

ARTIFICIAL INTELLIGENCE AS AN ENABLER OF INCOME TAX COMPLIANCE IN INDIA: SHAPING THE FUTURE OF TAX ADMINISTRATION

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Abstract:

Technological advancements are transforming governance worldwide, and artificial intelligence (AI) has emerged as a key driver of reform in public administration. In India, the Income Tax Department is increasingly leveraging AI to enhance compliance, reduce human discretion, and strengthen taxpayer trust. This paper examines how AI enables income tax compliance in India by exploring initiatives such as faceless assessments, pre-filled returns, data analytics, risk profiling, and automated communication. Practical examples from professional experience illustrate how AI identifies missing information, prevents disputes, and streamlines refunds. While AI improves efficiency and transparency, challenges such as data privacy, algorithmic bias, and digital accessibility require careful attention. Responsible deployment of AI has the potential to make India's tax system more efficient, fair, and trustworthy.

Keywords: *Artificial Intelligence; Income Tax Compliance; Tax Administration; Digital Governance; India*

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Introduction:

Taxes form the backbone of any government's ability to fund infrastructure, welfare, and development programs. In India, income tax is a critical source of revenue, yet its administration has historically faced challenges such as underreporting, procedural delays, and disputes arising from discretionary decisions. These challenges sometimes strain the relationship between taxpayers and authorities.

The adoption of digital governance presents opportunities to address these issues. Structured data, third-party reporting, and online platforms enable tax authorities to automate processes and make evidence-based decisions. Artificial intelligence (AI) is emerging as a transformative tool that can analyze large datasets, detect compliance risks, and support both taxpayers and administrators in ensuring accuracy and transparency.

This paper explores AI's role as an enabler of income tax compliance in India and examines practical examples illustrating its real-world impact.

Research Methodology:

This study combines doctrinal and analytical approaches using secondary sources, including reports from the Central Board of Direct Taxes (CBDT), policy documents from the Government of India, OECD publications, and academic research. Practical insights from professional experience with income tax returns have been incorporated to provide a grounded understanding of AI's role in compliance.

For instance, scenarios involving pre-filled returns and AI-assisted identification of missing business income were analyzed. Combining doctrinal research with practitioner insight allows a nuanced perspective on how AI supports effective tax administration.

Understanding AI in Tax Administration:

Artificial intelligence refers to systems capable of performing tasks that traditionally require human intelligence, such as pattern recognition, learning, and predictive analysis. In tax administration, AI can automate data processing, monitor compliance, assess risks, and assist in decision-making.

Globally, tax authorities use AI to optimize audits, detect evasion, and manage large volumes of taxpayer data. In India, AI adoption marks a shift from manual assessments to a data-driven, systematic approach.

Income Tax Compliance in India: Context and Challenges:

Income tax compliance requires taxpayers to report income accurately, claim deductions appropriately, and pay taxes on time. Reforms such as electronic filing, linking Aadhaar and PAN, and integrating multi-agency data have improved compliance.

Yet, challenges remain. Underreporting, particularly of business or non-salaried income, continues to be a concern. Traditional assessment processes can be slow and adversarial, creating frustration for taxpayers. AI-based tools help bridge these gaps, enhance transparency, and encourage voluntary compliance.

AI-Driven Initiatives in Indian Income Tax Administration:

1. Faceless Assessment and Appeals

Faceless assessments and appeals eliminate the need for physical interactions between taxpayers and officers. AI assists in case allocation, document analysis, and discrepancy detection using risk parameters.

****Practical Example:****

During professional practice, I encountered a case where a taxpayer had not fully disclosed business income. The AI-driven pre-filled return highlighted the discrepancy, prompting a clarification request. This intervention ensured accurate filing and prevented a potential dispute with the Income Tax Department. Such experiences demonstrate how AI detects inconsistencies early, benefiting both taxpayers and authorities.

2. Data Analytics and Risk Profiling

AI-based analytics processes information from banks, employers, and other reporting entities. Risk profiling identifies inconsistencies between reported and actual income, allowing authorities to focus assessments on high-risk cases rather than routine filings.

3. Pre-Filled Returns and Automated Compliance Communication

Pre-filled returns, containing salary, interest, and deduction details, simplify filing and reduce errors. AI-driven alerts notify taxpayers of missing information and upcoming deadlines, promoting timely compliance.

****Practical Example:****

Annual information statements and taxpayer information summaries enable automatic capture of most income and expenses. This not only reduces errors but also allows taxpayers and advisors to cross-check data efficiently, fostering confidence in accurate filing.

4. *Detection of Complex Evasion Structures*

AI can detect complex tax evasion strategies, such as circular transactions, shell companies, or offshore income, by integrating multi-source datasets. This strengthens monitoring and enforcement while minimizing unnecessary scrutiny for compliant taxpayers.

5. *Faster Refunds and Efficient Resolution*

AI contributes to faster processing of refunds. By streamlining verification, taxpayers receive refunds more quickly, enhancing trust and satisfaction.

6. *Supporting Legal and Advisory Decisions*

Generative AI tools can assist professionals in identifying relevant judgments and advisory opinions efficiently. For example, when researching prior income tax judgments to advise taxpayers, AI helps locate the appropriate case references quickly. The final guidance, however, relies on the official judgments to ensure legal accuracy. This approach improves efficiency while maintaining compliance with official sources.

Contribution of AI to Voluntary Compliance:

AI reduces the need for physical interaction, increases predictability, and fosters trust among taxpayers. Risk-based scrutiny and automated assistance lower procedural barriers, making voluntary compliance more likely. By combining transparency, efficiency, and practical tools like pre-filled returns, AI helps create a tax system that is both supportive and enforceable.

Challenges and Concerns:

1. *Data Protection and Privacy*

The extensive use of taxpayer data raises concerns about privacy and security. Data breaches could undermine public trust and lead to legal complications.

2. *Algorithmic Bias and Accountability*

AI systems are only as fair as the underlying data and algorithms. Limited transparency in automated decision-making can affect equity and taxpayer recourse.

3. *Infrastructure and Digital Access*

AI requires robust infrastructure and skilled personnel. Digital literacy gaps and limited internet access may prevent some taxpayers from fully benefiting.

AI and the Future of India's Tax Administration:

AI represents more than a technological upgrade; it signals a structural shift in tax governance. Predictive compliance, real-time monitoring, personalized services, and faster refunds can transform the taxpayer experience. Responsible deployment, legal safeguards, and continuous oversight are essential to ensure AI's benefits are equitable and sustainable.

Conclusion and Policy Recommendations:

AI can significantly improve efficiency, transparency, and fairness in income tax administration. Practical examples, including pre-filled returns, annual information statements, and AI-supported legal research, demonstrate how technology can prevent errors, reduce disputes, and accelerate refunds.

****Policy Recommendations:****

1. Strengthen data protection and privacy laws.
2. Ensure transparency and accountability in AI algorithms.
3. Invest in digital infrastructure and capacity building.
4. Raise awareness and improve digital literacy among taxpayers.

With careful and responsible use, AI can help India build a more transparent, efficient, and trust-based tax administration system, shaping the future of governance through technology.

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