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DOI: https://doi.org/10.64388/IREV8I3-1723519

Impact of the New Income Tax Regime on Individual Taxpayer Compliance and Revenue Mobilization in India: A Conceptual Assessment of Tax Simplification, Taxpayer Choice, and Direct Tax Administration during 2020–August 2024

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Abstract- Introduction of India's New Income Tax Regime under Section 115BAC from FY 2020-21 represented a fundamental reform in personal income taxation by providing individuals with lower more graduated tax rates in exchange for losing many exemptions and deductions, and reform was initially launched as an optional alternative to the old regime with the clear objective of facilitating income-tax compliance and lowering reliance on tax professionals and easing the computation burden on taxpayers (Press Information Bureau); against this background, the present study conceptually discusses whether and how the evolution of New Income Tax Regime in 2020-31 August 2024 has mediated individual taxpayer compliance and direct-tax revenue mobilization through tax simplification, taxpayer choice, digital administration, and extension of the effective tax base; the study is conceived as a conceptual descriptive investigation with secondary data evidence as available up to September 2024, including Union Budgets, Finance Acts, Income Tax Department and CBDT reports, Economic Survey, government revenue statistics, institutional publications and reports, and relevant literature, which have been analyzed through thematic conceptual analysis rather than econometric causal estimation; the key proposition points to the conceptual pathway 'New Income Tax Regime tax structure lower compliance complexity and calculation time taxpayer choice and participation voluntary compliance broader tax base revenue increased', which is relevant since the Finance Act 2023 made the new regime the default from FY 2023-24, increased the Section 87A rebate threshold up to which taxpayers with total income up to 7 lakh could have zero tax liability, while taxpayers could still opt for the old regime (Income Tax Department); by July 2024, the government estimated that on average two-thirds of individual income-tax taxpayers had switched to the new regime, and Budget 2024-25 reworked the slabs while increasing the standard deduction for salaried taxpayers from 50,000 to 75,000 (Ministry of Finance); and Expenses of Government of India, 2024; from an economic perspective, compliance and revenue implications must depend on income, deductions forgone, knowledge, digital capability, human behaviour, administration, inflation, employment and income, and economic growth; therefore, considering the smaller but significant literature, conclusions should read the new income-tax regime as a component of India's journey toward a simpler, choice-based, digitally administered personal income-taxation system that may improve compliance and tax collection, while monitoring the true rates of compliance, economic efficiency, and tax equity.

Keywords: New Income Tax Regime, Tax Simplification, Individual Tax Compliance, Taxpayer Choice, Revenue Mobilization, Digital Tax Administration, Section 115BAC, India

I. INTRODUCTION AND BACKGROUND OF THE STUDY

Personal income tax acts as a vital pillar in the domestic resource mobilization strategy of India as it aids in funding government expenditure including social welfare and developmental schemes for achieving fiscal sustainability with vertical equity at the heart of the taxation policy through progressive tax rates. An effective tax system for personal income implies a continuous trade-off between progressivity, deductions and exemptions directed towards specific socioeconomic objectives, encouraging household saving and investment, ensuring administrative simplicity and limiting taxpayers' compliance costs while also safeguarding and boosting the revenue mobilization for the government. Complicated tax provisions attract cost of book-keeping, calculations and professional tax advise which influences the willingness and ability of taxpayers to report their taxes correctly (Slemrod, 2019). It is against this backdrop; the government introduced the New Income Tax Regime under Section 115BAC (Finance Act 2020) which is effective from Financial Year (FY) 2020-21 onwards for individual and Hindu Undivided Families (HUFs) as an optional alternative to the Old Tax Regime. The new tax regime provided lower and slab-wise tax rates but offered fewer exemptions and deductions to the taxpayers compared to the existing regime (Ministry of Finance, 2020). The Union Budget 2020-21 mentioned that out of more than 100 exemptions and deductions, around 70 were proposed to be removed under the simplified regime, with an estimated revenue forgone of approximately ₹ 40,000 crore annually. Initially, the new tax regime operated in conjunction with the traditional regime and was completely voluntary with taxpayers choosing between the two regimes. Taxpayers could remain in the old regime, if their economic circumstances made them claim exemptions like house property-related, investment-linked or other deductions otherwise not available under the new tax regime. The Finance Act 2023, significantly tweaked the policy design and made the new tax regime the default one effective from the assessment year (AY) 2024-25/FY 2023-24, although the taxpayers can still opt for the old one if they meet the criteria. The exemption limit was raised in the new tax structure to ₹ 3 lakh, reduced the number of income tax slabs to five, increased the tax rebate threshold under Section 87A of the Income Tax Act such that resident individuals with net taxable income up to ₹ 7 lakh would pay zero income tax, and introduced standard deduction of ₹ 50,000 for salaried employees to encourage and adopt the new regime (Ministry of Finance, 2023). In the Union Budget 2024-25, announced in July 2024, the government tweaked the new regime tax slabs again and also increased the standard deduction for salaried individuals from ₹ 50,000 to ₹ 75,000. Reports suggest that as on March 2024, over two-thirds of income tax assesses have shifted to the new regime (Ministry of Finance, 2024). Along with this, the administration shifted towards digitalization in filing tax returns, electronic submission of information and providing pre-filled information to taxpayers in the Annual Information Statement (AIS) (Income Tax Department, 2022). As on 31 July 2024, for the AY 2024-25, 7.28 crore income tax returns (ITRs) have been filed compared to 6.77 crore in the corresponding period of the AY 2023-24, registering a growth of about 7.5 per cent, of which about 5.27 crore ITRs – roughly 72 per cent – were filed under the New Tax Regime with an addition of 58.57 lakh first time filers. As per the data released, net direct tax collections for FY 2023-24 (provisional) stood at ₹ 19.58 lakh crore, an increase of 17.70 per cent over FY 2022-23, and net personal income tax collection (including Securities Transaction Tax) was around ₹ 10.44 lakh crore, a growth of 25.23 per cent over the previous fiscal (CBDT, 2024). This study looks into these two dimensions of Taxpayer Compliance and Revenue Mobilisation to assess if the New Tax Regime is able to encourage voluntary participation and effective tax reporting and if this has enhanced the potential of resource mobilization.

Institutional and Historical Background of the New Income Tax Regime

To explain the institutional evolution of India's New Income Tax Regime, it is instructive to first contextualize the period before the 2020 reform as the old personal income-tax regime, where general individual tax payers in the non-senior age group faced nil to 2.5 lakh at 0, 2.5-5 lakh at 5 per cent, 5-10 lakh at 20 per cent, over 10 lakh at 30 per cent, and for a taxable income profile that could be mitigated through a multitude of exemptions, allowances, and Chapter VI-A deductions (including Section 80C investments and other eligible payments within an overall 1.5 lakh ceiling, along with housing-related allowances, insurance, pension contributions, and other concessions) thus incentivizing household savings and investments but also requiring tax-payers to assess concession limits and eligibility, track relevant evidentiary documentation and engage in a comparatively detailed exercise of tax planning (Income Tax Department, 2020); against this context, the 2020 reform introduced Section 115BAC as a new concessional scheme covering 2.5-5 lakh at 5 per cent, 5-7.5 lakh at 10 per cent, 7.5-10 lakh at 15 per cent, 10-12.5 lakh at 20 per cent, 12.5-15 lakh at 25 per cent and over 15 lakh at 30 per cent, on the condition of not availing a host of traditional concessions and deductions, with the Government projecting an annual compromise of 40,000 crore in revenues (Ministry of Finance, 2020); Press Information Bureau under the old and new regimes thus coexisted in 2020-22 with taxpayer choice seen as a defining institutional feature because the effective regime varied based on income levels, deduction availabilities, housing outgoings, saving and investment preferences, and overall taxpayer conditions but the latter with simpler calculations, less documentation and less reliance on financial advising; the institutional composition changed significantly from FY 2023-24 by when the newly-conceded Section 115BAC regime had become mandatory, the 3 lakh basic exemption was up from 2.5 lakh, the slabs were readjusted to nil up to 3 lakh, 5 per cent for 3-6 lakh, 10 per cent for 6-9 lakh, 15 per cent for 9-12 lakh, 20 per cent for 12-15 lakh and 30 per cent for over 15 lakh, the target-level rebate was extended to 7 lakh total income for eligible resident individuals thus eliminating taxes for the latter, and the income-tax deduction for salaried taxpayers was increased to 75,000 along with the standard deduction hiked to 75,000 (Ministry of Finance, 2023; Income Tax Department, 2024); Press Information Bureau with the 2024-25 Budget release in July 2024, however, the slabs were reintegrated as nil up to 3 lakh, 5 per cent for 3-7 lakh, 10 per cent for 7-10 lakh, 15 per cent for 10-12 lakh, 20 per cent for 12-15 lakh, and 30 per cent for over 15 lakh, the standard deduction for salaried persons increased to 75,000, the family-pension deduction moved to 25,000 and the new regime potentially saved salaried individuals 17,500 in taxes, and thus the institutional focus by 31 August 2024 was clearly on a default and simplified current personal income-tax regime while maintaining the flexibility of choice (Ministry of Finance, 2024).

Statement of the Research Problem

The core problem in the current research is how India's New Income Tax Regime - as a core part of its efforts to simplify the tax regime through fewer exemptions, fewer rates and an objective of increased participation and voluntary compliance - and tax complexity – where taxpayers have had a range of financial and non-monetary choices to make in the 2020 to Aug 2024 period, have been interpreted by taxpayers and impacted tax compliance as the two systems co-existed and given the need to select one over the other based on one's income, existing deductions, investments in house property, personal choices and lifestyle of the taxpayer to optimize the tax payment. This was more critical especially when the New Tax Regime became the default from Financial Year 2023-24, but with an option for the taxpayers to switch over to the Old Tax Regime subject to certain conditions. A significant aspect in the compliance is the ease with which one can opt for the regime, the digital ease, pre-filling, default choice set by the Tax Department, all of which play a part in the taxpayer's compliance, irrespective of the core tax benefit, hence, the adoption of a tax regime is not necessarily a true reflection of the simplicity, and the resulting direct tax collection is not necessarily a direct resultant of the success of the new scheme solely as such. This was evidenced from the data where a total of 7.28 crore ITRs for AY 2024-25 were filed up to 31 July 2024, compared with 6.77 crore returns filed up to 31 July 2023. Out of 7.28 crore returns filed, about 5.27 crore returns have been filed under the New Tax Regime. There were 58.57 lakh first time filers. Therefore, the issue of research is to conceptualize if the new regime has indeed made it simpler and whether it helped increase voluntary compliance and participation in a more nuanced and in-depth manner over the 2020- Aug 2024 period.

Research Questions

1. How did the New Income Tax Regime alter the structure of individual income taxation in India?
2. How can tax simplification influence voluntary compliance?
3. How does taxpayer choice between tax regimes affect compliance decisions?
4. Through what mechanisms might the new regime broaden the effective personal income-tax base?
5. How does digital direct-tax administration interact with tax simplification?
6. What factors constrained the compliance and revenue effects of the reform during 2020–August 2024?

Research Objectives

1. To examine the evolution and policy rationale of India’s New Income Tax Regime during 2020–August 2024.
2. To analyse the conceptual relationship between tax simplification and individual taxpayer compliance.
3. To examine how taxpayer choice between the old and new regimes may influence compliance behaviour.

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DOI: https://doi.org/10.64388/IREV8I3-1723519

4. To assess conceptually whether greater participation and simplified administration can strengthen direct-tax revenue mobilization.
5. To identify administrative, behavioural, technological, and policy factors affecting the effectiveness of the New Income Tax Regime

Conceptual Clarification of Key Terms

In the context of the present study: 1. New Income Tax Regime is defined as concessional personal income-tax regime established by Section 115BAC of the Income-tax Act, 1961, introduced as an optional alternative then as an opt-out in AY 2024-25 with comparatively lower slab rates but limited availability of exemptions and chapter VI-A deductions, while allowing tax filers such rights to opt in to the old regime (Income Tax Department, 2024) 2. Tax simplification is explained as reducing the cognitive, administrative, documentation, calculation and professional advisory burden associated with ascertaining tax liability, by highlighting the intended simplification benefits of clarity in rates, simplicity in calculations and reductions in exemption-related filing procedures, and supported by evidence that return complexity and advisors' influence over personal income-tax compliance costs are significant (Blaufus et al., 2019) 3. Taxpayer choice involves an informational task whereby an individual compares hypothetical states of the world under old and new tax regimes on the basis of the composition of income, deductions, exemptions, investments, housing obligations, costs, and expected liabilities and preferences, with the important behavioral consideration that default status of the new regime provides the context for that choice; 4. Individual tax compliance entails optimal participation in the tax system, including linking to a PAN, income reporting, complete disclosure, accurate liability calculation, timely return filing, and timely tax payment, the scale of participation in term of returns filed by 31 July 2024, being 7.28 crore (1 crore equals 10 million) including 5.27 crore or around 72% under new regime, illustrating scale without necessarily establishing causation; 5. Effective tax base encompasses all income and persons within the ambit of statutory provisions, as differentiated from the accessible tax base which comprises those items of income and persons that are actually declared and tax administrationally brought within the tax net, so that increased participation and disclosures lead to broadened effective base even without changing statutory limits; 6. Revenue mobilization refers to the government's ability to raise adequate and sustainable revenue from a broad effective tax base by designing an appropriate tax, bringing it effectively within the tax net, ensuring compliance, and operationally administering the same, since strength in compliance and broadened base are recognized international elements of revenue capacity (IMF, 2022); and 7. Digital tax administration pertains to non-coercive and real-time electronic channels, such as the Indian initiative of Annual Information Statement and Taxpayer Information Summary, assisted by e-filing, prefilled returns, e-verification, centralized processing, third party information reporting, analytical tools and interconnected information systems, where tax-related information on salary, interest, dividends, and transactions can facilitate pre-filling, feedback and matching, and voluntary compliance, taking into account the wider international move towards informatization and automation of personal income-tax reporting (OECD, 2022).

Review of Literature

The India-specific literature on India's New Income Tax Regime suggests that the interplay of tax simplification, choice, compliance behaviour, digital administrative practices, and revenue mobilization is non-mechanical and multi-faceted, because early experiments with tax simplification demonstrated that the complicated deduction structure, record keeping, and need for professionals impose resource costs on taxpayers--Slemrod (1989) finds meaningful compliance-cost savings from the elimination of itemized deductions, while later studies find a positive correlation between complexity of individual returns and taxpayer time and dollar compliance burdens (Marcuss et al., 2013; Blaufus et al., 2019); recent estimates further reveal that taxpayers may even forego financially beneficial deductions in order to avoid filing effort, since administrative simplicity influences participation and reporting behaviour (Benzarti, 2020), although simplicity does not automatically induce compliance, since perceptions of fairness, enforcement, information quality, and taxpayer capability are also relevant; in terms of rates and taxpayer responses to them, as Saez et al. (2012)

discover that while changes in the marginal rate alters taxable income through multiple channels--labour supply, tax avoidance, timing, and reporting--a simplified new regime's lower rate may affect not only arithmetic tax liabilities but also tax-related planning behaviour; the literature on taxpayer choice demonstrates that individuals do not always choose policies on the basis of perfect tax-minimization calculations, since default options, choice overload, decision-frame, and sentiments about the status-quo influence: van Dijk et al. (2020) find that compliant behaviour is strengthened under correct pre-filled returns but undermined under incorrect defaults; hence, choice architecture is also crucial when India's New Tax Regime was the default from FY 2023-24; the literature on digital direct-tax administration further supports this conclusion, with Klun (2009) estimating that pre-filled personal income-tax returns significantly decreases compliance costs in Slovenia while Okunogbe and Pouliquen (2022) show that e-filing decreases firms' time dedicated to tax compliance while increasing payments among taxpayers with strong anti-evasion incentives, suggesting that e-filing, pre-filled information, third-party reporting, AIS/TIS-type information systems, and analytics may complement the ostensibly-vertical effects of statutory simplification by decreasing friction in the filing process and transparency of information; from a revenue-collection perspective, these findings imply that simpler compliance behaviour and smarter information reporting can both benefit revenue efficiency by improving participation in the tax net and bringing more resources to taxation--that is, a larger effective tax base--though the revenue impact does not automatically ensue from tax rate changes and behavioural responses to them; Indian-specific research on the New Income Tax Regime, to-date, is comparatively scarce, with Shevate and Pande (2023) reporting "massive unawareness" among tax professionals and salaried taxpayers regarding old-versus-new regime choices and highlighting that the latter decision was often based on savings strategies and reduced reliance on professionals; similarly, Rekhi and Saxena (2023) investigate tax-compliance perceptions in terms of awareness, complexity, compliance, and evasion; by July 2024, 7.28 crore returns had been filed in aggregate, with 5.27 crore--around 72 percent--under the New Regime; 58.57 lakh filers were first-timers, but this does not necessarily prove that simplification was the decisive driver of the actual growth in participation (CBDT, 2024); then, the principal area of knowledge deficiency, therefore, is that while the extant literature among the three themes tends to address compliance costs and digital filing, taxpayer choices, and revenue implications separately, the lack of comprehensive theorization that accounts for the combined effect of simplification, choice, taxpayers' behaviour, digital-enhanced information visibility, and the expansion of the tax base on India's evolution from 2020 to August 2024.

Theoretical Foundation

The theoretical basis underlying this study integrates four conceptual viewpoints Deterrence Theory of Tax Compliance, Tax Morale and Voluntary Compliance, Behavioural Economics and Choice Architecture, and Compliance-Cost Theory-to theorize how the New Income Tax Regime may impact taxpayer behavior, participation and revenue collections between 2020-August 2024; first, all these four perspectives, which are elaborately discussed in section II, suggest that the compliance impact of a simpler regime may still require credible information reporting, assessment and enforcement; all parts of this first perspective relate to the original Allingham and Sandmo (1972) expected-utility model: taxpayers compare gains from cheating to the probability of detection and penalties, implying that the effects of a simplified regime may also hinge on credible reporting, assessment and enforcement; second, Tax Morale and Voluntary Compliance theory, which also runs counter to the conventional deterrence perspective, asserts that taxpayer compliance behavior is not merely driven by the penalty incentives because trust, perceived efficiency, fairness, legitimacy and admin quality also have non-trivial influence; Kirchler et al. (2008) differentiate enforcement (power based) and trust (behavior based) compliance, and Luttmer and Singhal (2014) suggest that non-pecuniary motivators can be major determinants of compliance; third, Behavioural Economics and Choice Architecture, which appear particularly relevant because individuals facing the choice of New and Old regimes contend with comparison costs, time-limited deductible options, heterogeneous situations, bounded rationality, default bias, loss aversion and attention deficiency, which presumably pose significant challenge to optimal decision-making, thus raising reliance on cognitive

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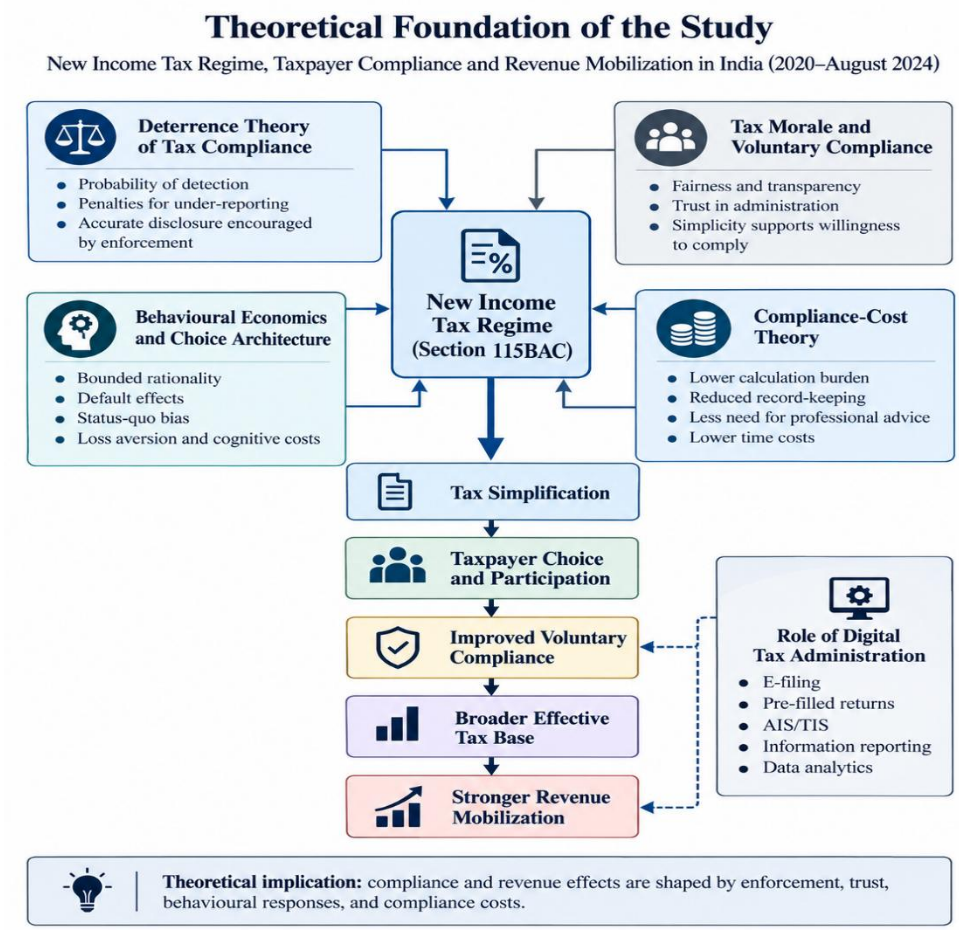
DOI: https://doi.org/10.64388/IREV8I3-1723519

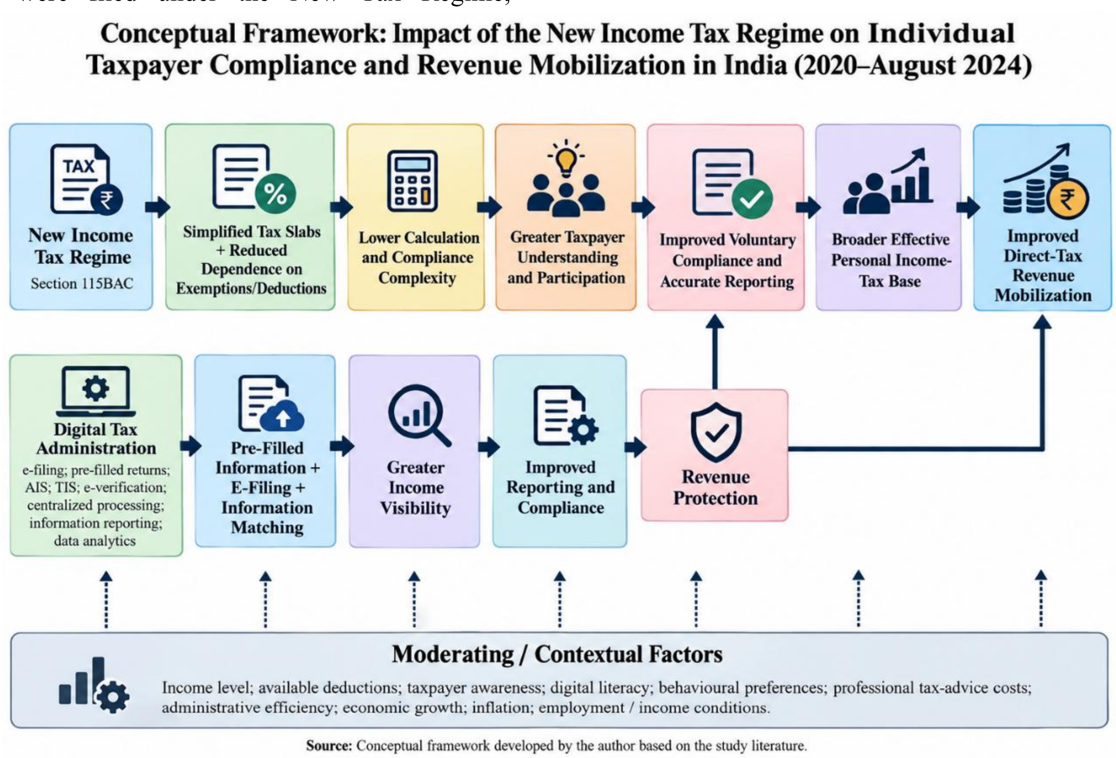
biases and heuristics that can cause choices to diverge from the tax-minimizing benchmark; van Dijk et al. (2020) further show that accurate default preferences can enhance compliance while default errors can mitigate compliance, on the other hand; this perspective is also relatively more relevant as from FY 2023-24 the New Tax Regime became the statutorily default regime, and by 31 July 2024, about 72 percent of the 7.28 crore returns filed were under this regime, although this pattern should not be used to infer causality between default design and tax payer choice (CBDT, 2024); and finally, Compliance-Cost Theory, which traditionally focuses on compliance consequences of calculation and administrative burden, print and time costs and professional service costs, also suggests that paying more tax away could be worthwhile to avoid filing concern, which is empirically supported by Benzarti (2020), who find that taxpayers might sacrifice tax savings for the sake of avoiding filing costs. Based on the above, the present theoretical framework states that a simpler regime may induce greater compliance, facilitate revenue collection, and catalyse financial inclusion when tax compliance costs decrease with simplicity, administration digitization enhances information availability, and fair and transparent administration and effective enforcement can incentivize tax morale and deter tax evasion, while behavioural biases and heterogeneous predispositions condition individual responses to choosing between regimes.



Above diagram showing the Theoretical Foundation related to the study

Conceptual Framework

This paper's conceptual framework hypothesizes that the New Income Tax Regime in India affects individual taxpayer compliance and revenue generation not solely through the structural or financial advantages of lower statutory rates, starting with section 115BAC as the policy instrument that reduces reliance on exemptions and deductions and employs a simplified slab structure to reduce calculative effort, paper-work burden, tax-planning intensity and compliance time costs that is in line with the evidence that due to filing fees, taxpayers derive a welfare loss from non-filing of a return (Benzarti, 2020); reduced complexity should reduce taxpayer information costs, improve understanding and reduce involvement in filing task which should facilitate filing ease, but the response is uncertain as taxpayers may choose higher welfare losses to avoid complexity (Kapoor & Snape, 2021); improved understanding and ease of filing should result in greater willing filers who would thereby report more accurately, file on time and pay taxes expeditiously, increasing the proportion of taxable income entering the effective tax base and thus tax capacity of direct taxes, although this is conceptual not causal; the administrative digital pathway operates in parallel to boost taxpayer transparency and security, lower reporting error and facilitate risk management through e-filing, pre-filled forms, third-party sharing, information matching, centralized processing and data analytics that is in line with the international evidence on online filing encouraging faster filing time and late -payment shift (Okunogbe & Pouliquen, 2022), and on 'pre-filling, data and algorithms' (OECD, 2022); India's own experience reveals a flow of 7.28 crore returns by 31 July 2024, 72 percent of which, or 5.27 crore, were filed under the New Tax Regime, including 58.57 lakh from first time filers (CBDT, 2024); however, the relative strength of the pathway is subject to variation in income, deductions foregone or available, taxpayer awareness and assistance, digital skills, consultancy costs, behavioural inertia, administrative capacity, economic growth, inflation, employment and income levels, so that a higher adoption or collection does not necessarily imply the influence of simplification, but should be rather a combined result of policy, choices, visibility and macroeconomic conditions. The framework further assumes that the reform operates through two reinforcing channels: a behavioural channel, in which clearer tax rules and reduced decision costs can improve willingness to report income, and an administrative channel, in which third-party information and digital verification can raise the probability that misreporting is detected; accordingly, improvements in compliance and revenue are expected when simplification is accompanied by monitoring and taxpayer support, rather than when rate changes operate in isolation, because information visibility and capacity shape reporting behaviour (Kleven et al., 2011; Alm et al., 2010).



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Research Methodology

The study uses a conceptual and descriptive case study research design based on secondary evidence alone to assess whether the New Income Tax Regime in India can be associated with taxpayer compliance and revenue by considering the period from 1 April 2020 to 31 August 2024, with the methodological aim of integrating administrative, fiscal, behavioural and academic evidence into an explanation not attempting to quantify a causal effect; in line with existing guidance on case study in this context (Jaakkola, 2020), the study develops relationships between constructs through logic-based synthesis and theory-building rather than testing hypotheses against a survey or experimental dataset, with documentary evidence sourced from Ministry of Finance and Central Board of Direct Taxes information, Income Tax Department guidance, Union Budget and Finance Act documents, Economic Survey reports, parliamentary papers, Reserve Bank of India reports, the Comptroller and Auditor General of India, wherever relevant, NIPFP reports, peer-reviewed journal articles, academic books, OECD, IMF and World Bank reports, and information available up to 31 August 2024; document selection was guided by relevance to tax simplification, taxpayer choice, compliance behaviour, participation in return filing, development of personal income-tax base, digital tax administration and revenue collection performance, and descriptive statistical indicators, such as return-filing levels, regime adoption ratios and direct-tax revenue collection indicators, were used to describe patterns of institutional change and were not intended to establish that reforms caused the changes; the review applies a thematic conceptual analysis (characterized by in vivo coding to index evidence within the pathway 'New tax regime simplification taxpayer choice compliance effective tax base revenue mobilization') combining 'comprehensive, iterative review, interpretation and contextualization of existing sources of evidence' (Bowen, 2009) with thematic analysis 'a way of identifying patterned meaning across data' (Braun & Clarke, 2006), before following an integrative approach in which theoretical and empirical sources are compared, connected and interpreted to construct a framework of ideas (Snyder, 2019); the methodology explicitly considers alternative explanations, such as macroeconomic recovery, inflation, growth in jobs and income, concurrent enforcement operations, and fluctuations in taxpayer awareness, but provides analysis and ideas, not statistical evidence that the New Income Tax Regime caused increases in compliance, an expanded tax base and greater revenue collections.

Evolution of the New Income Tax Regime, 2020–August 2024

The Tax system reforms between 2020 and August 2024 In India illustrates a broad trend of development from an advanced optional concessional system towards a greater use of the simple default system. The first step in this process was taken through the introduction of the Financial Act, 2020 into the existing flexibility of the old optional concessional tax regime with the introduction of Section 115BAC that set the stage for a new regime for individual taxation starting from FY 2020-21 (from FY 2020-21, eligible individuals had the option of paying at lower slab rates, at the expense of several exemptions and deductions available under the old regime), achieving an exact parallel system on which an informed comparison was possible on expected tax liability based on level of income, net investments, benefits from certain house-related concessions and deductions (Government of India, 2020). This coexistence of the two regimes continued in the period of 2020-2022 with a few modifications, but still, the taxpayer was left with two contrasting structures to choose from, which meant that at the tier of rulemaking, simplification was achieved but is still associated with additional layer of decision-making. The process was finally substantially achieved through the Financial Act, 2023 that saw the new tax structure become the default from FY 2023-24 with the basic exemption amount raised to 3 lakh, a new slab of 5, 10, 15, 20 and 30 percent for income over 3 lakh, a higher rebate of 25,000 for a resident individual with total income up to 7 lakh under section 87A and continuing with the same basic formula of concessional regimes allowing a choice between the two regimes (Government of India, 2023). The trend was further followed through in the Union Budget and Financial (No. 2) Act, 2024 where the new tax regime slabs were expanded to include 3-7 lakh at 5 percent, 7-10 lakh at 10 percent, 10-12 lakh at 15 percent, 12-15 lakh at 20 percent and above 15 lakh at 30 percent while the standard deduction for salaried individuals and pensioners was further increased to 75,000; the maximum rebate remained the same at 25,000 for an individual and the same conditions continue to enable a taxpayer choice to opt for the old regime (Government of India, 2024; Ministry of Finance, 2024).

New Income Tax Regime and Tax Simplification

The New Income Tax regime can be viewed as a tax-simplification reform because section 115BAC moved personal income taxation from heavy reliance on exemptions, deductions, and tax-planning provisions to a more rate-based system; the 2020 Union Budget included a proposal to abolish some 70 exemptions/deductions out of 100+ available for taxpayers opting for the concessional regime, reducing the number of adjustments before determining taxable income, with monetary and calculation burdens possibly reduced at the margin (Ministry of Finance, 2020)-a taxation design as described in public-finance literature, where an excessively complex system entails costs of time, knowledge, and advice, and where tidying these away can generate welfare gains (Slemrod, 1989; Blaufus et al., 2019); the subsequent restructuring from FY 2023-24 aided this goal by making the new regime the default, raising the basic exemption limit to 3 lakh, narrowing the slabs, raising the Section 87A rebate limit to 7 lakh, and introducing the standard deduction while removing a host of other exemptions (Ministry of Finance, 2023); conceptually, these changes reduce the need for receipts, expenditure classification, investment-criterion tracking and repeated comparison, while the move from incremental slabs to flat slabs might make individuals less dependent on paid advice, a significant matter given that taxpayers may sometimes forego tax benefits to reduce filing challenges (Benzarti, 2020); still, simplification does not eliminate all complexity, as the continued existence of the old regime obliges large numbers of individuals to effectively compare the two regimes based on income, deductions, housing, and income pattern, where choice complexity can dilute the gains of simplification within the new regime and keep the reform best understood as a simplification of transactional, rather than choice, complexity.

New Income Tax Regime and Individual Tax Compliance

The link between India's New Income Tax Regime and individual tax compliance is framed by the combination of statutory simplification, taxpayer services, and information-enabled enforcement, since the lower number of calculations required under Section 115BAC - due to the fewer number of exemptions - may reduce compliance cost, while the use of digital filing systems may reduce friction by allowing taxpayers to file their return, check pre-filled information, and achieve compliance in one go; this hypothesis is consistent with experimental research on how an ambiguous tax obligation can deter compliance, while the provision of tax information from the authority can improve the compliance level of reporting of income (Alm et al., 2010), as well as evidence from Denmark that items of income subject to third-party reporting were reported with much less evasion than those that are primarily self-reported (Kleven et al., 2011); Science Direct for example in India the AIS (Annual Information Statement) and TIS (Taxpayer Information Summary) was introduced to facilitate the matching of third-party information to help taxpayers with pre-filling and feedback facility and voluntary compliance, this increases the administrative use of information and strengthens compliance (Income Tax Department, 2022); according to data released by the Income Tax Department, the total number of income-tax returns filed by the due date of 31 July 2024 stood at 7.28 crore, vs 6.77 crore filings by the same deadline in the prior assessment year AY 2023-24, with 5.27 crore, or approximately 72 per cent, filed under the New Tax Regime and 58.57 lakh filing an ITR for the first time, implying high adoption but correlation between the regime and overall adoption is unclear (Central Board of Direct Taxes [CBDT], 2024); Etds the present study conceptualizes that the compliance trajectory as reduction of the compliance friction which results from simplification of the statutory provisions, and digitization of the information for the use of taxpayers for increased compliance, as well as the ability and knowledge of the taxpayers in using the electronic systems, enforcement, and the composition of the taxpayers and their behaviour towards compliance also impacts it.

New Income Tax Regime and Revenue Mobilization

The revenue-mobilization value of India's New Income Tax Regime depends on whether lower statutory rates and simplified compliance can enlarge the truly-filing taxpayer pool enough to balance the revenue lost through lower rates, because an expanded pool of voluntary taxpayer-filers and increased reporting of income may translate a larger share of the taxpayer-pool into actual tax-yields, whereas having little effect on this ratio means a neutral- or revenue-cost ratio; this broader-base-lower-rate ratio is in line with taxable-income literature explaining how taxpayers respond to marginal rates through reporting, tax avoidance, timing, tax planning and real economic behaviour, meaning expected revenues cannot be derived from statutory rates alone (Saez et al., 2012); in India, baseline data before September 2024 found considerable growth in direct-tax collections, with provisional net direct-taxes rising from 16.64 lakh crore in FY 2022-23 to 19.58 lakh crore in FY 2023-24, thus growing by 17.70 percent, while gross direct-tax collections were 23.37 lakh crore (Central Board of Direct Taxes [CBDT], 2024); Press Information Bureau the Economic Survey 2023-24 also highlighted direct-taxes grew by 15.8 percent, accounted for about 55 percent of total taxes and taxes on income other than corporation tax amounted to about 10.1 lakh crore on a provisional-accounts basis (Ministry of Finance, 2024); India Budget besides, the Reserve Bank of India found estimated FY 2023-24 direct-tax buoyancy of 1.90 and income-tax buoyancy of 2.49 at the revised-estimates stage, suggesting tax-revenue growth exceeds nominal GDP, although buoyancy values depend on simultaneously responding to taxation policy, economic growth, inflation, wages and employment growth, fiscal administration and compliance (Reserve Bank of India [RBI], 2024); System Health in principle, therefore, the New Tax Regime might enhance revenue-mobilization when reduced rates encourage filing, proper reporting and effective-base expansion along with digital data systems reducing leakages, but the long-run impact ultimately depends on statutory-tax rates, taxpayer responses, inflation, earning levels, additional deductions and project administration.

Role of Digital Direct-Tax Administration

Digital direct-tax administration is an enabler because the compliance effects of the New Income Tax Regime rely not only on simpler statutory provisions, but also on the government's ability to ease filing, compile third-party information, cross-verify declarations and screen for inconsistencies, with India's electronic filing portal integrating return filing, tax payment, Form 26AS access, prefilled data, EVC and online compliance services in a common digital environment; the Annual Information Statement (AIS) extends the administrative pre-filing view of the taxpayer beyond the familiar TDS/TCS information by providing data on interest, dividend and securities transactions, foreign remittances and other reported items, while the Taxpayer Information Summary (TIS) collates information processed and accepted by the taxpayer for pre-filing purposes, thus supporting more reliable self-reporting and matching (Income Tax Department, 2022); the reports of TDS and third-party filings further strengthen the information-matching premise since income declared can be matched against what has already been filed with the administration, while evidence suggests electronic systems can lower compliance costs and has been associated with increases in government revenue potential (Kochanova et al., 2020); electronically verified 21.7 M and 30.4 M income tax returns had been filed by 31 July 2023 and 31 July 2024 respectively, including 20.6 M and 29.7 M returned via Aadhaar OTP; 18.6 M and 19.0 M FY 2024-25 returns had been verified electronically by 31 July 2023 and 31 July 2024 respectively; 4.58 M one-to-one assessment cases, 4.80 M penalties and 2.25 M appeal cases had been processed or disposed of by 22 November 2023 (CBDT, 2024); faceless assessment, penalty and appeal procedures reduced face-to-face taxpayer-officer interactions, with 558 K, 659 K and 444 K case assessments, 725 K, 935 K and 803 K penalties and 404 K, 465 K and 320 K appeal cases completed or disposed of by 22 November 2023 (Ministry of Finance, 2023); in principle, all these fit the envisaged route to digital information income visibility accurate reporting higher compliance higher revenue.

Major Challenges During 2020–August 2024

The roll-out of India's New Income Tax Regime (2020-August 2024) was also met with institutional, behavioural and technological constraints which could partially obfuscate the quality of evidence of easier taxpayer compliance from the statutory simplification, in the sense that the old exemption-based structure and the new concessional structure could theoretically have still co-existed, with individual taxpayers needing to estimate their tax liabilities under both structures as a function of their respective levels of income, exemptions, housing-related benefits,

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DOI: https://doi.org/10.64388/IREV8I3-1723519

investments and personal factors which may have introduced choice complexity irrespective of the additional deduction restrictions in the new regime; for salaried taxpayers, the comparative evidence further demonstrates that the financial benefit of each structure depended on levels of deductions, income and savings-related behaviour, implying there was no one best choice (Bora, 2024); restricting deductions was also criticized for weakening the tax incentivization for specified savings and investment instruments, which could in turn couple tax-planning and household financial planning (Golden et al., 2022); information disparities remained a concern, as Kaur (2024) highlighted big socio-economic differentials in basic, advanced and functional tax knowledge of Indian individual taxpayers, implying that knowledge and financial competence in independently computing one's own tax liability varied; inertia or endowment bias (Samuelson & Zeckhauser, 1988), tax system fairness (Prasad & Ramaprabha, 2024) and penalties from complexity (Prasad & Ramaprabha, 2024) can contribute to taxpayer resistance, while digital literacy, reliance on tax practitioners, recurrent policy amendments, platform reliability and public information may have interacted with inflation, post-pandemic unemployment, nominal income and price growth to concretize past compliance or revenue effects (Luca & Smith, 2013) in the new tax regime.

Discussion related to the study

The analysis of India's New Income Tax Regime favors analysis through behavioural response and administrative capacity and effective tax rate changes, given that the introduction of the simplified regime has the potential to mitigate compliance and planning costs and increase taxpayer comprehension and active participation, and the fact that an increased sensitivity of deductions to complexity in the tax code suggests that a more complex tax code diminishes the effectiveness of behavioural response, even with constant incentives (Abeler & Jger, 2015); for this framework, declines in compliance friction can be enablers for both easier filing and more accurate reporting, which can expand the effective individual income tax base, promote revenue generation, and deepen tax base coverage; coexistence of the old and new taxation systems complicates choice because tax payers must compare the sacrifice of deductions with the expected revenue liability; and some administrative data points to increase in respondent numbers; 7.28 crore declarations have been filed by 31 July 2024, 7.50 percent higher than the comparable FY 2023 deadline, with 5.27 crore, or approximately 72 percent, being submitted under the New Tax regime (CBDT, 2024); net direct-tax revenue reached 19.58 lakh crore in FY 2023-24, 17.70 percent higher than in FY 2022-23 (Ministry of Finance, 2024); these cannot be interpreted as a causal outcome of Section 115 BAC, however, as research on taxable income shows that receipts are related not only to statutory tax rates, but also to filing behaviour, tax avoidance, the timing of tax filings, and real economic behaviour (Saez et al., 2012); the Indian evidence is also affected by post-pandemic recovery, employment and salary growth, inflation, income growth, digitalization and enforcement; in sum, the evidence supports a conditional path of influence whereby simplification has the potential to mitigate compliance costs and expand base coverage, and digitalization can improve information reporting, though the total revenue effect depends on how base coverage expands and how tax payers and the economy respond.

Policy Implications

Contextually, as the New Income Tax Regime policy recommends from now until September 2024, ongoing simplification should be maintained through administrative and legislative review rather than via fundamental exemption cuts, for taxpayer compliance will be most durable when they can draw on relative stability between years – with stable rules, transparent liabilities, predictable filing processes and known guides to action, as one part of the government's October 2023 announcement of a full review of the Income-tax Act, 1961 to make it 'shorter, clearer and more easily understood' to address inequalities, risks and dispute – an effort that would be enabled by unambiguous official benchmark comparisons of the old and new regimes, specific taxpayer information campaigns and transparent trade-offs explained by limited features forgone, amid the existing soft authority of default settings, since default arrangement research suggests taxpayers are subject to a substantial degree of inertia and while default configuration can influence choice, the new regime default status should be monitored (Madrian & Shea, 2001); digital administration should leverage the potential of pre-filled filing, data matching, automated support and glitch management, given the OECD's assertion that 'digital transformation is the key to improved tax administrations' (OECD, 2020); enforcement should increasingly leverage data-driven analytics to differentiate lapses from willful violations, apply targeted guidance and leverage not just threat of punishment but the tax system's wide sanctioning powers, so as to mitigate bureaucratic and reputational damage (Niels & John, 2023); lastly, simplification should be assessed alongside equity and revenues as structurally lower exemptions, rising rates and default settings impose differential impacts across income ranges, with the need for re-assessment of the optimal balance between administrative efficiency, voluntary compliance, horizontal and vertical justice and stable revenue raising.

Limitations of the Study

This study has some limitations that should be noted to place the analysis of the conceptual elements of the New Income Tax Regime in India into proper context, especially considering it did not include primary taxpayer surveys, interviews, micro- administrative data or experimental evidence, which can directly capture the behaviour, motives, compliance experience and perceptions of fairness of taxpayers (Vartanian, 2011); the period from 1 April 2020 to 31 August 2024, although over four years, is relatively short to assess such a substantive structural reform in the tax system, particularly because Section 115BAC was frequently amended with respect to the rate slabs, rebate entitlements, default status and credits, so behaviour observed in one of those blocks might not be typical of responses to any other; also because the old and new systems were operating simultaneously, it is more difficult to disaggregate the effect of the legislation's simplification vis-à-vis eligibility of taxpayers to self-select into the regime that best fits their personal, financial and economic circumstances; parallel measures to enhance information-based administration, from e-filing and pre-filling to automatic information exchanges, AIS/TIS updates, ITR forms, ATIs and the easier administrative processes created by pre-populated forms and rules-based verification, render it hard to isolate the impact of simplification on individual taxpayers' filing behaviour from the administrative changes that impacted the results; the geopolitical shock of the COVID-19 pandemic and the partial economic recovery also make it difficult to isolate the impact of tax reform from the effect of changing economic conditions, including shifts in employment, income and inflation, on return filing and revenue, while those mechanisms of behaviour such as default effects, inaction, tax morale and awareness could not be identified from the aggregate levels of filing and revenue (World Bank, 2022); the parallel growth of digital tax administration and continued use of the old regime make it impossible to distinguish between the effects of procedural simplification and digital automation, while the concurrent shocks to personal incomes and economic activity arising from the pandemic induce an additional layer of ambiguity; behavioural effects, while theoretically relevant, cannot be known from just administrative aggregates.

Scope for Future Research

New empirical work on India's New Income Tax Regime should go further by leveraging machine-readable taxpayer-level long- data and quasi-experimental variation to: study the actual choice between old and new regimes; test if filing and reporting behaviour systematically varies between regimes; and if behavioural effects diverge between salaried and self-employed taxpayers, across income groups, states and levels of tax literacy, while tax salience can significantly influence such responses despite identical statutory incentives (Chetty et al., 2009). It should also measure the forgone deductions, free-riding gains, cost of professional advice and the timing of investment choices as determinant factors of regime choice, while experimental methods can explore if the novelty effect of new regimes changes tax preferences or only behaviour; administrative microdata can compare filing time, reported income, taxes paid and subsequent corrections across similar filers, while modern difference-in-differences that account for treatment effect heterogeneity (Callaway & Sant'Anna, 2021) can identify the impact of staggered timing of regulations and income ranges. Another area for exciting exploration is digital reporting, using AIS, TIS, TDS files and pre-filled data to see if they increase declaration accuracy and tax compliance via reporting sensation and complexity (Allers & Rohn, 2020), since third-party reporting can have high efficacy and the delineation of its interaction with mandatory regulation can be complex (Pomeranz,

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DOI: https://doi.org/10.64388/IREV8I3-1723519

2015). It should also estimate compliance costs under both regimes, examine state-level filing differentials, and measure the change in personal income-tax elasticity from the rate and breadth change, net of inflation, employment and income growth; finally, microsimulation can address distributional impact across income deciles, household composition and deduction structure, while identified regression is indispensable since non-compliance and responses are hard to discern and those correlations may be misleading.

Conclusion

Evidence up to August 2024 suggests that it is more accurate to view India's New Income Tax Regime not just as an adjustment to personal income tax rates but rather a development in a shift to a lower deduction, lower exemption, but lower tax rate regime which is increasingly digital, and information-based. This has the potential to minimize administrative friction and improve compliance via digital filing, pre-filling of returns, reporting on AIS/TIS and e-verification. This also fits with the global trend identified by the OECD (2020) of moving towards digital, automated, and information-based tax administration. This can be backed up with data; as by the 31 July 2024, the government received 7.28 crore ITRs as opposed to 6.77 crore at the same deadline of the prior year. Additionally, 5.27 crore or nearly 72 per cent, of those returns were filed under the New Tax Regime, in which 58.57 lakh first-time filers submitted their ITRs (Central Board of Direct Taxes [CBDT], 2024a). Also, net direct tax receipts were reported as Rs 19.58 lakh crore on a provisional basis for FY 2023-24, compared to Rs 16.64 lakh crore for the previous year (2022-23), indicating an expansion in direct tax base. Nonetheless, whether Section 115BAC contributes to higher revenue mobilization depends on numerous variables including the taxpayer's choices regarding deductions, information-sharing, digitalisation, filing of taxes, economic climate, and employment figures, amongst others. Thus, there is an interdependency of policy, infrastructure, and socio-economic dynamics, and it would be misleading to associate any change in the growth or compliance directly with the introduction of Section 115BAC.

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