

# A Comprehensive Framework for Direct Tax Reforms in India: Analysis

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## ABSTRACT

Direct taxes are important for India's economic growth. They help gather money, share wealth, and show the government's goals. However, the way these taxes are set up affects growth, fairness, and whether people follow the rules. This study examines the efficacy of India's main direct taxes. These taxes are personal income, corporate income, and capital gains taxes. This study finds problems that make it difficult for people to follow tax rules and make good economic choices. This suggests that changes are possible and politically sensible. This study reviews changes since 1991 and examines past research on tax policy and digital tools. It checks how the tax system works, including the use of technology to enforce rules and solve disputes. The study found that even with lower rates and better digital tools, problems still exist. These include fairness, complexity, stable revenue, and unequal digital access, which can worsen regional and social disparities. Personal income tax relies too much on salaried workers and has many exemptions that make it complicated and lead to tax disputes. Corporate tax cuts in 2019 might have helped investments, but also reduced revenue and had complex rules. The capital gains tax has different rules for different assets, leading to tax-driven decisions that hurt market efficiency. New tools, such as faceless assessments and AI, have improved transparency, but issues with disputes and trust remain. This study suggests a reform plan with low rates, fewer exemptions, and fairness. It proposes short-term changes to simplify capital gains and deductions, medium-term changes to personal income tax, and long-term changes to integrate taxes and use advanced analytical techniques. The plan requires careful steps, clear communication, and the involvement of stakeholders to keep revenue stable and make the tax system fair and sustainable.

**Keywords:** Direct Taxation, Resource Mobilisation, Redistribution, Economic Priorities, Personal Income Tax, Corporate Income Tax, Capital Gains Tax, Tax Policy, Fairness, Simplicity, Stable Revenue, Digital Access, Exemptions, Tax Disputes, Tax Reforms, Tax Rates, Advanced Analytics and Stakeholder Engagement.

## Background

Direct taxation is integral to the economic development of nations such as India, serving three primary functions: resource mobilisation, income redistribution, and the articulation of economic priorities. In terms of resource mobilisation, direct taxes, including personal and corporate income taxes, provide a stable revenue base essential for financing public goods and services that are critical to development. Effective direct taxation enhances fiscal capacity, thereby enabling governments to invest in infrastructure, education, and healthcare, which are fundamental to sustainable economic growth. However, empirical evidence from other developing and emerging economies suggests that the structure of direct taxes significantly influences economic growth. Specifically, high corporate income tax rates may hinder growth by reducing investment incentives, whereas lowering direct taxes can increase disposable income, stimulate consumption, and enhance competitiveness (Abramovsky et al., 2014; Balasoiu et al., 2023). Direct taxation also plays a crucial role in signalling government priorities and influencing economic behaviours. Tax policy reflects broader economic reforms and the pressures of international integration, thereby indicating to investors and citizens the state's commitment to market-friendly policies or social objectives. In developing countries, direct tax reforms often respond to globalisation and domestic political economy factors that shape their fiscal strategies. For instance, India's economic liberalisation since the early 1990s has included tax reforms aimed at broadening the base and lowering rates, signalling a shift toward a more open and investment-friendly economy (Krueger, 2002; Swank, 2016). In conclusion, direct taxation in developing economies, such as India, serves as a crucial mechanism for mobilising domestic resources, addressing inequality, and indicating economic policy directions. A comprehensive understanding of these roles

provides a foundation for analysing and formulating effective direct tax reforms aligned with India's developmental objectives.

## Evolution of Direct Taxes in India

Since 1991, the evolution of direct taxation in India has undergone significant transformations, coinciding with a period marked by extensive economic liberalisation and reform initiatives. The economic crisis of 1991 catalysed structural reforms that prioritised deregulation, privatisation, and tax reforms aimed at broadening the tax base, enhancing revenue mobilisation, and increasing the system's efficiency and equity (Krueger, 2002). Before 1991, India's taxation system was characterised by high rates, numerous exemptions, and complex procedures that hindered compliance and the expansion of the tax base. The 1991 reforms introduced rationalisation measures in direct taxes, such as personal income tax and corporate tax, which included a reduction in tax rates and an expansion of the base by eliminating many exemptions and deductions. These reforms were designed to enhance fiscal consolidation, mobilise domestic revenue, and support increased public expenditure on development sectors over the long term, thereby improving macroeconomic stability and growth prospects (Krueger, 2002). The implementation of the Goods and Services Tax (GST) in 2017 represented a significant transformation, primarily in the realm of indirect taxation, while also exerting notable effects on direct taxes. The GST integrated numerous indirect taxes, including the Central Excise Duty, Service Tax, and VAT, thereby streamlining the tax structure, mitigating cascading effects, and enhancing compliance through a technology-driven platform (Nayyar & Singh, 2018). This reform bolstered the overall tax administration by increasing transparency and expanding the tax base. The implementation of the Goods and Services Tax (GST) redirected the government's focus on indirect tax revenue towards a unified and streamlined tax regime, thereby underscoring the significance of efficient direct tax collection for maintaining fiscal health. While the GST has enhanced clarity and efficiency in taxation, it has also necessitated an increased emphasis on direct taxes to mitigate transitional revenue risks during the rollout and to support increasingly ambitious fiscal objectives (Deshmukh et al., 2022). Post-GST reform initiatives have significantly enhanced direct tax administration, focusing on increasing compliance through implementing faceless assessments, applying data analytics, expanding the tax base, and enforcing anti-evasion measures. These efforts have led to notable improvements in direct tax collections and buoyancy, thereby supporting the government's fiscal consolidation objectives (Deshmukh et al., 2022). In summary, the evolution of direct taxation in India experienced a pivotal transformation following the 1991 liberalisation and rationalisation reforms, which aimed to expand the tax base and enhance tax compliance. The subsequent implementation of the Goods and Services Tax (GST), a significant reform in indirect taxation, further intensified the focus on direct taxes by streamlining the collection of indirect taxes and reinforcing overall tax administration. This progression reflects India's ongoing efforts to enhance tax efficiency, equity, and revenue mobilisation to support economic growth and development (Deshmukh et al., 2022; Krueger, 2002; Nayyar & Singh, 2018).

## Research Problem Statement

Although systems are now digital and costs are lower, changes are still needed because of fairness, complexity, and economic issues. Digital systems are more efficient but can increase inequality and create new challenges. They aim to make services easier to access, but often help wealthier areas and people. In rural China, digital growth has helped improve well-being, but has mostly benefited richer farmers with better digital access (Chen et al., 2025). The digital economy has widened regional differences in public services, necessitating new rules to address these inequalities (Lyu et al., 2024). Complexity is a problem because digital systems use new technologies and economic models, creating challenges for the competition rules. In Germany, competition laws have changed for digital transformation, but there are still gaps in data-driven markets (Budzinski & Stöhr, 2018). The use of blockchain and smart contracts in developing countries shows the difficulty of ensuring access due to infrastructure issues (Djuraev et al., 2025). Digital systems have improved economic impact, but not equally so. Research shows that economic complexity can reduce inequality, but foreign investment might increase income gaps (Kumar et al., 2025). Corporate digitisation can boost green innovation but requires good governance (Li & Shen, 2021). The economic benefits of digital systems may worsen regional inequalities without specific investments in infrastructure and digital skills, especially in changing regions (Katz et al., 2014; Liu et al., 2023). In summary, even with lower costs and more digital processes, more changes are needed to address the significant differences in fair access and results. It is important to address the challenges of economic

and technological complexities and ensure that digital systems lead to sustainable and inclusive economic impacts. Without changes focusing on fairness, tailored rules, and investments to address differences in skills and infrastructure, digital systems may worsen existing social and economic inequalities (Haefner & Sternberg, 2020; Kumar et al., 2025; Lyu et al., 2024).

## LITERATURE REVIEW

Verma (2025) assessed India's recent tax reforms, including GST implementation, corporate tax reductions, and a dual personal income tax system. This study examines the impact of these reforms on compliance, growth, transparency, and markets through theoretical and empirical analyses. The findings show improved tax efficiency and economic formalisation; however, concerns persist regarding revenue generation and stability. Reform impacts vary across sectors, indicating the need for targeted intervention. This study recommends tax law simplification, digital administration enhancement, and improved compliance systems to ensure fair and efficient tax governance.

Sapra et al. (2025) studied how changes in personal income tax affect people in India, focusing on Haryana, Delhi, and the Delhi NCR. The study shows that even with efforts to simplify the tax system, it remains complicated. Most taxpayers are happy with the amount of tax they pay and the deadlines; however, there is a big need to make things simpler and offer more incentives. The study suggests that providing more rewards to honest taxpayers can improve tax compliance and increase tax revenue. The study concludes that future reforms should focus on lowering tax rates, expanding the tax base, and offering more incentives to encourage honest tax payments, which will help the economy grow.

Manikandan et al. (2025) studied how new technology affects tax changes in India. They focused on digital tools such as e-filing, GSTN, AI, and blockchain. These tools help clarify taxes, reduce cheating, and increase government revenue. The study found some problems, such as a gap in digital access, cybersecurity threats, and high costs. This suggests improving digital systems and creating safe platforms to make taxes more efficient and clearer, which can help the economy grow.

Sharma (2022) emphasised the need to reform India's complex tax system through a Direct Tax Code (DTC). This study examines the flaws in the Income Tax Act of 1961, including complex drafting, frequent amendments, and tax evasion. The DTC aims to simplify direct tax legislation, improve transparency, and enhance adaptability to economic growth. It proposes unified tax rates, digital assessments, and measures to combat tax evasion. This paper notes the implementation challenges, including stakeholder resistance and structural issues, such as tax havens. The study concludes that adopting the DTC is crucial for improving tax compliance, increasing revenue, and creating an efficient tax system aligned with global practices.

Shivakumara and Girisha (2025) studied how direct tax changes in India from 2004-05 to 2024-25 have helped sustainable development. They examined how governments changed tax rules, such as income tax rates, to collect more money, reduce tax cheating, and make society fairer. The study highlights important changes, such as raising tax-free income limits, adjusting tax rates, and using technology such as e-filing. These changes have led to better tax compliance, a wider tax base, and stronger government finance. This study stresses that ongoing tax changes are crucial for India's economic growth and sustainable development goals.

Samantara (2021) analysed India's tax reforms since 1991, examining key policy changes. This study reviews the recommendations of the Tax Reforms and Kelkar Committees, focusing on tax base expansion and administrative improvements. The 2017 Goods and Services Tax (GST) consolidated indirect taxes to reduce market distortions and increase revenues. While initial reforms led to revenue declines, income tax revenue increased through base expansion and compliance, although GST collections faced challenges. This study highlights the need for rationalisation, addressing exemptions, and simplifying procedures to improve revenue productivity and efficiency in India's tax system.

## Research Gap

While studies have examined tax reforms in India, including the GST, income tax changes, and digital

technologies, a comprehensive analysis of sector-specific impacts and equitable tax governance is needed. Research shows improved tax efficiency but highlights issues of revenue stability, administrative complexity, and digital access disparities. Studies should focus on sector-specific interventions and inclusive digital platforms for tax collection. Future research should examine the simplification of tax laws, digital administration, and incentive structures for compliance across different taxpayer groups.

## Research Objectives

The objectives of the study are to (i) conduct a critical analysis of the efficiency and equity of the existing direct tax regime in India; (ii) identify structural and operational impediments that affect compliance and economic decision-making; and (iii) propose a coherent framework for comprehensive reforms.

## Scope and Limitations

This study examines central government direct taxes, such as Corporate Income Tax and Personal Income Tax. It does not cover indirect taxes, such as GST, excise, and sales taxes. This focus helps the study examine taxes directly on income from companies and people, which are important for government finance and economic policy. Indirect taxes were excluded because they are different and have their own reform paths, such as India's GST reform, which combined various taxes into one. The GST reform also showed political delays and conflicts, which are not part of this study on direct taxes (Nayyar and Singh, 2018). The study notes that political factors often affect direct tax reforms in India positively. Political reasons, the interests of different groups, and how institutions work can influence tax policy more than economic reasons. Evidence from other countries shows that political factors often explain when and how tax reforms happen, with governments usually making changes during good economic times (Castanheira et al. 2012). Corporate income tax reforms face challenges, such as companies moving profits to avoid taxes and international tax competition. Globalisation pressures governments to lower corporate tax rates and maintain steady tax revenue. This makes it difficult for India to balance competitiveness with revenue (Devereux et al., 2002; Loretz, 2008). Personal income tax reforms are also affected by political views on fairness and distribution, in addition to economic reasons. Developing countries, such as India, face pressures from globalisation, capital movement, and local politics, making it difficult to create fair and efficient personal income tax policies (Swank, 2016). This study aims to create a framework for direct tax reforms, recognising that the process is not just economic but also shaped by political realities, competing interests, and global pressures, which must be considered in any reform strategy for direct taxes in India.

## Research Methodology

This study employs a critical analysis approach to evaluate the effectiveness and equity of India's current direct tax system. It investigates the evolution of direct taxes in India since 1991, considering historical policy changes and recent reforms. The methodology encompasses an extensive literature review of prior empirical and theoretical studies on tax reforms, the role of digital technologies in taxation, and their economic impact. This study scrutinises specific components of direct taxes, focusing on Personal Income Tax, Corporate Income Tax, Capital Gains Tax, and Tax Administration & Dispute Resolution. It synthesises findings from diverse sources, including government reports, academic research, and international comparisons to identify structural and operational challenges. This approach involves assessing the impact of digital tools, such as AI and faceless assessments, on tax compliance and administration. This study also examines the political economy factors influencing tax reform processes, acknowledging stakeholder interests and global influences. Based on this analysis, this study proposes a multi-phase reform framework (short-, medium-, and long-term) that integrates policy, administrative, and technological recommendations. The methodology is qualitative and analytical rather than empirical or quantitative, relying on secondary data, policy documents, and existing research for the evidence.

## Critical Analysis of the Current Direct Tax Regime in India:

This section of the study is organised into four sub-sections: Personal Income Tax, Corporate Income Tax, Capital Gains Taxation, and Tax Administration and Dispute Resolution. Each of these areas is examined in detail in the following sections.

**Personal Income Tax (PIT):** In India, the Personal Income Tax (PIT) system is meant to be fair by taxing higher incomes more. However, it is complicated because of many exemptions and deductions, such as 80C, 80D, House Rent Allowance (HRA), and Leave Travel Allowance (LTA). This makes it difficult for people to determine their taxable income, leading to higher costs and less clarity. The tax system mainly relies on salaried people, who pay taxes through tax deduction at source (TDS). This focus, along with the many exemptions, reduces the tax base. For instance, deductions such as 80C (investments) and 80D (health insurance) and allowances such as HRA and LTA lower taxable income. This encourages tax planning and creates unfair tax burdens, which is contrary to the intended fairness of tax rates. The system also makes it difficult for taxpayers due to the many forms, detailed disclosures, and paperwork. TDS is supposed to make tax collection easier, but it often causes problems when there are mismatches in income reports. Legal disputes also arise from unclear tax rules, leading to higher costs and uncertainty. To address these issues, the system must balance fairness with easier administration. Simplifying the tax structure by reducing exemptions and setting clear deduction limits could be helpful. Expanding the tax base beyond salaried people and reducing exemptions would improve revenue and equity. Better taxpayer support, simpler TDS processes, and clearer legal guidelines could reduce the burden and disputes. In short, the Indian PIT system is complex because of exemptions and deductions, relies heavily on salaried people, and creates significant compliance challenges. Reforms focusing on simplification, expanding the tax base, and better administration can improve fairness, efficiency, and compliance (Alm et al., 1991; Kaplow, 1999; Rathi et al., 2021).

**Corporate Income Tax (CIT):** In 2019, India cut corporate income tax (CIT) rates. This mainly helped new manufacturing companies and some existing ones to survive. The goal was to boost investment by increasing profits after tax, which could lead to greater economic growth. To determine whether these cuts worked, we need to examine how they affected investment and the loss of government revenue. Tax cuts made it cheaper for new and existing manufacturing firms to invest by increasing their profits after tax. Studies have shown that lower corporate taxes can lead to more spending on capital and innovation because companies have more money to invest and face fewer barriers (Atanassov & Liu, 2019). However, it is difficult to predict the exact amount of investment increase. It depends on factors such as company management, financial limits, and current assets. While these cuts encourage investment, they also mean that the government earns less from taxes. This can limit government spending unless the economy grows sufficiently to make up for it or the tax base is widened (Shome, 2021). India's CIT system has many sector-specific deductions and benefits, especially for Special Economic Zones (SEZs) and certain industries. These incentives can cause problems by favouring some sectors over others, leading to inefficient resource use and potential revenue loss. SEZ benefits aim to boost exports and industries, but can create unfair advantages and make tax management difficult. Sector-specific deductions often lead companies to focus on obtaining tax benefits rather than being efficient or productive, which can distort investment choices and economic results (Shome, 2021). The Minimum Alternate Tax (MAT) adds complexity to India's CIT system. The MAT was created to ensure that companies with high book profits but low taxable income still pay some tax. Although it aims to broaden the tax base, MAT is criticised for being complicated and affecting cash flow and investment decisions, especially for capital-heavy firms. This causes issues where companies pay MAT but have trouble using the credits they earn, leading to disputes and inefficiencies. The ongoing use of MAT shows the difficulty in balancing revenue protection and encouraging investment (Shome, 2021). In short, the 2019 tax cuts in India aimed to make investing more attractive by lowering tax rates, which could help with capital growth and innovation in the long run. However, the impact varies based on the company and sector traits. Sector-specific tax breaks and SEZ benefits have caused distortions, making it harder to have a neutral and efficient tax system. While attempting to stop tax base erosion, the MAT system adds more complexity and affects company behaviour. These issues highlight the challenge for policymakers in balancing investment promotion with maintaining a broad and efficient tax base in India's corporate tax system.

**Capital Gains Taxation:** Capital gains tax in India is complex and has multiple dimensions. This is because different assets, such as stocks, bonds, real estate, and unlisted shares, have different rules. Each asset type has its own definition of short- and long-term holdings, which affects how they are taxed. For example, stocks on recognised exchanges are considered long-term if they are held for more than a year. However, for real estate, you might need to hold it for two or three years. Unlisted shares have their own rules, which makes things even more complex. This complexity affects how people invest in the stock market. Taxes on capital gains can change investors' behaviour. They might delay selling assets to obtain lower tax rates or sell at a loss to reduce taxes.

This can change the amount of trading, especially when assets become long-term. These actions can make the market less efficient because trading is influenced by taxes, not just asset value. Different tax rates and holding periods can also change where people invest. High taxes can lower returns on investments, which might discourage long-term investments in some areas. This can lead to less investment, especially in areas where taxes are high or unclear. Conversely, lower or more consistent tax rates can encourage investment by reducing tax-related behavioural changes. Studies have shown that capital gains taxes affect how people choose to invest. Investors may change their portfolios to pay less tax. For example, they might buy more stocks in certain situations to delay taxes or switch between asset types to obtain better after-tax returns. In India, the many different rules for capital gains tax make it difficult to plan and comply with taxes. This can hurt market efficiency and reduce the incentives for long-term investment. Simplifying tax rules or making them more consistent could improve market efficiency and support long-term investment growth, aligning tax policy with economic goals.

**Tax Administration and Dispute Resolution:** India has improved its tax system with new methods for handling tax-related issues and disputes. They use faceless assessments and appeals, which rely on Artificial Intelligence (AI) and Machine Learning (ML). These technologies make decisions faster and more accurately, with less human involvement. This helps solve problems such as tax evasion and inefficiencies in old systems, which often lack sufficient staff for tasks such as data entry (Rathi et al., 2021). Faceless systems can make the process more transparent and fairer, thereby reducing conflicts between taxpayers and the authorities. However, there are concerns about the complexity of AI/ML systems, how well taxpayers understand them, legal issues, and whether these systems are fair and ethical in their application. These concerns can affect taxpayers' trust and compliance (Rathi et al. 2021). Despite these advancements, India still faces many tax disputes and case backlogs, similar to the delays in the judiciary. This backlog can weaken enforcement and delay justice or final tax decisions (Bonsall et al., 2023; J.A, 2024), reducing taxpayer confidence and using many administrative resources. The appeals process is important for correcting mistakes and giving taxpayers confidence that initial decisions can be reviewed, thereby improving the quality of tax dispute resolution. It also encourages decision-makers to make fair decisions to avoid being overturned (Shavell, 1995, 2006). The use of AI/ML in the Indian tax system shows a move towards using data analytics to improve enforcement and reduce manual audits. This can help identify noncompliance and reduce unnecessary interventions (Rathi et al., 2021). However, it is important to balance this, as excessive enforcement based on data can create distrust and feelings of unfair targeting, reducing voluntary compliance. Using data for risk-based assessments and predictive analytics can focus efforts on cases with higher compliance risks, reducing unnecessary taxpayer harassment (Rathi et al., 2021). In conclusion, faceless assessments and appeals can improve efficiency and fairness in the Indian tax administration. However, these innovations require careful management to address their complexity and taxpayer perceptions. The high number of tax disputes shows the need for more reforms in dispute resolution to ensure timely justice and error correction in the tax system. Finally, using data wisely is a good alternative to intrusive enforcement; however, finding the right balance is crucial for maintaining taxpayer trust and compliance. These factors shape the future of tax administration and dispute resolution in India.

### Important Areas Requiring Reform

This section is organized into four sub-sections: Simplification and Base Broadening, Enhancing Equity and Progressivity, Addressing the Economy of the 21st Century, and Administrative and Institutional Reforms. Each of these subsections is discussed in detail below.

**Simplification and Base Broadening:** India is working to simplify and make its tax system fairer. This includes changes to personal income, corporate, and capital gains taxes. The goal is to make taxes easier to understand and follow global trends for better efficiency and fairness in tax collection. For personal income tax, India is considering a simpler system with fewer tax brackets than the current one. One idea is the exempt-exempt-taxed (EET) system. In this system, savings are not taxed when you deposit money or when it grows, but they are taxed when you withdraw the money. This encourages people to save and invest while maintaining a clear tax system. For corporate tax, India wants to remove most of the special tax breaks. This would create a system with low rates and a broad tax base. This change can help prevent companies from moving profits to avoid taxes and keep tax revenue stable. Studies show that removing special tax breaks and implementing strict rules against tax avoidance can make the tax system fairer and more efficient. India aims to make the capital gains tax system more consistent. This implies having similar tax rates for capital gains and other income types. It also involves

fixing issues with when and how the gains are taxed. Simplifying this tax can lower costs and maintain investment incentives that help the economy grow. Overall, these changes aim to make the tax system in India more transparent and efficient. This can lead to better compliance, fewer investment distortions, and stable revenue, even in the face of global tax competition.

**Enhancing Equity and Progressivity:** Certain changes are needed to make India's tax system fairer, especially for the wealthy. These include introducing a wealth tax instead of raising personal income tax rates, strengthening inheritance and gift taxes, and improving taxes for the "super-rich." A wealth tax targets the rich to reduce wealth concentration and ensure fairness in wealth distribution. In Europe, past wealth taxes failed because of too many exemptions and tax avoidance. For success, a wealth tax requires a wide base, few exemptions, and strong enforcement (Saez & Zucman, 2022). In Denmark, wealth taxes have limited wealth growth among the rich but may lower investments (Jakobsen et al., 2019). Studies show that wealth taxes can reduce wealth concentration and help society, even if the rich lose out (De Nardi & Yang, 2015). In India, a wealth tax would require accurate asset valuation and management to be a good alternative to higher income tax rates (Kaplow, 2000). Improving inheritance and gift taxes can also make the system more equitable. These taxes raise money and reduce intergenerational inequality. In OECD countries, they can be fair and efficient if rates and exemptions are set wisely (Inheritance Taxation in OECD Countries, 2021). Estate and gift taxes are debated for different reasons for giving and the challenge of combining them with income taxes (Kaplow, 2000). Research shows that high inheritance tax rates often come from political pressure and views on the role of inherited wealth in inequality (Bastani & Waldenström, 2021; Scheve & Stasavage, 2012). In India, introducing or improving these taxes would require solving administrative issues, closing loopholes, and raising awareness about the social effects of inherited wealth. Lastly, better taxing the "super-rich" requires a mix of wealth and inheritance taxes, along with better personal income tax design and enforcement. A progressive tax system that taxes wealth and transfers can reduce the concentration of economic power. However, it is important to balance revenue goals with economic incentives to avoid discouraging investment (De Nardi & Yang, 2015; Jakobsen et al., 2019). Policy integration, transparency, and political feasibility are key to ensuring that the super-rich pay their fair share without hurting economic growth (Kaplow, 2000). In conclusion, implementing a wealth tax in India is possible, but it requires careful planning to address past international failures, including a broad tax base and strict enforcement. Strengthening inheritance and gift tax systems can support wealth taxes in reducing inequality between generations by adjusting rates and building public support through awareness campaigns. Together, these reforms can make the tax system more progressive and fairer by effectively taxing the ultra-wealthy and reducing their excessive economic advantages.

**Tackling the Economy of the 21st Century:** India's tax system in the 21st century faces several challenges. These include taxing the digital economy, gig workers, and environmental taxes, such as the carbon tax. Digital businesses often work across borders with little physical presence, making it difficult to apply traditional tax laws. The OECD's Pillar One and Pillar Two solutions aim to fix this by setting rules for profit sharing and a global minimum tax, respectively. India also uses the Equalisation Levy to tax foreign digital companies that operate in the country without a physical presence. This matches global efforts to ensure fairness and prevent tax avoidance by large digital companies (Lucas-Mas and Junquera-Varela, 2021; Nembe and Idemudia, 2024). Digital platforms have changed the job market for gig workers. They offer flexible work but also create tax and worker-protection issues. Many gig workers in India work informally, which makes it difficult to tax their income and provide social security. New tax rules are needed to tax these incomes while considering workers' vulnerabilities (Alauddin et al., 2025; Ray, 2024). Tax policies must also support economic growth and innovation in digital services (Munoz et al. 2022). Environmental taxes, such as carbon taxes, are part of India's tax system to address climate change. These taxes aim to reduce carbon emissions by encouraging businesses and consumers to become more sustainable. The carbon tax is part of India's efforts to align its economic and environmental goals (Nayyar & Singh, 2018). In summary, India's tax strategies focus on international cooperation for digital taxes, specific measures such as the Equalisation Levy, and new rules for gig economy income. Simultaneously, India is using environmental taxes to support sustainable development. These efforts show the complexity of taxing new economic models while ensuring fairness and compliance (Alauddin et al., 2025; Munoz et al., 2022; Nembe and Idemudia; Idemudia, 2024).

**Administrative and Institutional Reforms:** India's current direct tax system requires significant changes to function better. Three main areas need to be focused on: simplifying tax forms, setting up a strong system to

solve disputes, and improving the skills and ethics of tax workers. Simplifying tax forms and using pre-filled forms can make tax filing easier and reduce mistakes. Pre-filled forms have taxpayer data already entered by tax authorities, which helps in filing and reduces errors. Some people might worry about pre-filled forms, but good communication can help them accept this (Schwebke et al., 2024). The use of advanced technologies such as AI and ML can automate tax processes, making them faster and less prone to errors (et al., 2021). However, it is important to ensure data accuracy and privacy to gain taxpayer trust. A strong dispute resolution system is needed to reduce long legal battles in the Indian tax system. Long disputes lower taxpayer morale and slow revenue collection. Current systems are inefficient and unclear. Setting up special tribunals and alternative dispute resolution methods can speed up and lower the cost of dispute resolution, improving taxpayer satisfaction. International experience shows that transparency, fairness, and speed are important in resolving tax disputes. Clear communication and taxpayer education can build trust and compliance (Ajaz and Ahmad, 2010). Using digital platforms for dispute management can make the process more transparent and efficient. The skills and ethics of tax workers are crucial for an effective tax system. In India, problems such as corruption and lack of skills hurt tax collection (Ajaz & Ahmad, 2010). Reforms should focus on training and skill development, especially in digital tax administration and AI systems, while strengthening ethical standards to reduce the risk of corruption. Ethical tax administration builds taxpayer trust and encourages voluntary compliance (McGee, 2008). The use of digital technologies and faceless assessments has improved efficiency and reduced corruption risks (Rathi et al., 2021). Building a skilled and ethical workforce through better recruitment, training, and accountability is vital to a sustainable tax system. In conclusion, reforms in India's direct tax system should focus on simplifying tax return processes with advanced pre-filing methods, creating an efficient dispute resolution system to reduce litigation, and improving the skills and ethics of the tax workforce. The use of digital technologies, including AI and machine learning, can help achieve these improvements by reducing errors, increasing transparency, and optimising administrative workloads. However, success depends on building taxpayer trust, continuous skill development, and a strong commitment to ethical governance (Ajaz & Ahmad, 2010; McGee, 2008; Rathi et al., 2021; Schwebke et al., 2024). Together, these reforms can improve tax compliance, reduce corruption and litigation costs, and strengthen the overall effectiveness of the direct tax system in India.

### **Proposed Framework for Direct Tax Reforms**

This section of the study is organised into five sub-sections: Guiding Philosophy, Short-term Priorities (1-2 years), Medium-term Agenda (3-5 years), Long-term Vision, and Addressing Transitional Challenges and Political Economy Constraints. Each of these subsections is discussed in detail below.

**Guiding Philosophy:** The proposed framework for direct tax reforms in India is predicated on a guiding philosophy that emphasises low tax rates, a broad tax base, minimal exemptions, certainty, and progressive equity. This approach seeks to establish a more transparent, efficient, and equitable tax system that fosters economic growth while ensuring fairness in tax burdens across income groups.

**Short-term Priorities (1-2 years):** In the short term (1-2 years), the primary objective is to streamline existing tax provisions by rationalising capital gains taxation to mitigate complexities and enhance compliance. The simplification of Personal Income Tax (PIT) deductions is also prioritised to facilitate easier filing and alleviate administrative burdens. Furthermore, fortifying dispute resolution mechanisms is essential to bolster taxpayer confidence and diminish litigation-related delays and costs. These measures are designed to enhance certainty and reduce compliance costs, effectively aligning with the guiding philosophy.

**Medium-term Agenda (3-5 years):** The medium-term Agenda, spanning three to five years, entails a comprehensive revision of the Personal Income Tax (PIT) slab structure to more accurately reflect contemporary economic conditions and enhance progressive equity. This phase also includes the gradual elimination of corporate tax incentives that contribute to distortions and complexity, thereby expanding the tax base and enhancing the stability of revenue. Additionally, a critical component of this agenda is the development of a comprehensive digital tax framework to address the challenges posed by the digital economy, which aligns with international efforts to mitigate tax base erosion and profit shifting in digital transactions.

**Long-term Vision:** The long-term vision anticipates a more profound integration within the tax system, including the potential consolidation of corporate and dividend taxation to alleviate cascading effects and enhance tax neutrality across various forms of business income. The implementation of advanced data analytics and artificial intelligence is also expected to improve compliance monitoring and the efficiency of tax administration. Ultimately, the development of a new Direct Tax Code should be pursued to comprehensively embody these principles and reform initiatives, ensuring a forward-looking and adaptable tax system.

**Addressing Transitional Challenges and Political Economy Constraints:** Solving problems in the political economy requires managing resistance from stakeholders. This requires clear communication and a step-by-step plan to avoid sudden revenue changes that could disrupt financial plans. It is important to communicate clearly to get everyone on board and make the transition easy for taxpayers and administrators. We must stress that there will be no revenue loss to maintain stable financial plans during reforms. This approach matches global tax reform trends, which focus on widening the tax base, lowering tax rates, and using digital tools and data analytics to improve tax administration (Mahpudin, 2024; Nayyar & Singh, 2018; Rathi et al., 2021). The digital tax part is important because countries face new challenges, such as Indonesia's recent changes in the digital economy (Mahpudin, 2024). The use of AI and machine learning to boost compliance shows how tax administration is innovating to keep up with a fast-changing economy (Rathi et al., 2021). Overall, this reform plan balances the need for simplicity with the future goals of modernisation, fairness, and efficiency. This ensures long-term financial health and supports India's economic growth.

## FINDINGS OF THE STUDY

The findings of this study are discussed below.

- i. Direct taxes in India are important for gathering money, sharing wealth, and demonstrating government priorities. Good tax reforms help the economy to grow steadily.
- ii. Since 1991, India's direct tax system has undergone significant changes. Tax rates have decreased, and the tax base has widened. This has helped improve the country's financial and economic stability. The 2017 Goods and Services Tax (GST) reform mainly focused on indirect taxes but also improved the collection and management of direct taxes.
- iii. Despite digital progress and lower costs in tax management, significant problems remain regarding fairness, complexity, and economic gaps. Digital tax systems might worsen inequalities unless there is investment in infrastructure and skill-building, especially in poorer areas.
- iv. Studies have shown that tax reforms improve tax efficiency, compliance, and economic formalisation. However, there are still problems, such as maintaining stable revenue, managing complex systems, and unequal access to digital tools. The effects on specific sectors and the need for inclusive digital platforms have not been well studied.
- v. The current direct tax system is very complicated, especially for personal income taxes. This is because there are many exemptions and deductions available. These factors make it difficult to follow the rules and reduce the amount of tax collected. In 2019, corporate tax rates were lowered to encourage investments. However, there are still problems. These include special incentives for certain sectors, the complex Minimum Alternate Tax, and the need to meet the government's revenue goals.
- vi. Capital gains taxes are complicated and confusing. This affects how people invest and how well the markets function. Simplifying tax rates and holding times simpler and more consistent could encourage more investment.
- vii. Tax management has improved through faceless assessments and the use of AI and machine learning. This makes the process more efficient and clearer. However, ongoing legal issues and case backlogs still hurt taxpayer trust and the enforcement of tax laws in the country.
- viii. Key areas for reform have also been identified. These include simplifying and expanding the tax system, introducing wealth and inheritance taxes for the very rich, addressing issues related to taxing digital and gig work, and improving the administrative and institutional strength of the tax system.
- ix. The proposed reform plan focuses on keeping taxes low and fair by using technology. In the short term, it aims to simplify capital gains tax and improve ways to resolve disputes. In the medium term, it plans

to change personal income tax brackets, remove corporate tax benefits, and create a digital tax system. The long-term goal is to combine taxes and use advanced data analysis.

- x. To address the limitations of the political economy, it is important to manage stakeholders carefully, communicate openly, and implement changes gradually. This helps avoid revenue problems and ensures that people accept the changes.

The findings highlight the need for a reform strategy that is balanced, technologically supported, and politically viable to improve the efficiency, equity, and sustainability of India's direct tax system.

## CONCLUSION

Direct taxation in India plays a pivotal role in resource mobilization, income redistribution, and articulation of governmental priorities, thereby significantly contributing to the nation's economic development. Since the landmark reforms of 1991, the direct tax system has undergone substantial evolution, marked by reductions in tax rates and an expansion of the tax base, collectively enhancing fiscal stability and growth. The implementation of the Goods and Services Tax (GST) has further streamlined indirect taxation, indirectly highlighting the importance of an efficient, direct tax regime. Despite advancements in digital tax administration and reduced compliance costs, challenges persist in ensuring fairness, managing complexity, and addressing disparities in digital access, which risk exacerbating existing inequalities. The current personal income tax system remains intricate due to numerous exemptions and deductions, while corporate tax reforms have bolstered investment incentives but continue to encounter issues related to sector-specific incentives and the Minimum Alternate Tax. The complexity of capital gains taxation impedes investment behaviour and improves market efficiency. Enhancements in tax administration, particularly through faceless assessments and AI-driven processes, have improved transparency and efficiency but have not fully resolved legal backlogs or taxpayer trust issues. Key reform areas include simplification and base broadening, the introduction of wealth and inheritance taxes to enhance progressivity, adaptation of tax policies to the digital economy and gig workers, and strengthening administrative and institutional capacities. The proposed reform framework advocates a balanced approach emphasizing low rates, a broad base, minimal exemptions, and progressive equity, supported by technological innovation and careful political-economic management. Short-term goals focus on simplifying capital gains tax and dispute resolution; medium-term plans include revising personal income tax slabs, phasing out distortive corporate incentives, and establishing a digital tax framework; and long-term visions encompass tax integration and advanced data analytics. Effective communication and phased implementation are critical for managing stakeholder resistance and ensuring revenue stability. This comprehensive strategy aims to create a transparent, efficient, and equitable direct tax system that supports sustainable economic growth and development objectives in India.

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