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A STUDY ON THE IMPACT OF DIGITALISATION OF INDIRECT TAXATION IN INDIA

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Abstract

The digitalization of indirect taxation in India has significantly transformed the country's tax system, improving efficiency, compliance, and transparency. The introduction of the Goods and Services Tax (GST) and online tax filing platforms has streamlined tax administration and reduced tax evasion. This study examines the impact of digitalization on businesses, taxpayers, and government revenue, identifying challenges and opportunities in the transition to a digital tax regime.

Keywords: Digitalization, Indirect Taxation, GST, Compliance, Transparency, Revenue Collection

INTRODUCTION

Manufacturers and Retailers and collect indirect taxes on behalf of municipalities and governments. Each country and state creates their own specific regulations that often change as product offerings evolve and in response to the dynamic economic landscape. Indirect taxes can apply to physical and digital goods, as well as services.

Direct tax and indirect tax are two separate types of taxes. With direct tax, like income tax, Wealth tax, individuals and organizations pay the government directly based on their earnings or revenue. Indirect taxes are levied on the sales of goods and services and paid for by the customer through the business. The business then pays (remits) the tax collected to the appropriate tax authority.

Across the globe, tax authorities are redesigning methods for assessing and collecting value-added tax (VAT), replacing periodic mostly paper-based compliance reports with e-reporting and e-invoicing. Indirect tax compliance is undergoing the most dramatic changes since the very idea of a VAT first took hold in the 1960s. We are witnessing the development of what the Organization for Economic Co-operation and Development (OECD) describes as data-driven or digital tax administration. The vision is for a digital transformation in which taxation becomes “more of a seamless and frictionless process over time,” according to an OECD paper. As it happened when digital change swept through other businesses or corporate functions, the transformation of tax is creating a more networked and data-focused environment.

DIGITALIZATION OF INDIRECT TAXATION

In a data-driven environment, the tax authority can simply compare various data sources, which they now access in real time, reading actual numbers out of the taxpayer's ERP system, for example. When they see gaps or anomalies, they will simply assess additional tax or block refunds—and they will shift the burden of proof onto the taxpayer when there is any disagreement.

To meet such change head on, businesses should adopt a fundamentally different tax compliance strategy—by thinking digitally. Compliance in a digital regime cannot be managed with manual processes. More than that, however, changes in tax compliance should be seen as an opportunity. Lessons learned from the digitalization of other businesses and functions are applicable here. A significant digital effort is needed for tax, with software solutions embedded in the business.

Due to the digital transformation of information uploaded on the government portals, the tax authorities now have increased visibility of data leading to faster detection of default and consequent action taken. The trend that has had a substantial impact on tax authorities' approach to indirect tax administration is the shift from paper-based reporting to real-time digital reporting in its various forms such as E-invoicing. E-invoicing is a revolutionary transformation in the Indian indirect tax landscape. Through e-invoicing, the tax authorities obtain invoice-related information on a real-time basis. For tax administrations, e-invoicing can assist in closing gaps, prevent in voluntary oversights, enhance risk management capabilities, and of course early detection of fraudulent transactions.

STATEMENT OF THE PROBLEM

With increased in the adaption of technology in every possible field of the economy the process of filling forms and returns of the tax under both direct and income tax were ought to be digitalized with the help of booming technology. However the process of conversion into a paperless system was not quite easy as expected as there were many challenges to be faced as a minimum of 25 to 30% of the population of the country weren't much advanced in using the technology as compared to the younger generation and technological resources is not easily by those living in the rural area of the country.

Digitization comes with massive advantages to businesses. Digitizing invoices (e – Invoicing) first of them with digital tools businesses are able to do error-free compliance; significant benefits have also accrued to government and tax consultant.

Instead of fewer large companies that could aim to reach the global market; digitization has opened up shores for many entrepreneurs. To stay ahead, these businesses need accurate data insights so they can aim for smooth tax compliance and meet their business objectives with it. Succinct and deep insights into ITC leakages and consequent working capital loss can help them make informed decisions about where the gaps lie and what actions should be taken to plug them.

Objectives

1. To analyze the role of digitalization in the administration of indirect taxes in India.
2. To assess the impact of GST and digital tax platforms on compliance and tax evasion.
3. To identify the challenges faced by businesses and taxpayers due to digital tax reforms.
4. To suggest measures to enhance the effectiveness of digital taxation..

Sources of Data

The sources of data collected from the present study are both from Primary as well as Secondary sources.

Primary data's are collected from the direct conversation and observation of Auditors, Tax authorities, small scale business man and GST tax filers.

Secondary data's are gathered from the District Industrial Center(DIC) , research article , Standard Text books, magazines and Websites.

3. Literature Review

Several studies highlight the benefits of digital taxation, such as reduced human intervention, enhanced transparency, and improved tax collection efficiency. However, challenges like technological adaptability, cyber security risks, and compliance burdens for small businesses remain. The study explores existing research on India's transition to digital taxation and compares it with global trends.

IMPACT OF DIGITALIZATION OF INDIRECT TAXATION

1. Widening the Tax Base

Data-centric approaches can broaden tax bases without necessarily increasing taxation levels. Measures could include:

1. Requiring online marketplaces to report sales for purposes of collecting VAT and customs duties.
2. Analyzing past tax filings submitted under current stimulus programs as a way of verifying compliance.
3. Assisting with the collection of property taxes by matching up the land registry with taxpayer files.

2. Increase Clarity and Trust

Establishing electronic platforms for tax registration, filing, payment, and dispute resolution helps citizens navigate these processes more smoothly, provides assurances that tax payments reach actual government accounts, and decreases risks of officials misusing their discretion.

Implementation of technologies like the OPAL (Open Algorithm) developed at MIT will give researchers, think tanks, or any citizen the ability to analyze tax data without access to personally identifiable information independently - creating unparalleled transparency.

3. Reducing Compliance Burden

According to our survey of 190 economies, people and businesses are finding it easier than ever before to pay their taxes. A record number of economies now utilize electronic filing systems - double what existed back in 2004! Digital technology is making paying taxes simpler both in terms of time spent paying them as well as individual payments made per year.

4. Enhancing Administrative Efficiency

As governments become adept in their use of IT, they will see noticeable efficiency gains. Countries just starting their digital transition can leverage AI-enabled data capture of paper records for faster digitalization and reliability of the information; others gain value through simplified procedures or matching filed statements against third-party datasets.

Advanced tax administrations will find using advanced analytics to detect underreporting invaluable. With today's financial instability, some administrations may also reconsider their balance between offsite and onsite audits as an additional value driver.

RECOMMENDATION FOR DIGITALIZATION OF INDIRECT TAXATION

The researcher has to observe the auditors conversation and observation she recommend the following points

1. Implementing tax rules without affecting the development of the digital economy.
2. Create a friendly environment for international business.
3. Ensure compliance with formal obligations by the new VAT payers.
4. Facilitate compliance with the obligations of subsidiary withholding agents.
5. Correctly characterize transactions.

SUGGESTIONS

The Study identified the following proposals to improve the tax enforcement technology of the government:

1. Digitalization may provide the government with greater information on individual consumption, such as due to increased use of digital payment methods and the phasing out of cash payments.

2. Digitalization can help to generate information on and improve existing links between wealth (traded and non-traded assets, homeownership, pensions) and capital incomes (interest, dividends, capital gains, property income, pension accrual).
3. International information exchange can be made automatic and can be improved by creating international registers for asset ownership and capital incomes.
4. Digitalization allows financial institutions to act better as third-party reporters on capital incomes and wealth for the government.
5. Digitalization makes it possible for consumers to act as third-party reporters for the VAT or sales tax, for example, by using electronic payment information (such as debit and credit card payments).

Conclusion

Digitalization of tax reforms aim to modernize taxation, improve tax compliance, and reduce tax evasion, ultimately bolstering the overall economy of a country. By staying informed of these trends, businesses can better adapt to the evolving tax landscape and ensure compliance with the latest regulations.

Understanding indirect taxes and their implications is essential for businesses operating in today's global economy. By familiarizing themselves with the various types of indirect taxes, such as sales tax, VAT, and GST, and by staying informed about the latest changes to tax regulations, businesses can better navigate complex tax regulations and ensure compliance.

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