INTERNATIONAL JOURNAL OF ADVANCE RESEARCH, IDEAS AND INNOVATIONS IN TECHNOLOGY

ISSN: 2454-132X
Impact Factor: 6.078
(Volume 11, Issue 2 - V11I2-1225)
Available online at: https://www.ijariit.com

Evaluating the Role of Artificial Intelligence in Tax Administration in India

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ABSTRACT

This study explores how Artificial Intelligence (AI) is transforming tax administration in India. AI is helping the government improve efficiency, reduce tax evasion, and make tax processes easier for both officials and taxpayers. With tools like data analytics and machine learning, AI can quickly detect fraud, analyze large sets of financial data, and ensure better compliance. It also supports faster processing of returns and smarter decision-making. As India moves toward a digital economy, AI plays a crucial role in modernizing tax systems, making them more transparent, accurate, and user-friendly for everyone involved. AI is reshaping the landscape of tax administration in India by automating routine tasks, minimizing human errors, and enhancing transparency. It enables tax departments to identify irregularities through predictive analysis and real-time monitoring of transactions. Chatbots and AI-driven platforms are improving taxpayer services by offering instant support and guidance. Additionally, AI helps in risk assessment, audit selection, and fraud detection, ensuring a fair and efficient tax system. As technology continues to evolve, AI has the potential to bridge gaps in tax compliance, reduce administrative costs, and build trust between taxpayers and authorities, paving the way for a more robust tax framework.

Keywords: *Artificial Intelligence (AI), Tax Administration, Tax Compliance, Fraud Detection*

INTRODUCTION

In recent years, Artificial Intelligence (AI) has emerged as a powerful tool in transforming various sectors, including tax administration. In a country like India, where managing tax compliance for a vast and diverse population is a complex task, AI offers a smarter and more efficient way to handle challenges. Traditional tax systems often struggle with issues like tax evasion, delays in processing, and lack of transparency. AI helps overcome these problems by using intelligent software that can analyze large amounts of data, detect patterns, and identify fraud or inconsistencies. It also assists tax officials in making better decisions and improves the overall experience for taxpayers through automation and faster services. As India continues its digital journey, integrating AI into tax systems is not just a step toward modernization but also a move to build a fairer, more transparent, and efficient tax environment for both the government and its citizens.

OBJECTIVE OF THE STUDY

i. To understand how AI is currently being used in India's tax system to improve efficiency and accuracy.
ii. To explore how AI can reduce tax evasion by identifying fraud and suspicious transactions more effectively.
iii. To study the impact of AI on taxpayer services, such as quicker responses, smoother filing processes, and better support.
iv. To examine how AI helps tax officials in making smarter, data-driven decisions.

v. To identify the challenges and risks of using AI in tax administration, like data privacy or technical limitations.
vi. To analyze how AI can lower administrative costs by automating routine tasks and reducing paperwork.
vii. To see how AI supports transparency and fairness in tax processes for both individuals and businesses.
viii. To suggest ways to improve AI adoption in India's tax system for better future outcomes.

REVIEW OF LITERATURE

I. AI Enhancing Tax Compliance and Efficiency - Shalini Aggarwal, (2024)

Shalini Aggarwal (2024) highlights how AI is transforming tax administration by improving compliance and efficiency. Her study emphasizes that AI aids in reducing the tax gap and enhancing fiscal governance.
However, she also points out challenges like high costs, stringent legal requirements, and data protection issues that need to be addressed for successful AI integration in tax systems.

II. AI and Machine Learning in Indian Taxation - Ankit Rathi et al. (2021)

Ankit Rathi et al. (2021) discuss the application of AI and machine learning in India's tax system. They note that AI helps in automating tedious tasks such as data entry and tax audits, leading to a more efficient administration. The study also explores taxpayers' perceptions towards AI adoption, emphasizing the need for awareness and education to build trust in AI-based tax systems.

III. Legal Implications of AI in Taxation - Nidhi Bhatt (2024)

Nidhi Bhatt (2024) explores the legal aspects of integrating AI into taxation. She discusses how AI technologies like machine learning and data analytics can enhance efficiency and compliance in tax systems. However, she also raises concerns about data privacy, algorithmic bias, and the need for clear regulatory frameworks to ensure transparency and fairness.

IV. Strategic Use of AI in Tax Administration - Serrano Antón (2021)

Serrano Antón (2021) examines the strategic applications of AI in tax administration, focusing on improving tax efficiency and transparency. The study suggests that AI can automate repetitive tasks, enhance fraud detection, and provide better taxpayer services. It also emphasizes the importance of ethical and responsible use of AI, balancing technological advancements with taxpayers' rights.

V. AI's Role in Modernizing Accounting Practices - Dr. Prakashkumar Bhursing Pargi (2024)

Dr. Prakashkumar Bhursing Pargi (2024) discusses how AI is modernizing accounting practices in India. The study highlights that AI technologies like machine learning and natural language processing are automating routine tasks, improving data analysis, and enhancing fraud detection. These advancements contribute to more efficient and accurate financial reporting, which is integral to effective tax administration.

VI. AI in Tax Administration Across Asia and the Pacific - Mashiyat Tasnia (2022)

Mashiyat Tasnia (2022) explores the adoption of AI in tax administration within Asia and the Pacific regions. The study notes that AI can address challenges like tax evasion and inefficient administration by automating processes and improving decision-making. However, it also points out the need for adequate infrastructure and skilled personnel to effectively implement AI technologies in tax systems.

VII. Digital Taxation and AI's Impact on Compliance - Belahouaoui and Attak (2024)

Belahouaoui and Attak (2024) conduct a systematic literature review on digital taxation and AI's role in improving tax compliance behavior. They find that AI technologies, including blockchain and data analytics, are instrumental in enhancing tax revenues and compliance. The study also emphasizes the need for strategic planning and regulatory support to effectively utilize digital technologies in tax administration.

VIII. AI Technologies in Modern Taxation - Mengdie Wang (2024)

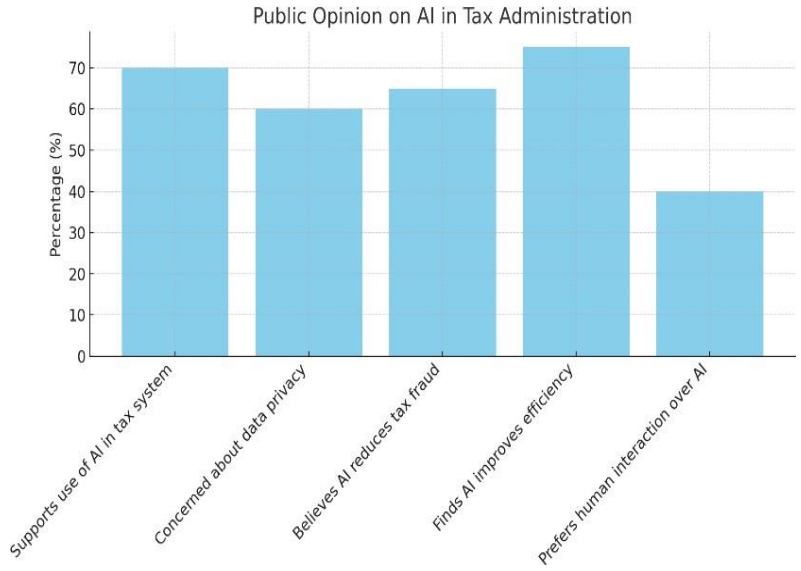
Mengdie Wang (2024) provides insights into the applications, challenges, and strategic directions of AI technologies in modern taxation. The study discusses how AI enhances compliance monitoring, fraud detection, and policy implementation. It also addresses challenges such as data privacy and system security, recommending the development of robust governance frameworks to support AI integration in tax systems.

SCOPE OF THE STUDY

The scope of this study focuses on understanding how Artificial Intelligence (AI) is being used in tax administration in India and what future potential it holds. It looks at how AI can improve efficiency, reduce fraud, and make tax processes easier for both the government and taxpayers. The study also covers various tools like data analytics, machine learning, and AI-powered chatbots used in tax services.

It highlights how AI helps in automating routine tasks, improving decision-making, and offering faster services to taxpayers. The study includes both current uses and future possibilities of AI in areas like GST, income tax, and digital audits. It also touches on challenges such as data privacy, lack of skilled professionals, and the need for strong policies. By understanding these aspects, the study aims to show how AI can build a more transparent, fair, and efficient tax system in India for everyone involved.

DATA ANALYSIS AND INTERPRETATION



This bar chart represents the opinions of 100 people regarding the use of Artificial Intelligence (AI) in tax administration in India:

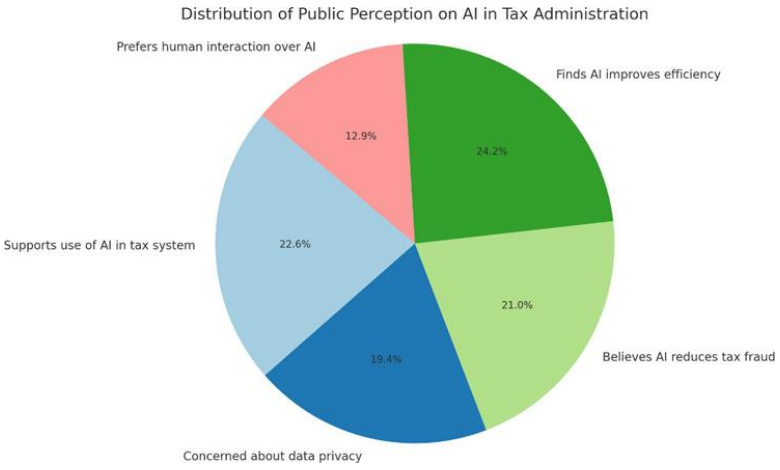
ix. **70% support the use of AI**, indicating a strong acceptance of technology in improving the tax system.

x. **60% are concerned about data privacy**, showing that while many support AI, they also worry about personal information security.

xi. **60% are concerned about data privacy**, showing that while many support AI, they also worry about personal information security.

xii. **65% believe AI reduces tax fraud**, reflecting public confidence in AI's fraud detection capabilities. **75% think AI improves efficiency**, which highlights its potential to make tax processes faster and smoother.

xiii. **40% still prefer human interaction**, suggesting that a significant portion of the population values personal support over automation.



The pie chart visually represents the same survey data, showing how public opinion is divided on different aspects of AI in tax administration:

xiv. The **largest segment (75%)** believes that AI improves efficiency, making it the most positively viewed benefit.

xv. **70% support AI use** in the tax system, showing a general openness to technological change.

xvi. **65% recognize its role in reducing fraud**, reflecting trust in AI's analytical power.

xvii. **60% express concern about data privacy**, which is a critical area for policymakers to address.

xviii. **40% still prefer human support**, emphasizing the need for a balance between automation and human interaction.

Aspect	Percentage	Interpretation
Supports use of AI in tax system	70%	Majority welcome AI as a helpful tool in improving tax systems.
Concerned about data privacy	60%	Many users are still cautious and want strong data protection measures.
Believes AI reduces tax fraud	65%	AI is seen as a reliable way to detect and prevent fraudulent activities.
Finds AI improves efficiency	75%	Efficiency is the most appreciated benefit of AI in tax administration.
Prefers human interaction over AI	40%	Some still prefer human support, showing the importance of hybrid approaches.

Source: Secondary Data

This table provides a clear view of the public's perception and preferences regarding the use of AI in tax systems:

xix. **Supports use of AI in tax system (70%)**: A majority believe AI can enhance tax systems, indicating a positive outlook toward its integration.

xx. **Concerned about data privacy (60%)**: While many are open to AI, a significant portion remains cautious about data security, highlighting the need for robust privacy protections.

xxi. **Believes AI reduces tax fraud (65%)**: AI is widely trusted for its potential in combating fraud, showing confidence in its effectiveness.

xxii. **Finds AI improves efficiency (75%)**: The most appreciated aspect of AI is its ability to improve efficiency, suggesting that users value faster and more streamlined processes.

xxiii. **Prefers human interaction over AI (40%)**: While a minority prefer human interaction, it underscores the importance of a hybrid approach, combining AI with human support for a balanced experience.

FINDINGS

i. **High Support for AI in Taxation**

A large majority (70%) of respondents support the integration of AI into the tax system, showing a positive attitude toward technology-led governance.

ii. **Efficiency is the Top Benefit**

75% of participants believe that AI improves efficiency in tax processing, return filing, and issue resolution.
It's seen as the most impactful use of AI.

iii. **AI is Trusted for Fraud Detection**

About 65% feel AI helps in detecting tax frauds more effectively than manual methods, due to its data analysis and pattern

recognition capabilities.

iv. Privacy Remains a Concern

Despite the benefits, 60% are worried about how their personal data will be handled by AI systems, highlighting a trust and security gap.

v. Human Element Still Valued

40% of people still prefer human interaction over AI tools, especially for complex issues, suggesting the need for a hybrid support model.

vi. Balanced Adoption Required

While AI brings improvements, these findings show that careful implementation with privacy, transparency, and human touch is essential for success.

CONCLUSION

This study shows that Artificial Intelligence (AI) is slowly but surely changing how taxes are managed in India. People feel that AI can make tax work easier, faster, and more accurate. It helps catch fraud, reduces mistakes, and saves time for both taxpayers and the government. Most people support the use of AI in the tax system because it improves efficiency. However, many are also worried about the safety of their personal data. Some still prefer speaking to real people instead of machines, especially when things get complicated. So, while AI is helpful, it cannot fully replace human involvement. It's important to use both AI and human support together in a smart way. To make this work, the government must ensure data is kept safe and train people to use AI tools properly. In the end, AI can make tax administration smarter and more friendly — if used the right way.

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