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Advancing Income Tax Return E-Filing: A Study on Effective Modifications and System Improvements

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ABSTRACT

In this rapidly evolving technological era, e-filing has emerged as a transformative method to file income tax returns, which has facilitated significant advantages pertaining to time and cost saving, convenience, and reduced stress on the part of the taxpayers. Despite these, there remains a considerable gap in fulfilling the objectives, including but not limited to, devising a transparent mechanism towards the submissions of e-filings, the lack of awareness and understanding of the procedures concerning e-filing among individual taxpayers. This research article explores the evolution of filing to e-filing with the current state of e-filing systems and proposes modifications to enhance their efficiency and user-friendliness. Additionally, it provides valuable insights for policymakers, tax authorities, to foster an inclusive and efficient e-filing environment that aligns with the advancements in technology while meeting the needs of both the tax payers and collectors. A notable focus will be on the upcoming launch of the “New ITR e-filing portal 3.0”. The proposed Project IEC 3.0, which aims to deliver a more user-friendly and faster e-filing experience, will be further discussed in the paper, exploring its anticipated impact on improving the current system.

Keywords: E-filing, tax payers, income tax, direct tax, revenue, Project IEC 3.0

I. INTRODUCTION

The early 2000s era holds a significant prominence in the tax administration. The path of India in the Income Tax e-filing system altered when the Government of India started digitizing tax-related services in response to growing demand for openness, responsibility, and simplicity of compliance². The move toward e-filing reflected a larger fiscal reform aiming at widening the tax base, minimizing compliance costs, and lowering administrative discretion, not only technological. Inspired by the recommendations of the Raja Chelliah Committee and subsequently the Kelkar Task Force, the roots of digitized tax filing follow back to the reforms

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² Nicholas Kaldor, *Tax Reform in India*, Econ. & Pol. Weekly, Jan. 1959, at 195.

started following the 1991 economic crisis³. These committees stressed computerization, simplification, and elimination of hand-made inefficiencies in tax collecting and administration.

The voluntary introduction of e-filing in 2004 for select taxpayers was a foundational step, with mandatory implementation for individuals above a specific income threshold arriving later in 2006. Over time, the system saw increasing integration of online functionalities, from PAN applications, digital signatures, and online tax payments to full-scale return submissions and verifications. Nearly 94% of all income tax returns are now filed online, processed online, and refunds issued digitally, highlighting the scale of adoption.⁴

Evolution of Digital Tax Administration began with the creation of the Centralized Processing Center (CPC) in Bangalore in 2010, marking a watershed moment in India's income tax landscape. Established with the goal of streamlining return processing and reducing human interface, CPC Bangalore became the nucleus of automated return validation under Section 143(1) of the Income-tax Act⁵. However, while automation drastically reduced processing timelines, it introduced new challenges particularly the mechanical application of adjustments by algorithms, which often override taxpayer disclosures and generate unjustified demands. In time, the faceless assessment scheme was formally launched in 2020 which sought to reinforce objectivity by removing territorial jurisdiction and anonymizing taxpayer-assessing officer interactions. However, this faceless regime has raised concerns over procedural rigidity, the absence of natural justice, and the lack of clarity in communication especially when system generated discrepancies form the basis of scrutiny. While beneficial in theory, which facilitates ready-to-file returns, the practical challenges (like, incorrect data population, taxpayer dependency on system entries, and difficulty in editing pre-filled fields) in the introduction of pre-filled ITRs from employers, banks, mutual funds, and registrars remain persistent. This friction becomes particularly problematic when errors in AIS (Annual Information Statement) or Form 26AS remain unaddressed by the system⁶.

II. CURRENT FRAMEWORK OF INDIA'S E-FILING SYSTEM

The Income Tax e-filing portal⁷ provide millions of Indian taxpayers an interface with the Income Tax Department. Under the direction of the Central Board of Direct Taxes (CBDT), the

³ PNB MetLife, *History and Evolution of the Taxation System in India* (July 12, 2021), <https://www.pnbmetlife.com/articles/taxation/evolution-of-taxation-system-in-india.html>.

⁴ EstartIndia, *History of Income Tax in India* (May 6, 2020), <https://www.estartindia.com/knowledge-hub/blog/history-of-income-tax-in-india>.

⁵ Rohintan Sidhwa & Pritin Kumar, *Income Tax Digitalisation in India*, Deloitte India (May 9, 2023), <https://www2.deloitte.com/in/en/pages/tax/articles/survey-on-income-tax-digitalisation-in-india.html>.

⁶ Shome, ed., *Indian Tax Administration – A Dialogue* (Orient Black Swan 2013).

⁷ Income-Tax Department, Government of India, www.incometaxindia.gov.in.

portal functions as a centralized digital infrastructure supporting end-to-end compliance requirements. These cover income tax returns (ITRs), tax payments, e-verification, rectification, refund claims, grievance filing, and a host of other services spanning Aadhaar-PAN linkage to high-value transaction tracking⁸.

First introduced in its original form in the early 2000s, the e-filing system had a significant overhaul 2021. The updated form sought to simplify usability, lower login complexity, and provide real-time processing capabilities including single dashboard interfaces for all tax-related activities. Notwithstanding these high goals, several functional flaws surfaced during its first implementation: login issues, erroneous data reflection, and unreachable utilities and etc. The interface, although intuitive in design, suffers from executional lapses in areas such as automated data pulls from external entities (banks, mutual funds), integration with third-party platforms, and circular navigation paths in error correction⁹. Furthermore, grievance redressal mechanisms remain inefficient, with complaint tickets often left unresolved due to jurisdictional opacity or delayed departmental responses. These limitations underscore a persistent gap between the policy intent of digitization and its operational efficacy in practice.

A. The role of the Centralized Processing Centre (CPC)

The Centralized Processing Centre (CPC) is the nucleus of India's automated tax return processing infrastructure. Operationalized as part of the government's broader tax reform agenda in 2010 and located in Bangalore, the CPC was envisioned as a state-of-the-art facility that aims to bring speed, uniformity, and objectivity to the handling of electronically filed income tax returns¹⁰. It is structured to process returns filed under Section 139¹¹ and to carry out initial validations and verifications under Section 143(1) of the Income-tax Act, 1961.

While the CPC has greatly enhanced processing speed bringing down refund timelines from months to mere days it has also introduced a layer of complexity wherein legally valid entries are treated as inconsistencies due to algorithmic rigidity. Functioning on algorithm-based logic, the CPC automates the comparison of taxpayer-reported figures with third-party datasets such as Form 26AS (TDS), the Annual Information Statement (AIS), and data from banks, employers, and investment platforms. Once discrepancies are detected regardless of whether they arise from typographical errors, delayed third-party reporting, or legal exemptions claimed under nuanced provisions the CPC is empowered to initiate adjustments without human

⁸ Central Board of Direct Taxes (CBDT), www.irsofficersonline.org.in.

⁹ Bhattacharya & Rao, *Tax Reforms in India: Achievements and Challenges* (Oxford Univ. Press 2015).

¹⁰ M. Govinda Rao, *Tax System Reform in India: Achievements and Challenges Ahead*, 16 J. Asian Econ. 993 (2005).

¹¹ Income-tax Act, 1961, § 139, Acts of Parliament, 1961 (India).

intervention¹². A significant academic concern arises from the fact that the outputs of CPC processing form the foundational premise upon which subsequent actions, such as faceless assessments or appellate proceedings, are biased. Hence, any error originating at this juncture tends to cascade through the entire assessment chain, often disadvantaging the taxpayer without any recourse to pre-adjustment hearings or meaningful resolution mechanisms.

Two of the most defining characteristics of India's digital tax system are (i) automated adjustments under Section 143(1), and (ii) pre-filled ITR forms, both of which reflect the government's aim to simplify compliance while leveraging data analytics.

1. Automated adjustments under Section 143(1)

Section 143(1)¹³ empowers the CPC to conduct an initial assessment of returns for mathematical accuracy, internal consistency, and compliance with reported figures available from third parties. However, in practice, the interpretation and execution of this provision have been increasingly governed by pre-programmed logic rather than legal discretion. Adjustments are made for mismatches in TDS, arithmetic inconsistencies, under-reported income, or deductions not supported by backend datasets.

It is observed that the absence of a mandatory show-cause mechanism prior to adjustment leads to erosion of natural justice¹⁴. The taxpayer is often informed only after the adjustment has been finalized by which time the rectification process becomes burdensome and, in some cases, jurisdictionally confusing due to the bifurcation between CPC and faceless appeal units. Furthermore, academic literature has pointed out the lack of AI moderation or contextual understanding in the CPC's algorithms. For instance, certain deductions (e.g., under Section 54F for capital gains exemptions, or Section 10(14) for special allowances)¹⁵ are frequently disallowed merely due to an absence of corroborating third-party data, despite being perfectly legal.

2. Pre-filled ITRs

The introduction of pre-filled ITRs aimed at reducing manual errors and enhancing user-friendliness. Data from Form 16 (TDS from salary), Form 26AS (consolidated tax credits), and

¹² Deb P. Samaddar, *Income Tax E-Filing: Everything You Need to Know*, Insider by Finology (Jan. 25, 2025), <https://insider.finology.in/finance/income-tax-efiling>.

¹³ Income-tax Act, of 1961, § 143(1), Acts of Parliament, 1961 (India).

¹⁴ M. Govinda Rao, *Tax System Reform in India: Achievements and Challenges Ahead*, 16 J. Asian Econ. 993 (2005).

¹⁵ ClearTax, *Income Tax Act 1961: Chapters, Objectives, Features, Provisions* (Jan. 25 2025), <https://cleartax.in/s/income-tax-act-1961>

AIS (comprehensive financial transactions) are auto populated into the ITR forms¹⁶. While this reduces the compliance burden for salaried and small taxpayers, it also creates a systemic expectation that all reported figures are accurate and immutable.

Yet, reports and studies¹⁷ reveal several issues: errors in data pre-fill due to incorrect third-party uploads, delays in reflecting correct TDS credits, and missing investment information, especially in cases involving joint holdings or shared PANs. Moreover, editing pre-filled data is technically possible but procedurally opaque, especially when mismatches affect downstream processes such as refund issuance or CPC-generated demands.

B. Regulatory structure for governing e-filing

The Income-tax Act, 1961, which is read in conjunction with the Income-tax Rules, 1962, and is further reinforced by circulars, notifications, and administrative directives issued by the CBDT, forms the legal basis of India's e-filing infrastructure. The Act's Section 139¹⁸ requires different taxpayer classes to file income returns and specifies the deadlines and formalities needed to comply. The ITR forms, qualified filers' categories, and the filing method, online or through authorized intermediaries are all outlined in Rule 12¹⁹.

Simultaneously, the Information Technology Act, 2000 provides statutory support to electronic records, digital signatures, and e-verification procedures. Together, these enactments form the dual legal backbone of India's digital compliance regime. Additionally, the Finance Acts passed annually by Parliament bring into effect structural changes such as threshold revisions, additional compliance categories, and new technological mandates, such as those relating to e-verification, digital signatures, and real-time data integration.

The Faceless Assessment Scheme, 2020, introduced via notifications under Section 144B²⁰, further strengthens the legal validity of digital and contactless compliance by eliminating territorial jurisdiction and streamlining officer allocation through automated systems. However, there is still a lack of clarity on the relationship between faceless units and legacy CPC systems, which frequently causes procedural misunderstandings, particularly when rectifications or incomplete verifications are involved. A forward-looking vision in line with OECD digital tax benchmarks²¹, recent policy pronouncements in Budget 2024 further highlight the

¹⁶ India, *Task Force on Direct Taxes* (Chairman: Vijay Kelkar) (Ministry of Fin., 2002).

¹⁷ Dr. Garima Srivastava et al., *A Comprehensive and Comparative Analysis of Union Budget 2025*, 17 Int'l J. Current Res. 31745 (2025), <https://www.researchgate.net/publication/389989089>.

¹⁸ Income-tax Act, of 1961, § 139, Acts of Parliament, 1961 (India).

¹⁹ Income-tax Rules, 1962, Rule 12, Gazette of India, Extraordinary, Part II, Sec. 3(i) (India).

²⁰ Faceless Assessment Scheme, 2020, Notification No. 60/2020, S.O. 2745(E), Gazette of India, Extraordinary, Part II, Sec. 3(ii) (Aug. 13, 2020) (India), issued under Income-tax Act, No. 43 of 1961, § 144B.

²¹ OECD, *Tax Administration in OECD and Selected Non-OECD Countries – Comparative Information Series*

government's intention to further digitalize tax administration through AI-based risk profiling, cross-validation of disclosures, and real-time anomaly detection.

III. SYSTEMIC FLAWS IN AUTOMATED PROCESSING

The digitization of the income tax administration led by the Centralized Processing Center (CPC) and reinforced by the faceless assessment regime, was envisioned as a progressive reform aimed at reducing human discretion, increase transparency, and streamline compliance. But as the system developed, a number of procedural and structural flaws emerged, especially with regard to the CPC's operation under Section 143(1)(a) of the Income Tax Act, 1961, which involves algorithmic overreach, a lack of natural justice, and the spread of errors in faceless assessments.

The legal basis for automated return processing is embedded in Section 143(1)(a) of the Income Tax Act, which allows the CPC to make certain prescribed adjustments to income tax returns. Historically, the idea of prima facie assessment originated from Section 23(1) of the Indian Income Tax Act, 1922, where officers could accept returns without the need for detailed inquiry. When the Income Tax Act of 1961 came into force, Section 143(1)(a) was introduced in 1971 to enable income tax officers to make limited, apparent adjustments during summary assessments. Amendments over the years have progressively refined this section. The Finance Act of 2008²² introduced centralized processing of returns, while the 2017 amendment enumerated six specific grounds on which the CPC could act. These included arithmetical errors, inconsistencies within the return, late filing-related disallowances, omitted disclosures from audit reports, and discrepancies from tax information statements such as Form 26AS and Form 16²³.

Despite this statutorily limited scope, the CPC has evolved from a ministerial processor to a quasi-adjudicatory body, executing disallowances without adequate legal scrutiny or taxpayer interaction. The adjustments often go beyond rectifying simple errors and instead become vehicles for disallowing exemptions and deductions that are valid but procedurally misrepresented or delayed. For example, in cases involving contributions to Provident Fund or Employees' State Insurance under Section 36(1) (va), the CPC has consistently disallowed claims for delayed payments based on the disclosures in Form 3CD, without considering whether the disallowance falls within the purview of adjustments under Section 143(1)(a) or not. The question of whether such disallowance, especially in light of the Supreme Court's

(OECD Publ'g 2013).

²² Finance Act, No. 18 of 2008, § 36, Acts of Parliament, 2008 (India).

²³ Finance Act, No. 7 of 2017, § 56, Acts of Parliament, 2017 (India).

ruling in *Check Mate Services Pvt Ltd*²⁴, can be made without a full-fledged assessment remains unresolved, yet the CPC continues to make such adjustments routinely.

Similarly, exemptions claimed by charitable or educational institutions under Sections 11 and 10(23C) are frequently denied when there is a delay in filing audit reports in Form 10B or 10BB. The CPC processes the return without considering that the delay may be condonable under Section 119(2)(b) of the Act and the relevant CBDT Circulars²⁵. In denying such claims outright, the CPC oversteps its procedural mandate and adopts a substantive stance that contradicts both legal doctrine and administrative fairness.

The same rigidity is observable in cases involving foreign tax credit claims. CPC has consistently denied credits where Form 67 was not filed by the prescribed time, despite legal developments clarifying that procedural non-compliance should not defeat a substantive right, especially under a Double Taxation Avoidance Agreement. For instance, in the case of *Duraisamy Kumarasamy v. PCIT*²⁶, the Madras High Court held that if Form 67 is filed before the final assessment, the taxpayer is entitled to foreign tax credit, reinforcing that rules cannot override treaty obligations. Nevertheless, CPC continues to deny claims based on the rigid application of Rule 128(9), without assessing the larger legal context.

In practice, the CPC fails to engage with the taxpayer in a meaningful manner. Although the statute mandates a prior intimation and a 30-day window for the assessee to respond to proposed adjustments, taxpayers report that responses are either ignored or summarily rejected without reasoned orders. The absence of explanation or accountability regarding why a response is disregarded violates basic principles of natural justice. The system does not allow personal hearings, nor does it provide a real-time interaction mechanism with a competent authority who can understand the taxpayer's explanation. As a result, the process becomes opaque, one-sided, and legally deficient.

Additionally, CPC relies heavily on tax audit disclosures without appreciating the jurisprudence that audit remarks are merely indicative and not conclusive. The Information Technology architecture supporting the CPC lacks any provision for contextual legal evaluation. This leads to the disallowance of claims simply because they are mentioned in Form 3CD²⁷, even when such claims have been judicially upheld or are factually justified in the return. The overreliance on static rule-based processing without human oversight or discretion, transforms what should

²⁴ *Checkmate Servs. (P) Ltd. v. CIT*, (2022) 448 ITR 518 (SC) (India).

²⁵ Central Board of Direct Taxes, Circular No. 13/2023, F. No. 225/129/2022/ITA-II, Gazette of India, Extraordinary, Part I, Sec. 1 (July 26, 2023) (India).

²⁶ *Duraisamy Kumarasamy v. PCIT*, W.P. No. 5824 of 2022, Madras High Court (Jan. 22, 2025).

²⁷ Income-tax Rules, 1962, Form 3CD, r. 6G, read with § 44AB of the Income-tax Act, No. of 1961 (India).

be a computational centre into a gatekeeper of taxpayer entitlements, bypassing interpretative mechanisms built into the Income Tax Act.

The consequences of automated errors do not stop at the CPC level. One of the most pervasive flaws in the current tax architecture is the unchecked transference of CPC generated computations into faceless scrutiny assessments conducted under Section 143(3). When a return that has been adjusted under Section 143(1) is picked up for scrutiny, the assessment unit often treats the adjusted income figure as the baseline, instead of re-evaluating the original return and the merits of the adjustment. While doing so, the scrutiny assessment is effectively infected by the same algorithmic assumptions and legal errors embedded in the CPC's processing logic.

There is no established mechanism by which the faceless assessment unit must independently verify or re-adjudicate adjustments made by CPC. In several instances, the CPC's adjustments were still under rectification or appellate challenge, yet the assessment order went ahead without acknowledging the pendency of these proceedings. In *Akshay Devendra Birari v. DCIT*²⁸, the ITAT Pune held that even if Form 10IE was filed after CPC had processed the return, the benefit of the concessional regime must be granted if the form was available before final assessment. This ruling underscored that statutory intent and taxpayer rights must not be defeated by digital rigidity or procedural delays.

In another notable case involving a commission agent operating as a "Katcha Aratia," CPC taxed the entire transaction value appearing in Form 26AS, ignoring that the agent was merely facilitating transactions on behalf of farmers. The ITAT Visakhapatnam, in *Kanjula Rajagopal Reddy Firm v. ITO*²⁹, clarified that only the commission income was taxable and directed that full TDS credit be granted. This mischaracterization of income stemmed entirely from the CPC's inability to interpret contextual disclosures, further exacerbated by the assessment unit's reliance on CPC's flawed base computation. The faceless assessment unit proceeded to finalize the order without considering this condonation, on the ground that the CPC's adjustments had not been reversed³⁰. Such scenarios are illustrative of the systemic disconnect and demonstrate how algorithmic errors cascade into full-scale assessments, undermining the integrity of both the faceless and centralized systems.

A. Structural deficiencies in ITR forms & digital architecture

The principal structural flaw in the ITR forms lies in their limited scope for accommodating

²⁸ *Akshay Devendra Birari v. DCIT*, ITA No. 782/PUN/2024, ITAT Pune (May 5, 2024).

²⁹ *Kanjula Rajagopal Reddy Firm v. ITO*, ITA No. 59/VIZ/2024, ITAT Visakhapatnam (2024).

³⁰ Suranjali Tandon, *Will Faceless Assessments Reduce Taxpayer Harassment?* BQ Prime (Aug. 26, 2020), <https://www.bqprime.com/opinion/will-faceless-assessments-reduce-taxpayer-harassment>.

complex or situation-specific disclosures. The static and template-driven nature of the forms means that a taxpayer has no means to explain contextually nuanced entries unless the system explicitly provides for them³¹. This is particularly problematic in cases involving capital gains exemptions, dual-taxation scenarios, ICDS adjustments, and unique business models. For instance, certain capital gains exemptions available under Section 54F become practically unclaimable in the form when a taxpayer has sold one asset (such as listed shares) and invested in another (like residential property) but the exemption pertains to a future condition such as holding the asset for a certain duration. The form either does not provide a field to reflect such transitional intent or applies default tax treatment without allowing an explanatory override. In such cases, taxpayers are effectively penalized for the form's inability to capture dynamic tax positions.

Similarly, adjustments under the Income Computation and Disclosure Standards (ICDS), especially those that relate to deviations from regular accounting treatment, are inconsistently handled. Although the Tax Audit Report (Form 3CD) contains a clause for ICDS disclosures, corresponding alignment in the ITR's Schedule BP and Schedule ICDS often fails. As a result, any mismatch is flagged in CPC processing simply because of inconsistent schedule architecture, not because of any substantive error on the part of the taxpayer. The rigid, non-responsive digital form constrains lawful disclosures into limited templates, thereby distorting the taxpayer's legal position and making the return vulnerable to mechanical adjustments³². Thus, even if a taxpayer fulfils the substantive conditions of a concessional regime, the system rejects the claim on procedural grounds, due to a lack of form integration. Recent jurisprudence, such as the Akshay Devendra Birari ruling³³, affirms that such procedural lapses should not defeat legitimate tax positions. However, the current ITR infrastructure offers no procedural leeway to incorporate that flexibility at the filing stage.

Moreover, ITR are structurally incapable of distinguishing between agency transactions and principal revenue. As a result, Form 26AS figures are often misconstrued as income in the ITR utility. The inability of the form to contextualize such cases leads to misreporting, resulting in wrongful tax liabilities and repeated rectification attempts³⁴. The rigid design of the forms is also evident in the treatment of Schedule TDS and Schedule TCS. In many instances, tax credits are denied simply because the form cannot reconcile differences between the declared income

³¹ India, *Tax Administration Reforms Commission (TARC) Report* (Ministry of Fin., 2014)

³² National Council of Applied Economic Research, *The Tyranny of the Status Quo: Challenge of Reforming India's Tax System*, *India Policy Forum* (July 2015) (by M. Govinda Rao).

³³ Akshay Devendra Birari v. DCIT, ITA No. 782/PUN/2024, ITAT Pune (May 5, 2024).

³⁴ Kanakshi Nema, *Modernizing Tax Processes: Addressing the Challenges in Digitized Income Tax Administration in India*, 7 Int'l J.L. Mgmt. & Human. 2271 (2024).

and TDS amounts shown in Form 26AS. Even minor reporting variations, such as aggregated interest from multiple fixed deposits, can create a mismatch that the form cannot legally or procedurally accommodate.

Parallel to the deficiencies in disclosure architecture is the persistent jurisdictional confusion surrounding rectification applications. When a taxpayer identifies an error in CPC's processing often caused by the very structural flaws discussed above the rectification process is designed to serve as a remedy. However, in practice, this process is undermined by a fragmented system of responsibility between the CPC and the faceless assessment or appellate units.

The core of the issue lies in the lack of procedural clarity regarding which authority has jurisdiction to resolve a given rectification request. In many cases, errors flagged under Section 143(1) are routed to the CPC. Yet, once the case is selected for scrutiny or reassessment, the rectification rights may either remain with the CPC or be transferred to the jurisdictional assessing officer or the faceless unit³⁵. In cases where the CPC retains jurisdiction, responses to rectification applications are often delayed indefinitely or ignored altogether. This delay is compounded by the lack of an escalation mechanism. This jurisdictional impasse leads to a procedural paradox. The taxpayer is held responsible for resolving errors but is denied access to the competent authority capable of redressing them. Rectification applications remain in limbo; even as coercive recovery proceedings are initiated based on erroneous intimation orders. Taxpayers are left with no choice but to file appeals, often as a precautionary measure to protect limitation periods thereby burdening the appellate system with disputes that could have been resolved at the rectification stage.

Additionally, the digital grievance redressal interface offers limited functionality. Communication is one-sided, largely template-based, and lacks acknowledgment of the specific legal or factual contentions raised by the taxpayer. There is also no provision for virtual hearing or clarification, even though such a mechanism would significantly enhance resolution outcomes. The rigidity of Rule 12(i), which prohibits personal appearance before CPC, reinforces this administrative gap, making it procedurally impossible for taxpayers to explain technical or legal errors in real time³⁶.

B. User interface & technical roadblocks

Despite recent improvements and policy-level changes, the current e-filing system still has

³⁵ Arindam Das-Gupta, *The Compliance Cost of the Personal Income Tax in India, 2000–2001: Preliminary Estimates*, NIPFP Working Paper No. 9 (Mar. 2004).

³⁶ Arindam Das-Gupta, *The Compliance Cost of the Personal Income Tax in India, 2000–2001: Preliminary Estimates*, NIPFP Working Paper No. 9 (Mar. 2004).

design flaws and technological snags that compromise the very goals it aims to achieve. These shortcomings can be roughly divided into two categories: the platform's grievance redressal processes' systemic inefficiency, and the user interface's structural complexity.

The intricacy of the e-filing portal's user interface is frequently out of proportion to the average taxpayer's knowledge of legal and procedural tax obligations. Despite the portal's efforts to centralize a variety of tasks, including filing, verification, rectification, and appeals, its interface layout is not user-friendly enough³⁷. The portal remains highly segmented and technical layout that requires advanced understanding of tax laws, form structures, and procedural sequences.

For many users, particularly those without professional assistance, the act of filing an income tax return becomes a process of trial and error. Navigation is often circular, with the portal requiring users to move between unrelated modules to perform basic tasks. Furthermore, unlike user-centered digital systems, the platform does not have dynamic or real-time assistance functions. Particularly when users run into mistakes, there is little to no contextual support in the form of tooltips, explanations, or links to pertinent legal provisions. When error notifications do show up, they are frequently general, don't identify the type or location of the fault, and don't provide guidance on how to fix it. Because of this, even little data entry errors, including values that don't match between income declarations and TDS schedules, might prevent returns from being submitted without providing guidance on where or how to fix the problem.

The portal's failure to tailor its interface to different taxpayer categories further compounds these problems. Regardless of their different reporting needs, firms, trusts, non-residents, self-employed professionals, and salaried employees are all given the same filing environment. The concept of differentiated user experience, which is essential to the provision of inclusive digital services, is disregarded by this homogeneity. Without automated form suggestions or customized pathways, the burden of correct filing remains entirely with the taxpayer, even though the legal consequences of error can be significant. Closely linked to the difficulties in navigation and usability is the issue of inadequate grievance redressal. In a digital environment where taxpayer interactions are mediated entirely through a portal, the absence of a robust and responsive grievance redressal framework effectively severs communication between the taxpayer and the tax administration. Although officially available, the portal's grievance module is inefficient in practice and has procedural opacity. Upon submission of a grievance or query the taxpayer usually receives an automatic acknowledgment, but this is rarely followed

³⁷ Elizabeth Pollitzer, *creating a Better Future: Four Scenarios for How Digital Technologies Could Change the World*, 72 J. Int'l Aff. 75 (2018).

by a fast or meaningful response. For extended periods the status of the compliant often remains unaddressed, ambiguously described as “in process” or, “forwarded to CPC” without any indication of expected timeline for a possible resolution or contact³⁸. In numerous instances, complaints are resolved without a chance for reconsideration or escalation, accompanied by standard replies that fail to tackle the stated concern.

Besides hindering resolution, this absence of procedural transparency also diminishes the legitimacy of the remedial process. Taxpayers find themselves without a viable option for immediate resolution when they get erroneous notifications or encounter technical problems, including non-credit of TDS, late refunds, or verification complications.³⁹

These limitations are particularly harmful when financial consequences arise such as delayed refunds, incorrect claims, or rejected deductions and the taxpayer’s prompt response is essential to avert aggressive collection actions.

IV. COMPARATIVE ANALYSIS ON GLOBAL PERSPECTIVE

The United States provides a detailed and multifaceted e-filing system via its Internal Revenue Service (IRS). At the heart of this model lies the IRS Free File program, which allows qualifying taxpayers to submit their returns via connected third-party services without any charge. More significantly, the IRS maintains a high standard of procedural fairness by ensuring that most digitally filed returns are supported by personalized guidance tools and taxpayer assistance programs. The IRS also sustains the role of discretion and human review where required, particularly in cases of mismatches, disputed claims, or amended filings. Taxpayers are permitted to explain discrepancies and are provided with a clear administrative path for review, including help centres and case-specific helplines. Importantly, the IRS does not implement automation as a substitute for communication it retains the principle that every automated action must be both transparent and contestable.⁴⁰

In the United Kingdom, Self-assessment is the foundation of the tax administration system, which is supervised by His Majesty’s Revenue and Customs (HMRC). The complexity and layout of the forms are dynamically adjusted by the HMRC e-filing system based on the taxpayer’s income. Unlike India’s one-size-fits-all ITR framework, HMRC’s system provides a taxpayer-specific experience, eliminating unnecessary schedules and providing real-time

³⁸ Income-Tax Department, Government of India, www.incometaxindia.gov.in

³⁹ Project IEC 3.0 (Bombay Chamber), <https://www.bombaychamber.com>

⁴⁰ Ehtisham Ahmad & Nicholas Stern, *Theory and Practice of Tax Reform in Developing Countries* (Cambridge Univ. Press 1991).

validation of errors⁴¹. The interface is not merely user-friendly but user-intelligent. It minimizes the risk of incorrect submissions by layering help tools, pre-filled data, and dynamic prompts. Crucially, the U.K. model emphasizes human accessibility even within digital processes⁴².

Singapore presents one of the most seamless e-tax experiences globally through its Inland Revenue Authority (IRAS). The MyTax portal automatically pre-fills tax data for most salaried individuals using information submitted by employers and banks. The process is not only digitized but largely “file-less,” requiring minimal manual intervention from compliant taxpayers. Where manual filing is needed, the portal offers real-time assistance via interactive AI tools and ensures that form logic is flexible enough to allow both statutory compliance and discretionary explanation. Importantly, Singapore’s tax infrastructure reflects the government’s trust in its taxpayers.⁴³

In contrast to these global models, India’s digital tax architecture though ambitious and technologically significant, suffers from operational rigidity, legal opacity, and limited scope for taxpayer dialogue. The faceless assessment and centralized processing systems have indeed minimized physical interface, but in doing so, they have also side-lined procedural safeguards and individualized attention⁴⁴. For instance, delayed audit filings in charitable trusts, or procedural defaults in concessional tax regime declarations, are routinely penalized without allowing taxpayers to present legal or factual justifications. The absence of any structured dialogue, or escalation path within the CPC’s interface, amplifies this problem, turning the portal into a monologist system where actions are executed, but explanations are neither sought nor accepted.⁴⁵

Moreover, unlike the multi-tiered grievance redressal mechanisms seen in the IRS or HMRC systems, India’s e-filing portal lacks a coherent framework for resolving disputes. The need for India to institutionalize taxpayer accountability measures into the digital platform itself is prominent. This includes the development of ticketed support systems, procedural timelines for issue resolution, and designated accountability officers. For India to move toward a digitally mature tax regime, its systems must evolve not just in functionality, but in philosophy entered

⁴¹ Robin Burgess & Nicholas Stern, *Tax Reform in India*, Working Paper No. 45, STICERD, London Sch. of Econ. (1993).

⁴² Aamresh Bagchi & Nicholas Stern, *Tax Policy and Planning in Developing Countries* (Oxford Univ. Press 1994).

⁴³ OECD, *Tax Administration in OECD and Selected Non-OECD Countries – Comparative Information Series* (OECD Publ’g 2013).

⁴⁴ Vijay Joshi & I.M.D. Little, *India’s Economic Reforms 1991–2001* (Oxford Univ. Press 1996).

⁴⁵ Arindam Das-Gupta & Dilip Mookherjee, *Incentives and Institutional Reform in Tax Enforcement* (Oxford Univ. Press 1998).

not on enforcement, but on facilitation.⁴⁶

V. CONCLUSION AND RECOMMENDATIONS

One of the pivotal moments in India's public governance structure was the country's shift to an income tax system that is administered digitally. The government has improved the tax administration process's efficiency, consistency, and scale with programs including the Centralized Processing Center (CPC), faceless assessments, and pre-filled ITRs. The recommendations that follow are not merely corrective but transformative in nature, proposing systemic recalibration for the forthcoming IEC 3.0 regime.

The first area demanding immediate reform is the mechanism of automated adjustments by the CPC. While the original intent of these adjustments was to expedite the processing of returns by resolving arithmetic inconsistencies and apparent errors, the present implementation has far exceeded its statutory limits. Algorithms today often disallow deductions, exemptions, or tax credits based on procedural mismatches, overlooking the nuanced legal framework under which these claims operate. Human oversight must therefore be embedded into the processing system, particularly for adjustments that involve interpretive reasoning. Parallel to this, the structural redesign of ITR forms must be prioritized. The current architecture of the ITR utilities is static and non-responsive, incapable of accommodating complex disclosures such as foreign tax credits, exemptions for delayed filings with condonation provisions, or commission-based income segregations. A dynamic form design, which modifies its structure based on taxpayer profiles and declared heads of income, would significantly enhance accuracy and compliance. These "smart forms" should integrate explanatory fields for legal claims, context-aware error prompts, and real-time validation features to guide taxpayers in a legally coherent manner. Such a transformation would not only simplify the act of filing but also minimize downstream adjustments and litigation.

The user experience must also be addressed as a cornerstone of reform. A digital tax system that does not accommodate the technological diversity, legal literacy, and accessibility needs of its user's risks creating procedural exclusion. Navigation across the current portal remains unnecessarily complex, and the absence of contextual help, AI-based chat support, and personalized pathways creates barriers for voluntary compliance. Additionally, the grievance redressal infrastructure remains opaque, with no real-time tracking, limited human contact, and no structured escalation. A user-centric redesign, emphasizing intuitive design and accountable

⁴⁶ Tuan Minh Le, Blanca Moreno-Dodson & Nihal Bayraktar, *Tax Capacity and Tax Effort: Extended Cross-Country Analysis from 1994 to 2009* (World Bank 2012).

service windows, must be implemented to create an experience that is as just as it is efficient.

Furthermore, procedural clarity around jurisdictional issues must be established. In the present framework, rectification applications, assessment responses, and appeal filings often fall into administrative vacuums, with CPC, faceless assessment units, and jurisdictional officers passing responsibility without a formal chain of authority. This has led to systemic delays and legal uncertainty. Clear jurisdictional protocols must be embedded within the digital architecture, with taxpayer dashboards displaying the correct authority, applicable timeline, and current case status.

As India prepares to implement IEC 3.0, the findings of this study underscore that the next phase of digitization must be principle-driven, not merely efficiency-oriented. The roadmap for implementing IEC 3.0 must begin with a participatory redesign process, engaging not just administrators and software providers, but also legal experts, taxpayer representatives, and professional bodies. System upgrades must be phased, with extensive pilot testing, documentation of failure points, and real-time feedback loops. Emphasis should be placed on integrating legal reasoning into digital workflows, developing institutional protocols for audit and appeal within the digital sphere, and ensuring that every automated function includes a taxpayer interface for justification and rebuttal. The convergence of technological capacity with constitutional values is not merely desirable; it is essential. Only through such an integrative approach can India establish a digital tax regime that is not just efficient, but just.
