

Public Sector Governance in Taxation: A Critical Examination of Fiscal Accountability, Administrative Efficiency, and Revenue Integrity

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Abstract

This study critically examines public sector governance in taxation, focusing on the intricate interplay among fiscal accountability, administrative efficiency, and revenue integrity. It investigates how robust governance frameworks enhance transparency in public fund utilization, streamline tax administration processes, and safeguard revenue collection against leakages, corruption, and evasion. Despite growing global emphasis on good governance, a significant research gap persists in integrated empirical analyses that simultaneously address these three pillars within diverse institutional contexts, particularly in emerging economies where fragmented reforms often yield suboptimal outcomes. Employing a mixed-methods approach combining econometric modelling of panel data from multiple jurisdictions, qualitative case studies, and stakeholder surveys, the research reveals that strong fiscal accountability mechanisms significantly boost administrative efficiency, while lapses in revenue integrity erode public trust and fiscal capacity. Key findings demonstrate that digitalization and institutional autonomy improve compliance rates by 18-27%, yet political interference remains a persistent barrier. The implications underscore the urgent need for holistic governance reforms to strengthen state legitimacy, mobilize domestic resources effectively, and advance sustainable development goals through equitable and efficient tax systems.

Key Words: Public Sector Governance, Fiscal Accountability, Administrative Efficiency, Revenue Integrity, Tax Compliance, Institutional Reforms

I. Introduction: Governance Crisis in Contemporary Taxation

India's tax system is changing significantly as a result of the GST 2.0 revisions and the Income-tax Act, 2025 (which will take the place of the 1961 Act on April 1, 2026). These initiatives provide base-broadening, digital efficiency, and simplification, but they also highlight important governance fault lines, including continuing litigation, strained cooperative federalism, a lack of administrative capacity, and fairness concerns in a technologically uneven society [1]. The revised Income-tax Act, 2025 addresses virtual digital assets and reduces exemptions while streamlining the legislation from 819 parts to 536, adopting plain-language writing, introducing a unifying "Tax Year", and expanding faceless processes. Complementary Budget 2025-26 measures strengthened the default new tax system by increasing refunds (tax-free income up to ₹12 lakh/₹12.75 lakh for salaried), expanding the standard deduction (₹75,000), and facilitating compliance through extended ITR-U windows. Although the goal of these amendments is to increase compliance and decrease conflicts, there is a chance that new litigation could arise due to transitory issues, especially with regard to loss set-off in tightly owned corporations, continuity provisions, and interaction with the previous Act [1].

In contrast, GST 2.0 was introduced at the 56th GST Council meeting in September 2025, simplifying the multi-slab structure into a cleaner framework dominated by 5% and 18% rates, with a 40% demerit charge for some luxury and

sin items (effective September 22, 2025). Track-and-trace systems, SEZ supply clarifications, and GSTAT operationalization are additional milestones. The change has heightened discussions about revenue neutrality and state sovereignty, particularly with regard to the post-GST compensation cess, even if it was meant to reduce consumer costs and compliance hassles^[1].

These changes take place in the midst of a governance crisis marked by disputes over government finances. Critics point to the GST Council's tendency toward centralization and the growth of cesses and surcharges outside of the divisible pool, while states report decreasing tax buoyancy and increased reliance on federal payments. This undermines fiscal sovereignty and puts the "Co-Operative Federalism" philosophy that supported the introduction of the GST to the test.

The burden is increased by litigation overload. Procedural problems—such as the legitimacy of show-cause letters, the denial of cross-examination, forced recoveries, and ITC disputes—remain notwithstanding digitalization. Important safeguards are provided by recent Supreme Court interventions: *Hyatt International Southwest Asia Ltd. Vs. ADIT (2025 INSC 891)* upheld permanent establishment under the India-UAE DTAA; *DIT Vs. American Express Bank Ltd. (2025 SCC OnLine SC 2806)* applied Section 44C ceilings on head office expenses; and *Sharp Business System Vs. CIT (2025 SCC OnLine SC 2892)* permitted non-compete fees as revenue expenditures under Section 37(1). Anti-avoidance scrutiny in treaty claims was highlighted by *the Tiger Global judgment (2026 INSC 60)*. Decisions from the GST High Court in 2025–2026 limited unreasonable demands and upheld natural justice principles^[2].

Strong data analytics and AI-driven compliance to reduce conflicts; calibrated central-state revenue-sharing changes to rebuild federal confidence; judicial-administrative synergy for prompt clarifications; and deeper stakeholder consultation and capacity-building for smooth transition. It is crucial that the new framework incorporates equitable digital access, procedural protections, and taxpayer rights. Only then, these audacious changes will be able to turn governance issues into chances for an open, just, and growth-oriented tax system that fortifies rather than weakens India's federal structure.

II. Evolving Paradigms of Public Sector Governance in Taxation

The previously rigid, hostile, and compliance-focused bureaucratic style of public sector governance in taxation has been replaced by a dynamic, technology-enabled, citizen-centric, trust-based ecosystem. In keeping with global best practices, such as OECD tax policy frameworks and digital reporting standards, this evolution places a high focus on fiscal responsibility, administrative efficacy, and revenue integrity. This paradigm shift in India is exemplified by comprehensive legislative reform, rate reduction, digital integration, and judicial endorsement of substance-over-form principles. Recent modifications under the Income Tax Act, 2025, GST 2.0 initiatives, and Union Budget policies demonstrate a commitment to "Maximum Governance – Minimum Government" by reducing taxpayer friction and strengthening enforcement against avoidance and evasion^[4].

a. Digitalization, Simplification, and Structural Reforms for Administrative Efficiency

The Income Tax Act, 2025, which took the place of the six-decade-old Income Tax Act, 1961 and went into force on April 1, 2026, is a key component of the new government paradigm. From over 819 sections spread across several chapters and 14 schedules in the previous Act to 536 sections in 23 chapters with 16 schedules, the new Act significantly decreases the structural complexity. It has a single "Tax Year" idea that is directly in line with the fiscal year, simplified wording, consolidated provisions, the removal of duplicate and out-of-date phrases, and better definitions. This improves predictability and compliance by doing away with the distinction between the assessment year and the prior year^[1].

The Act incorporates provisions for Virtual Digital Assets, fortifies computerized compliance systems, and encourages faceless, data-driven government while maintaining current tax rates and not imposing additional taxes. While implementing the new framework prospectively for tax years starting on or after April 1, 2026, transitional arrangements guarantee smooth continuation for ongoing processes. With reduced forms, revised audit reports (such as consolidated Form 26), and increased requirements for digital filing, the Complementary Income Tax Rules, 2026 further operationalize these reforms^[1].

The "GST 2.0" or Next-Gen improvements in indirect taxes were introduced during the 56th GST Council Meeting on September 3, 2025. One of the most important of these is the rationalization of rates from a multi-tiered system to a more straightforward, citizen-friendly model: a standard rate of 18% and a merit rate of 5%, with no exemptions for

necessities, 3% for gold and silver, and a demerit rate of 40% for luxury, sin, and certain commodities. The majority of the adjustments began on September 22, 2025 (Tobacco goods were phased individually). In addition to correcting inverted tariff structures, these measures stimulate consumption, help labour-intensive industries, improve revenue buoyancy and predictability, and give relief on necessities (such as insurance plans exempted) [5].

This efficiency drive was strengthened by the Union Budget 2025–2026 (and subsequent 2026 measures), which expanded presumptive taxation regimes for small taxpayers, increased standard deductions, raised TDS thresholds, and improved personal income tax thresholds under the new regime (effectively making income up to ₹12 lakh tax-free via rebate under Section 87A). Administrative costs are further reduced by digital initiatives like analytics-driven compliance, standardized forms, and pre-filled returns [6].

b. Fiscal Accountability and Revenue Integrity: Judicial Safeguards and Anti-Avoidance Mechanisms

Strong accountability is ingrained in contemporary governance paradigms through impersonal evaluations, real-time data analytics through Project Insight, required reporting for financial accounts and digital assets, and strict anti-avoidance regulations. The Supreme Court has been crucial in striking a balance between revenue interests and taxpayer rights.

In the landmark case of *Authority for Advance Rulings (Income Tax) Vs. Tiger Global International II Holdings (2026 INSC 60)*, the Supreme Court denied treaty benefits under the India-Mauritius DTAA for indirect transfers made via Mauritius companies. When GAAR analysis indicates that the structure is largely intended for tax avoidance (conduit arrangements without substance), the Court concluded that Tax Residency Certificates (TRCs) are not definitive confirmation of eligibility. This decision, which deals with a major departure connected to Flipkart, emphasizes content over form, upholds the applicability of GAAR even to grandfathered investments in specific situations, and implies a closer examination of cross-border structures while defining boundaries to avoid retroactive overreach.

The new Act's reassessment rules (Sections 279–286) have been simplified, and the Finance Act, 2026 amendments have addressed disagreements between Faceless units and Jurisdictional Assessing Officers. In reassessment notifications, the Supreme Court has placed a strong emphasis on procedural protections, concrete material criteria, respect to statute of limitations, and natural justice principles. The Court has maintained the "clean slate" policy for resolution applicants in IBC-related cases, shielding them from pre-insolvency tax obligations while permitting revenue to pursue claims within legislative frameworks [7].

By reducing aggressive avoidance and leakage, these court interventions improve revenue integrity and foster responsibility through clear, time-bound procedures.

c. Critical Examination and Future Trajectory

The changing paradigm clearly strengthens fiscal accountability through data-driven oversight and procedural fairness, increases administrative efficiency through simplification and digitization, and protects revenue integrity through targeted enforcement and international alignment (e.g., OECD Pillar Two influences and digital asset reporting). Effective transition provision implementation, field officer capacity building, residual lawsuit reduction, fair application across taxpayer segments, and striking a balance between the new Act's expanded search authorities and taxpayer safeguards are still obstacles, nevertheless [8].

India's strategy maintains strong protections while being in line with worldwide trends toward trust-based taxes and cooperative compliance. Stakeholder participation, technical stability, judicial-executive unity, and ongoing result monitoring are essential for long-term success. The main objective is a predictable, low-friction system that promotes economic growth, voluntary compliance, and sustained public income, as stated in official CBDT FAQs and GST Council materials [8].

III. Fiscal Accountability: Transparency, Oversight, and Democratic Legitimacy

The practical and normative cornerstone of public sector governance in taxes is fiscal accountability. By guaranteeing that the forceful extraction of private resources through taxes is balanced by open stewardship, strict institutional supervision, and unassailable democratic legitimacy, it operationalizes the social compact. In the critical examination within Examination of Fiscal Accountability, Administrative Efficiency, and Revenue Integrity, this triad directly addresses persistent challenges of leakages, discretionary abuse, and erosion of taxpayer trust, while anchoring reforms aimed at efficiency and integrity [9].

a. Conceptual Foundations: Interlocking Pillars

Actionable, detailed, real-time accessibility of fiscal information—from revenue projections and collections to contingent liabilities and performance outcomes—is necessary for transparency, not just disclosure. Ex-ante legislative permission, ex-post audit by supreme audit agencies, and judicial review are among the many layers of oversight systems. In order to prevent "taxation without representation" in its contemporary forms, democratic legitimacy requires that taxes reflect informed public agreement, procedural fairness, and equitable burden-sharing.

Here, deficits set off a vicious cycle where opacity encourages evasion, lax inspection encourages corruption, and diminished legitimacy reduces voluntary compliance. Improved revenue buoyancy and smaller tax gaps are empirically correlated with higher fiscal transparency ratings in the PEFA and IMF frameworks. These pillars appear in taxes through features of participatory budgeting, independent dispute resolution, digital audit trails, and statutory clarity [9]

b. Landmark Policy Reforms: The Income-tax Act, 2025 and Beyond

India exclusively experienced a radical change. With effect from April 1, 2026, the Income-tax Act, 2025 repeals the 1961 Act, lowering parts from 819 to around 536, rearranging chapters logically, streamlining wording, including provisos, and combining "Previous Year" and "Assessment Year" into a single "Tax Year" [1]. Reduced interpretational disagreements, improved readability, and taxpayer-centric management are the specific goals of these modifications [9].

In addition, the Income-tax Rules, 2026 place a strong emphasis on cross-border reporting, improved FMV standards, digital compliance, and more stringent data integrity in securities transactions [10]. Union Budget 2026-27 enhanced safe harbours, improved faceless/digital procedures to reduce interaction and strengthen analytics-driven enforcement, reduced TCS rates (e.g., on LRS remittances for education/medical to 2%), and provided tax certainty measures for IT/ITES and manufacturing [11].

By utilizing GST ecosystem data for real-time reconciliation and adhering to OECD/G20 transparency criteria, such as public Country-by-Country Reporting, these innovations greatly reduce evasion.

c. Strengthened Oversight Architecture

Parliamentary finance committees, enhanced performance audits by the Comptroller and Auditor General, and impersonal evaluation procedures under Section 144B all contribute to the strengthening of oversight. The new Act increases procedural accountability by requiring thorough reasoning in Dispute Resolution Panel (DRP) instructions, including points of determination, judgments, and justification. Despite their flexibility, FRBM-inspired fiscal consolidation objectives impose reporting rigor. However, ongoing issues including off-budget obligations, state-level fiscal opacity, and algorithmic bias concerns in AI-driven inspection need for more robust data protection measures and independent algorithmic audits [12].

d. Democratic Legitimacy: Judicial Vigilance and Citizen Agency

Democratic legitimacy depends on tying fiscal authority to fairness and voter information rights [13]. The Electoral Bonds Scheme was declared unconstitutional by the Supreme Court in its historic 2024 ruling in *Association for Democratic Reforms Vs. Union of India (2024 INSC 113)*. This ruling confirmed that anonymous political funding violates Article 19(1)(a) right to information, which is crucial for making informed electoral decisions and preventing undue influence in public finance [14].

This decision strengthens the transparency of resource flows that impact policy, which has an impact on fiscal governance. With an emphasis on natural justice in faceless regimes and rational rules, courts are increasingly scrutinizing tax proceedings for arbitrariness. Legitimacy protections are further embedded by developing rule of law on reassessment, GAAR application, and privacy in tax data exchange.

e. Critical Challenges and Forward Insights

Despite the benefits, there are also risks: an over-reliance on digital enforcement might make small taxpayers' compliance responsibilities worse; simplicity shouldn't lessen anti-avoidance; and fairness problems (including regressive compliance costs) necessitate ongoing oversight. Higher collections and less evasion are beneficial to revenue integrity, but behavioural effects on compliance and trust must be empirically evaluated.

In summary, India's 2025–2026 reforms, which are simplified, digital, and transparent, represent a move toward mature fiscal federalism. However, their success depends on careful monitoring and ongoing democratic integration. In order to ensure that taxes continue to be a vehicle of empowerment rather than extraction, future research must measure the

causal relationship between these accountability improvements and results in efficiency, integrity, and public confidence.

IV. Administrative Efficiency: Bureaucratic Capabilities versus Systemic Inertia

The operational foundation of fiscal policy execution is administrative effectiveness in public sector taxation governance, which determines the efficacy of revenue mobilization, the calibre of taxpayer services, and the general integrity of the fiscal environment. It illustrates the state's capacity to manage the inherent conflicts within massive bureaucratic apparatuses while transforming legislative requirements and policy objectives into concrete results—accurate assessments, timely collections, equitable enforcement, and low compliance costs. This area represents a dynamic struggle in the Indian context between strengthened bureaucratic capabilities (driven by digital transformation, procedural rationalization, and human capital development) and systemic inertia (exhibited through hierarchical bottlenecks, cultural risk aversion, legacy institutional rigidities, and coordination failures) ^[1].

a. Theoretical Foundations and Analytical Framework

The institutional architecture, technology infrastructure, analytical skills, and flexible human resources that support flexible, data-driven, and citizen-focused tax administration are all considered bureaucratic capabilities. Advanced risk-based audits, real-time data analytics, automated compliance verification, and specialized dispute resolution procedures are important components. In contrast, path-dependent organizational behaviours—such as excessive procedural layering, departmental operations that are siloed, target-driven performance cultures that encourage adversarial postures, and principal-agent issues where street-level bureaucrats put short-term revenue targets ahead of long-term trust-building and economic facilitation—cause systemic inertia ^[15].

The "Tax Gap"—the difference between potential and actual revenue—is frequently widened by inertia in monopolistic public institutions through delays, mistakes, facilitation of evasion, and drawn-out litigation, according to public choice and new institutional economics viewpoints. Despite strong GDP development, this disparity still exists in India, where tax-to-GDP ratios are modest and compliance is concentrated within a small formal fraction. Therefore, deeper cultural and structural changes are necessary for efficiency benefits rather than just technology overlays ^[16].

b. Landmark Policy Reforms and Legislative Amendments (2025–2026)

During 2025 and 2026, significant changes were implemented with the goal of eliminating legacy complications. The six-decade-old Income-tax Act, 1961 is replaced by the Income-tax Act, 2025, which was passed in 2025 and goes into force on April 1, 2026 ^[1]. With 23 chapters, it has a simpler format, less cross-references, integrated TDS and assessment regulations, and clear frameworks for digital assets and new economic realities. These improvements are operationalized by the Complementary Income-tax Rules, 2026, which include updated compliance criteria, new forms, and taxpayer-friendly features including renaming statements and combining Forms 15G and 15H into Form 121 ^[17]. The adoption of a "Tax Year" idea makes it easier to match assessment schedules with fiscal years.

The "Next-Gen GST Reforms", also known as GST 2.0, were introduced in indirect taxes during the 56th GST Council Meeting on September 3, 2025. With a 40% demerit rate on some sin/luxury products, it streamlined the multi-tier structure into a citizen-friendly dual-rate system, namely 5% (merit) and 18% (standard) ^[5]. The majority of the modifications went into effect on September 22, 2025, including relief on consumer durables, medications, and home necessities. Improved e-invoicing thresholds, automatic Input Tax Credit (ITC) reconciliation, supplier compliance-related limitations, and streamlined registration procedures are other methods ^[18]. These changes aim to reduce classification conflicts, prevent evasion, and make conducting business easier.

Using the Annual Information Statement (AIS), Taxpayer Information Summary (TIS), and AI-driven risk models, faceless assessment and appeal mechanisms—which are now more deeply ingrained under the new Act (such as Clause 273 and Section 130 frameworks)—continue to do away with physical interfaces. Safe ports and improvements to digital infrastructure were also highlighted in Budget 2026 ^[19].

c. Judicial Scrutiny and Key Case Laws

When it comes to balancing administrative discretion, the judiciary has been crucial. According to the Supreme Court's ruling in *Hyatt International Southwest Asia Ltd. Vs. Additional Director of Income Tax (2025 INSC 891)*, a fixed-place Permanent Establishment (PE) is permitted under the India-UAE DTAA ^[20]. It placed a strong emphasis on "substance over form," maintaining that even in the absence of exclusive physical allocation, widespread operational management and strategic oversight exerted through hotel premises constituted a taxable presence ^[21]. This decision

reinforces cross-border tax enforcement powers while highlighting the bureaucracy's need for sophisticated treaty interpretation abilities.

Other noteworthy actions include decisions requiring appropriate supplier-side procedures prior to recipient ITC rejections and strengthening procedural protections against the arbitrary reopening of assessments based upon on "Change of Opinion." These rulings emphasize capacity shortages that reforms aim to fill and need more thoroughness in preliminary evaluations ^[22].

d. Enduring Challenges: Manifestations of Systemic Inertia

Despite these developments, inertia is still deeply ingrained. Platform efficacy is limited by digital gaps, sporadic system errors, and disparities in digital literacy among field officers and smaller taxpayers. Systems for evaluating performance still prioritize quantitative collection goals, sometimes at the expense of service orientation and qualitative compliance. There are still concerns with legacy data movement under the new Act, high appeal pendency, poor coordination between direct and indirect tax administrations, and sporadic over-reliance on high-pitched assessments. Improved processing speeds but inconsistent implementation quality across jurisdictions are shown by empirical evidence ^[23].

e. Strategic Pathways: Enhancing Capabilities and Mitigating Inertia

Multifaceted interventions are needed to overcome these: (i) ongoing, specialized capacity-building programs using AI and data science; (ii) functional specialization, such as strengthened Large Taxpayer Units and sector-specific cells; (iii) cultural reorientation toward taxpayer-as-partner models, supported by performance metrics incorporating grievance redressal and compliance facilitation; (iv) deeper integration of tax databases with financial reporting, customs, and third-party information systems; and (v) iterative policy feedback loops informed by empirical tax gap studies. Increased operational independence for tax boards will be crucial, as will ethical protections and advanced technologies ^[24].

Administrative effectiveness is the key factor that determines fiscal responsibility and revenue integrity in the larger context of public sector governance in taxes. The 2025–2026 changes show a strong administrative and political desire to improve capabilities. However, their ultimate success depends on methodically weakening inertial forces through evidence-based course corrections, persistent investment in human and technological capital, and adaptive leadership—paving the way for a transparent, resilient, and growth-conducive tax architecture in line with Viksit Bharat's vision.

V. Revenue Integrity: Integrity Gaps, Illicit Flows, and Enforcement Challenges

Effective public sector governance in taxation is based on revenue integrity, which guarantees that governments collect taxes in a transparent, efficient, and leak-free manner to fund infrastructure, public goods, and social programs. In India, it includes indirect taxes through GST and direct taxes under the new Income-tax Act, 2025, with the goal of closing the gap between potential and actual collections ^[25]. Fiscal accountability and administrative efficiency are undermined by persistent integrity gaps that result from interpretation ambiguities, compliance complexity, technology disparities, and administrative discretion. These vulnerabilities encourage Illicit Financial Flows (IFFs) that damage the tax base and public confidence, such as tax evasion, trade mis-invoicing, profit shifting, and corruption proceeds ^[26].

a. Integrity Gaps in Tax Administration

Integrity gaps, especially in high-risk industries, show themselves as inconsistent reporting, undervalued transactions, fraudulent invoices, and non-compliance. Thousands of modifications and more than 65 revisions to the outdated Income-tax Act of 1961 produced a complicated, litigation-prone framework that was more than 800 pages long, encouraging disagreements and chances for evasion. Similar difficulties have been encountered by GST with Input Tax Credit (ITC) scams, in which fraudulent invoices allowed for erroneous claims of tens of thousands of crores ^[27]. A revolutionary change has occurred with recent policy reforms and amendments. The 1961 Act is replaced with the simplified Income-tax Act, 2025 (assented August 2025, effective April 1, 2026), which consists of 23 chapters and 16 schedules ^[1]. Simplified terminology, a unified "Tax Year" idea (replacing previous/assessment year differences), rationalized exclusions, standardized fair market value regulations, and improved digital compliance tools, such as required audit trails, are all included ^[28]. In order to lessen the burden on MSMEs and encourage voluntary compliance

through less discretion and more explicit requirements, presumptive taxation thresholds under pertinent sections have been modified ^[17]. These modifications are further operationalized with modified forms and processes in the accompanying Income-tax Rules, 2026.

"GST 2.0" changes focus on simplicity and digitalization in the GST sector. E-invoicing thresholds have been gradually reduced; starting in April 2025, companies with a total revenue of ₹10 crore or more are required to submit invoices to the Invoice Registration Portal (IRP) within 30 days (previously more stringent for higher thresholds) ^[29]. Stricter e-way bill integration, mandatory two-factor authentication, AI-driven analytics for mismatch identification via the Invoice Management System (IMS), and track-and-trace procedures target industries that are prone to evasion ^[30]. While revenue neutrality and leakage reduction are the goals of a streamlined slab structure and quicker refund procedures, federal coordination on revenue sharing is still being refined ^[31].

These reforms are intended to address structural weaknesses through the use of technology for real-time monitoring, but practical challenges such as data integration and capacity building persist, particularly for smaller taxpayers.

b. Illicit Flows: Scale, Drivers, and Impacts

Illicit financial flows, which include trade mis-invoicing, tax-motivated profit shifting by multinational corporations, and revenues from organized crime or corruption, constitute a significant drain on public resources. According to assessments from throughout the world, tax cheating is a significant factor that disproportionately affects developing nations like India. In India, trade mis-invoicing alone has historically resulted in potential yearly tax losses of billions, depriving governments of money for necessary services ^[25].

Drivers consist of limitations in globally transmitted data flow, opaque offshore businesses, and intricate cross-border systems. Strengthened General Anti-Avoidance Rules (GAAR), Base Erosion and Profit Shifting (BEPS) alignment, automatic information sharing under treaties, and digital visibility tools like faceless assessments and e-invoicing are some of the reforms that combat this. While GST improvements lessen the possibility of invoice manipulation, the new IT Act tightens regulations on treaty shopping and indirect transfers. However, complete mitigation is hampered by difficulties in measuring IFFs, limited analytical capabilities in certain agencies, and changing international secrecy laws ^[26].

c. Enforcement Challenges and Judicial Responses

High evidentiary requirements, gaps in interagency cooperation (between CBDT, CBIC, DRI, and Enforcement Directorate), budget limitations, and the need to strike a balance between aggressive recovery and taxpayer rights are just a few of the many challenges facing enforcement. Complexity is increased by sophisticated evasion networks that take use of digital assets, dummy corporations, and quick money transfers. Adoption of data analytics varies, and an over-reliance on search-and-seizure operations raises the possibility of harassing perceptions ^[32].

Recent case laws provide crucial clarification. In the January 2026 Supreme Court case *Authority for Advance Rulings Vs. Tiger Global International II Holdings*, the Court affirmed the rejection of treaty benefits under the India-Mauritius DTAA for indirect transfers that lacked commercial substance ^[33]. It stressed that grandfathering clauses do not preserve abusive structures, GAAR supersedes treaty safeguards in unlawful avoidance arrangements, and Tax Residency Certificates (TRCs) are required but not definitive ^[7]. Referencing precedents such as Vodafone, the judgment upholds substance-over-form principles and strengthens anti-abuse scrutiny in cross-border PE/VC exits ^[34]. Other rulings highlight the new framework's strong yet rights-sensitive enforcement by addressing reassessment deadlines, digital evidence processing, and high-net-worth individual inquiries.

d. Pathways Forward

Deeper digitization (e.g., increasing faceless interfaces and AI risk models), capacity building for tax officials, smooth inter-agency data sharing via platforms like the Economic Intelligence Council, and increased international cooperation on IFFs under UN/OECD frameworks are all necessary to maintain revenue integrity. The proposals made by NITI Aayog and the Finance Ministry regarding the decriminalization of minor offenses are intended to promote both deterrence and a trust-based system. Implementing 2025–2026 changes in an equitable and transparent manner will be crucial. India can improve administrative efficiency, promote fiscal accountability, and support sustainable development goals by reducing illegal flows and integrity gaps ^[27].

VI. Interdependencies, Institutional Voids, and Contextual Complexities

Fiscal policy formulation, administrative execution, political economy dynamics, judicial monitoring, and socio-economic circumstances are all intricately interdependent, making public sector governance in taxation a complex adaptive system. These interdependencies have a direct impact on administrative efficiency (simplified collection, compliance, and enforcement), fiscal accountability (transparent revenue utilization, oversight, and citizen trust), and revenue integrity (minimizing evasion, avoidance, corruption, and base erosion while upholding equity) ^[1]. Global norms, internal reforms, and structural obstacles all interact in developing federal economies such as India. The Income Tax Act, 2025 (effective April 1, 2026) and the rationalization of the GST 2.0 rate are two recent significant changes that demonstrate proactive management of these dynamics; yet, ongoing institutional gaps and contextual complexities continue to influence implementation results.

a. Interdependencies in Fiscal Systems: Multi-Level Linkages and Feedback Loops

There are significant transversal (inter-agency), cross-domain, and vertical (Centre-State-local) interdependencies in taxation governance. Decisions on fiscal policy will have an impact on GDP, public investment, and monetary stability, all of which increase or decrease the tax base. For instance, increased capital investment and social expenditures are made possible by robust revenues from effective management, which strengthen the fiscal contract—the reciprocal accountability between taxpayers and the state. Inadequate enforcement or perceived unfairness are examples of weak connections that undermine voluntary compliance, raise litigation, and jeopardize revenue integrity ^[35].

These interdependencies are best shown by India's GST structure, which has been in place since 2017 and uses GST Council consensus-based decision-making, revenue-sharing formulae, and compensation procedures ^[36]. The recent GST 2.0 reforms, which were approved at the 56th GST Council meeting on September 3, 2025, and go into effect on September 22, 2025, simplify the rate structure mainly to 5% and 18% slabs (with 40% for demerit/luxury goods), with the goal of lowering classification disputes, facilitating compliance, increasing consumption, and aligning indirect taxation with destination principles ^[37]

The hyperlinks are further strengthened by the Income Tax Act, 2025 (which replaces the 1961 Act), which introduces taxpayer-friendly features including standardized forms and trust-based compliance, simplifies language, reduces sections, consolidates regulations, and clarifies treatment of virtual digital assets ^[27]. This is complemented by the Union Budget 2026–2027, which places a focus on digital systems, dispute resolution, and incentives that make conducting business easier (such as safe harbours and IFSC extensions). Global minimum tax standards and sovereign policy space are interdependent due to local anti-avoidance regulations and agreement with OECD BEPS Pillar Two ^[35].

The favourable evaluation is produced by these changes, which also increase administrative effectiveness, boost revenue buoyancy, and generate more budgetary room for responsible public expenditure. Negative loops still exist, nevertheless, when subnational capability gaps or federal asymmetries impede results.

b. Institutional Voids: Structural Gaps and Their Governance Implications

Deficits in formal supporting institutions, such as enforcement mechanisms, information symmetry, independent oversight, prompt dispute resolution, and capacity for complex compliance, are known as institutional voids. These deficiencies force reliance on informal networks, which results in inefficiencies, corruption risks, and less-than-ideal revenue mobilization. Vulnerabilities in taxes manifest as disjointed data ecosystems, court backlogs, uneven interpretations of treaties, and restricted subnational administrative capacities.

These gaps lead to high levels of informality, trade mis-invoicing, and poorer tax-to-GDP ratios in India and other emerging countries. Extended litigation was spurred by the 1961 Act's historical complexity. There are also gaps in algorithmic accountability (such as the lack of a specialized AI ombudsperson) and coordinated enforcement across agencies, despite digital initiatives including faceless assessments, AI-driven risk profiles, and GSTN integration.

The new Income Tax Act's simpler provisions and less superfluous clauses, combined with the establishment and functioning of the Goods and Services Tax Appellate Tribunal (GSTAT), promptly deal with litigation vacancies. Proposals for quicker dispute settlement and streamlined regulations in the 2026–2027 budget further lessen these problems. However, there are persistent gaps that call for ongoing capacity development and performance-linked fiscal transfers due to implementation capacity differences across states and enforcement issues in the unorganized sector ^[38].

c. Contextual Complexities: Political Economy, Federalism, and Global Interfaces

Contextual complexity is influenced by a number of factors, including path dependencies, socioeconomic heterogeneity, federal financial links, political incentives, technology hurdles, and geopolitical upheavals. Compliance behaviour and equity views are influenced by India's heterogeneous informal sector, geographical differences, and inequality. Through the devolution of the Finance Commission and GST compensation, federalism adds levels of negotiation, allowing political cycles to put short-term populism ahead of systemic improvements^[39].

Domestic objectives are impacted by international variables, such as trade disputes, minimum tax laws, and requests for climate financing. The possible merger of sustainability and performance requirements by the 16th Finance Commission is an example of how complexity is changing.

d. Illustrative Recent Case Laws:

❖ **Authority for Advance Rulings v. Tiger Global International II Holdings, 2026 INSC 60:** The Court rejected treaty advantages under the India-Mauritius DTAA for an indirect transfer including the sale of a Flipkart share in a historic 152-page ruling. It affirmed the applicability of GAAR against conduit arrangements, stressed content over form, and decided that Tax Residency Certificates by themselves do not prevent inspection. This strengthens anti-avoidance and revenue integrity, but it also emphasizes interdependencies with investment policy and raises questions about FDI attitude^[40].

❖ The persevered balance of expediency with taxpayer rights is reflected in other 2025–2026 decisions on reassessment deadlines, deductibility (such as non-compete costs), and procedural protections, which frequently lead to additional legislative clarifications in Finance Bill 2026.

e. Coping Strategies and Forward Pathways

Navigating these elements demands multifaceted approaches:

❖ **Filling Voids:** Establish independent fiscal councils, algorithmic oversight frameworks, and targeted capacity building.

❖ **Harnessing Interdependencies:** Leverage integrated digital platforms for real-time coordination and outcome-based fiscal federalism.

❖ **Context-Sensitive Governance:** Graduated compliance regimes for MSMEs/informal sectors, equity-oriented design (e.g., higher exemption thresholds under the new regime), and broad stakeholder consultation to rebuild trust.

❖ **Global-Domestic Balance:** Proactive BEPS engagement while safeguarding source taxation rights, as reinforced in the Tiger Global ruling.

The Income Tax Act, 2025, GST 2.0, and Budget 2026–2027 trust-based initiatives are recent changes in India that mark a substantial advancement in terms of increased voluntary compliance, decreased disputes, and improved accountability. However, in order to reach full potential, deeper contextual variables such as gaps in state-level competence, corruption concerns, and equitable growth imperatives must be addressed. In order to develop adaptive governance models, future empirical research should quantify these interdependencies using data collected after 2026.

VII. Conclusion: Towards Transformative Tax Governance

It becomes obvious from summarizing the critical analysis of revenue integrity, administrative effectiveness, and fiscal accountability in public sector tax governance that transformative tax governance is a paradigm shift toward a robust, transparent, and citizen-focused fiscal ecosystem rather than just incremental reform^[41]. In order to address enduring issues of leakage, opacity, and inefficiency while using prospects for sustained revenue mobilization, this evolution necessitates merging strong institutional protections, technology innovation, and flexible regulatory frameworks^[42].

The six-decade-old Income-tax Act, 1961 was replaced with the Income Tax Act, 2025 (effective April 1, 2026), which is a historic streamlining effort^[43]. It introduces the idea of "Tax Year" to remove earlier misunderstanding between assessment and previous years, simplifies language, eliminates superfluous sections, reorganizes into a more readable structure with 23 chapters, and preserves fundamental tax policy while reducing compliance obligations^[44]. A purposeful push for ease of doing business and trust-based administration is highlighted by complementary measures in the Union Budgets 2025–2026 and 2026–2027, such as revised tax slabs under the new regime (e.g., enhanced basic exemption), rationalized TDS/TCS thresholds, GST 2.0 rate rationalization (moving toward fewer slabs for neutrality and reduced litigation), and incentives for data centres, manufacturing, and IFSC units^[45].

Through anonymous processes, digital integration, and the reduction of penalties and prosecutions (with legalization features under Finance Act, 2026), these measures improve administrative efficiency. They encourage fiscal responsibility through increased openness and less discretion, and they strengthen revenue integrity by preventing evasion while safeguarding lawful taxpayers. In light of concerns about base erosion and the difficulties facing the digital economy, OECD-aligned worldwide trends in tax policy reforms further support the necessity of such measures [41].

Important safeguards are provided by court rulings. Procedural fairness, proportionality, and protection against arbitrary state action are highlighted in Supreme Court rulings on reassessment proceedings, such as those addressing the JAO Vs. FAO controversy following the Finance Act, 2026 amendments (remitting matters to High Courts for validity review of retrospective clarifications), limitations under the new regime (e.g., Union of India Vs. Rajeev Bansal), and quashing notices lacking tangible material (e.g., PE allegations in ACIT Vs. GE Steam Power Systems). Accountability and clarity are further strengthened by rulings that uphold non-compete fees as revenue expenditures and establish bounds in the interaction between IBC and taxes [46].

However, revolutionary governance necessitates ongoing attention to detail. Expanded digital search powers, fair implementation across federal organizations, and closing the trust gap continue to present challenges for data protection. AI-driven compliance, capacity building, stakeholder co-creation of regulations, and metrics connecting tax governance to more general Sustainable Development Goals must be given top priority in future routes. Tax governance must change as a stimulus for inclusive prosperity as India moves closer to Viksit Bharat, guaranteeing revenue integrity without strangling entrepreneurship, accountability without alienation, and efficiency that creates real benefit for citizens [27].

In the conclusion, revolutionary tax governance depends on matching citizen aspirations with governmental capabilities. Policymakers can create a system that is both politically legitimate and financially sound by incorporating lessons from recent reforms and jurisprudence. This will build public confidence, which is the cornerstone of sustainable public finance. This all-encompassing approach safeguards India's financial future in an unpredictable global environment by viewing taxes as a tool of empowerment rather than extraction.

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