage technology to simplify compliance and improve taxpayer

Kamaraj IAS Academy

Plot A P.127, AF block, 6 th street, 11th Main Rd, Shanthi Colony, Anna Nagar, Chennai, Tamil Nadu 600040

Phone: **044 4353 9988 / 98403 94477 / Whatsapp : 09710729833**

services.

- The **e-Filing Portal** enables online filing, verification, refund processing and grievance management, making tax administration faster and more transparent.

Taxpayer-Centric Administration:

- The tax system increasingly focuses on **voluntary compliance, timely refunds, effective grievance redressal, tax certainty and simplified procedures**.
- The **'Taxpayers' Charter** recognises taxpayers as partners in nation-building while defining reciprocal responsibilities for both taxpayers and the tax administration.
- Greater transparency and predictable tax administration improve trust between citizens and government institutions.

International Tax Cooperation:

- India actively participates in the **Automatic Exchange of Information** framework to combat cross-border tax evasion and illicit financial flows.
- Mechanisms such as the **Foreign Account Tax Compliance Act (FATCA)**, **Common Reporting Standard (CRS)**, **Double Taxation Avoidance Agreements (DTAAs)** and **Advance Pricing Agreements (APAs)** strengthen international tax transparency and certainty.

Major Tax Reforms:

Income-tax Act, 2025:

- The **Income-tax Act, 2025** simplifies legal provisions, restructures tax legislation and reduces compliance burdens without substantially altering tax policy.
- The Act seeks to improve **ease of doing business, legal clarity, taxpayer certainty and administrative efficiency**, while reducing avoidable litigation.

Faceless Assessment and Appeal:

- Technology-driven assessments minimise discretionary powers, enhance objectivity and reduce opportunities for corruption.
- Digital workflows improve transparency while ensuring quicker disposal of assessments and appeals.

Advance Pricing Agreements (APAs):

- **APAs** provide certainty regarding **transfer pricing** for multinational enterprises.
- They reduce cross-border tax disputes, improve investor confidence and strengthen India's international taxation framework.

The 5Rs of Responsive Tax Governance:

Recognise, Respond and Redress:

- **Recognise** honest taxpayers as partners in national development and promote trust-based tax administration.
- **Respond** promptly to taxpayer concerns through transparent communication and timely assistance.
- **Redress** grievances effectively by addressing both individual complaints and their underlying systemic causes.

Reflect and Reform:

- **Reflect** continuously on administrative practices by incorporating taxpayer feedback and implementation experience into policymaking.
- **Reform** laws, procedures and institutional processes to reduce compliance costs, enhance tax certainty and encourage voluntary compliance through technology-enabled governance.

Technology-Led Capacity Building:

Digital Transformation:

- The CBDT is expanding the use of **Artificial Intelligence (AI), machine learning, predictive analytics and integrated databases** to detect tax risks while facilitating voluntary compliance.
- The **SAKSHAM NUDGE Framework** encourages taxpayers to voluntarily rectify discrepancies through data-driven, non-intrusive communication instead of immediate enforcement action.

Institutional Capacity:

- Tax administration is strengthening expertise in **Artificial Intelligence, Data Analytics, International Taxation, Transfer Pricing, Digital Assets, Forensic Accounting, Cybersecurity and Leadership Development**.
- Capacity building supports effective implementation of emerging digital taxation frameworks and complex international tax rules.

Significance of the Reforms:

Improved Compliance and Investment Climate:

- A trust-based and technology-enabled tax administration encourages **voluntary tax compliance**, broadens the tax base and improves revenue mobilisation.
- Simplified laws and greater tax certainty strengthen **Ease of Doing Business**, attract domestic and foreign investment and improve India's competitiveness.
- Faster dispute resolution reduces litigation costs for both taxpayers and government while improving judicial efficiency.

Strengthening Digital Governance:

- Technology-driven tax administration enhances **transparency, accountability, service delivery and administrative efficiency**.
- Better data integration supports evidence-based policymaking and reduces tax evasion through risk-based compliance mechanisms.

Challenges:

Implementation and Digital Inclusion:

- Successful implementation of the **Income-tax Act, 2025** requires extensive taxpayer awareness, institutional preparedness and smooth transition mechanisms.
- Small businesses, rural taxpayers and digitally less-literate individuals may face challenges in adapting to technology-intensive compliance systems.

Privacy and Administrative Capacity:

- Greater use of **Artificial Intelligence** and advanced analytics increases the importance of **data privacy, cybersecurity and algorithmic accountability**.
- Tax authorities require continuous training to handle sophisticated issues relating to digital taxation, international taxation and emerging financial technologies.
- Excessive dependence on automated decision-making without adequate human oversight could adversely affect procedural fairness.

Way Forward:

Strengthening Responsive Tax Administration:

- The **Income-tax Act, 2025** should be implemented through continuous stakeholder consultation, taxpayer education and simplified compliance mechanisms.
- The principles of the **5Rs** should be institutionalised across all levels of tax administration to build trust-based governance.
- Wider adoption of **advance rulings, mediation, policy clarity and alternative dispute resolution mechanisms** can further reduce tax litigation.

Building a Future-Ready Tax System:

- Strong **data protection frameworks** should accompany AI-enabled tax administration to safeguard taxpayer information.
- Continuous investment in **digital literacy, institutional capacity, emerging technologies and international taxation expertise** will ensure a resilient and citizen-centric tax ecosystem.
- Tax reforms should maintain an appropriate balance between **technology-driven efficiency and humane, responsive public service delivery**.

Value Addition for UPSC:

Prelims Facts:

- **CBDT** administers **direct taxes**, whereas **CBIC** administers **indirect taxes**.
- The **GST Council** is a constitutional body established under **Article 279A**.
- **FATCA, CRS** and **DTAAs** strengthen international tax cooperation and exchange of tax information.
- **Advance Pricing Agreements (APAs)** provide certainty in **transfer pricing** for multinational enterprises.

The **5Rs of Responsive Tax Governance** are **Recognise, Respond, Redress, Reflect and Reform**, forming the guiding principles of India's modern taxpayer-centric tax administration