

Digital Transformation of Commercial Taxes Administration

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ABSTRACT

This research examines the effectiveness of digital transformation of commercial taxes administration on revenue generation in Karnataka State and finding a positive long-term link. It highlights digital transformation's role in improving tax compliance and boosting national tax revenue through digital transactions. Commercial Taxes plays an important role in a country's economic growth and development, the efficiency of the Commercial Taxes Administration greatly influences tax revenue collection. This research aims to identify technological glitches that affects the efficiency of commercial taxes administration. This study pinpoints the essential components for advanced digital transformation of tax administration that can successfully boost tax revenue while streamlining procedures for taxpayers and officials. The study underscores the necessity for commercial taxes administration to experience digital transformation to enhance the economy and generate substantial tax revenue. Overall, it supports the promotion of digitalization of commercial taxes administration as vital for economic development and efficient government revenue collection.

Keywords: *Digital Transformation, Effectiveness, Revenue Generation, Tax Administration, Commercial Taxes Department, Commercial Taxes.*

I. Introduction

Tax systems need to change due to recent global shifts in the economy, globalization, technology, and taxation roles. Domestic resource mobilization should focus on developing fair and effective systems. Taxation can enhance state building, accountability, and governance quality. Digital transformation of commercial taxes administration fosters voluntary compliance, minimizes tax evasion, and enhances overall tax collection. Tax authorities should prioritize public awareness initiative and nationwide campaigns to promote digital transformation of commercial taxes administration. It is also crucial to improve information sharing between third parties and tax authorities to facilitate better data flow.

Commercial Taxes Administration

The timeline of indirect taxes in India began in 1944 to protect British products. After independence, new tax policies were introduced. The Karnataka Commercial Taxes Department manages the Karnataka Sales Tax Act, established in 1957, which was replaced by the VAT system in 2005. Other tax laws in Karnataka include the Central Excise Act and the Karnataka Entertainment Tax Act. The GST Act, effective from 2017, aimed to simplify taxation across the country. The Karnataka Act of 1976 allows taxation of salaried and self-employed individuals.

The GST Council, including key finance ministers, oversees the GST in India and guides its implementation. IT infrastructure is essential for effective tax management, and the GST Network was created in 2013 to support this. The tax administration is responsible for enforcing state taxes and managing non-tax responsibilities, enhancing governance and operational efficiency. Medium-term Revenue Strategies may be used to improve the tax system.

II. Review of Literature

According to Hesami, S., Jenkins, H., & Jenkins, G.P. (2024), this paper reviews how electronic invoicing and prefilling tax returns affect tax administration and compliance. The literature search shows that these technologies help lower tax compliance and administration costs. Key benefits include reduced financial stress for businesses, especially during their development stages, and increased efficiency in tax administration. The study points out that e-invoicing and prefilling enhance tracking of taxes, improving global tax practices.

Overall, the research highlights the positive impact of digital technologies in making tax compliance and administration easier and more efficient.¹

Gayathri P. & Saravanan D. (2023) this research looks at how digital changes in financial services affect GST revenue in India. It found a strong positive link between digital transformation and GST revenue. The study also considers economic performance, tax compliance, and inflation's impact on GST earnings. Digital transformation is shown to improve tax compliance and revenue, benefiting both taxpayers and officials. It highlights the importance of digital transactions in boosting financial services and national tax revenue.²

Yuhan He & Yang Yi (2023) this paper shows a clear link between company performance and digital tax collection. The 2013 China Tax Administration Information System (CTAIS-3) pilot affected firms by increasing taxes, harming investments, and worsening financial issues, leading to lower income. Strong tax enforcement impacts larger firms and those facing financial constraints more severely. The pilot also promotes fairness by reducing benefits for large enterprises.³

Bhavin A. Popat & Dr. Jigar R. Raval (2023) the main aim of GST is to simplify tax compliance and improve collections through digitization. It replaces many previous indirect taxes with "One Nation, One Tax". Digitization in India began with digital payments, and GST is a key step for indirect taxes. However, challenges remain in its implementation. This paper will explore these problems and difficulties.⁴

Prof. Sangeetha S Kumar & Chaithanya S (2023) Digitalization is increasing rapidly, especially during the pandemic. This period has highlighted the importance of digital solutions and opportunities. Many people and businesses are signing up for Goods and Services Tax (GST) to simplify tax filing. The shift to digitalization is leading this change. Understanding how GST affects digital payments is important, as it can influence how transactions are made. This paper emphasizes the need to grasp these effects to adjust to the GST's impact on digital transactions and the payment system.⁵

This investigation, conducted by Junquera-Varela, Raul Felix, Cristian Oliver Lucas-Mas, Ivan Krsul, Vladimir Calderon, and Paola Arce (2022) domestic resource mobilization is the key for tax and customs administrations in sustainable development. Information systems and new technologies, like machine learning, can enhance revenue collection and reduce costs. A comprehensive strategy is necessary to effectively implement these technologies, addressing regulatory, institutional, and operational issues. The paper offers a roadmap for policymakers and tax officials to manage these innovations.⁶

K.S. Chernousova (2021) the modern world is improving rapidly, especially in information technology and digitalization. These changes are affecting not only daily life but also organizations and government tax administration. Effective tax administration is vital for state budget replenishment, highlighting the need to improve digital tools in this area. The Federal Tax Service has developed advanced digital services, offering about fifty online services to help taxpayers. The article covers key developments in digital technologies for tax administration, focusing on projects like tax monitoring and analytical systems.⁷

Dr. S. Saravanakumar, Dr. P. Jayasubramanian & Mr. M. Rajakrishnan (2017) the proposed GST plan lacks seriousness in improving the tax system. India should learn from other countries' GST experiences. The government must protect the poor from potential inflation due to GST. It can simplify taxes but needs agreement on key issues first. Until then, the government should delay the implementation.⁸

III. Research Methodology

In order to meet objectives of the study, secondary data has been obtained from the working officers/officials and taxpayers of the Commercial Taxes Department in Karnataka State, India, and information has been sourced from secondary resources such as newspapers, journals, books, government publications, and websites.

Statement of the Problem

Digital transformation of commercial taxes administration holds a significant role in the collection of revenue, the effective e-governance in commercial taxes department is highly important; effective digitalization transformation in commercial tax administration is vital for its efficiency and the automation of the state treasury. Increased technological glitches are the primary cause of reduced revenue generation. Consequently, the study aims to investigate the technological issues contributing to lower revenue generation and assess the efficient tax administration information system.

Objectives of the study

1. To study the role of digital transformation of commercial taxes administration in revenue generation of Karnataka state.
2. To pinpoint the technological glitches that hinder the effectiveness of commercial taxes administration.

Digital transformation of commercial taxes administration

Digital transformation of commercial taxes administration is now a key focus for tax and customs administrations in sustainable development. Information systems are vital for increasing revenue, which can fund essential areas like infrastructure, healthcare, and education. Reliable revenue sources help stabilize public spending and fiscal policy. IT systems improve tax administration efficiency and reduce costs, enabling better revenue collection. Voluntary compliance rises through taxpayer information services, as these offer clarity on taxes, simplify online filing, and make payment more convenient.

Technological glitches in commercial taxes administration

Commercial tax revenue collection in Karnataka State is not enough to support public goods and human capital. High informality and weak state capacity make it hard for tax authorities to find the true tax base and collect taxes effectively and fairly. To address this, tax authorities need to use new technologies to improve their processes, lower compliance costs for taxpayers, and increase their overall effectiveness. Technology plays vital role in tax administration, it enhances tax collection by helping to identify the tax base, monitor compliance, and simplify compliance. However, there are challenges, such as poor infrastructure and connectivity, lack of acceptance by taxpayers and tax collectors, insufficient integration into institutions, and an unhelpful regulatory environment.

The following technical glitches are affecting for successful digital transformation of tax administration in commercial taxes department;

1. The commercial taxes department introduced E-invoicing as way to improve the Indian taxation system, hoping it would reduce tax evasion, but it faced various technical issues like file size limits and real-time generation problems, leading to several delays in its implementation due to technical challenges in matching invoices.
 2. Due to technical glitches, hindering taxpayers from filing and preventing Input Tax Credit (ITC) claims. There have been difficulties in filing GSTR-9 and 9C, and technical problems with the GST portal have resulted in delayed filings and mismatches that hinder refund processes.
 3. These technical issues have led to significant burdens on taxpayers, who face hurdles in compliance and claiming their tax credits. The E-way bill implementation has faced challenges, users experience login issues due to technical problems, delaying E-way bill generation. Minor errors in E-way bills can lead to penalties.
 4. There are hurdles in applying for new registration due to file size limits on uploaded documents, which should be increased. The composition scheme for service providers has yet to be implemented on the portal.
 5. The GST helpline often fails to provide the necessary assistance, and users face issues with the grievance redressal system, as closed tickets fail to document past grievances. Furthermore, the GST department is prompt in sending notices for interest on delayed payments but does not offer automatic interest calculations, leading to confusion for taxpayers.
 6. Website overload during filing due dates causes significant delays and crashes, forcing taxpayers to face late fees. The system has difficulty sending OTPs for filing, causing further complications. There are long wait times for accessing uploaded data or making modifications, and the electronic credit ledger has limits that hinder proper retrieval of information. There is an inadequate software support for the appeal module.
- The e-governing system of tax administration has not been effectively implemented, and there are numerous unresolved technical issues.

Components of successful digital transformation of commercial taxes administration

The following are the components of successful digital transformation of commercial taxes administration:

1. Digital transformation of commercial taxes administration needs compliance management, which involves creating methods for compliance and organizing teams around major taxpayer groups like large businesses, experts, and individuals. It also requires a clear vision for preventing and detecting tax fraud. Any compliance plan must reflect the values and actions of employees handling tax assessment, auditing, and revenue management. This strategy helps tax authorities focus their oversight efforts and manage limited resources effectively. Well-designed key performance indicators (KPIs) linked to the compliance strategy can track progress and goals continuously.
2. Digital transformation of commercial taxes administration may need development of new tax and procedure laws to update administrative rules for all major taxes. With the rapid development of new technologies, it is important for legal systems to adapt laws that consider the effects of these technologies on the existing tax system. This includes areas like confidentiality, privacy, user agreements, and liability in contracts between tax administrations and taxpayers. The main challenge is to move away from rigid thinking that tax lawmakers usually have and instead adopt new ideas that can support the changing global and economy.

3. An operational framework outlines the main processes and compliance steps for a tax authority. It includes governance design, organizational structure, operational guidelines, management reporting, and defined roles. There isn't a one-size-fits-all framework; it must adapt to various country contexts, cultures, social and political situations, economic opportunities, technological capabilities, and evolving global tax conditions.

4. To get the most from tax technologies and handle compliance risks and future revenue growth, tax authorities should create a strategy to guide innovations and outline the desired tax technology setup. New technology needs a proper installation environment, continuous support, maintenance, costs, security, and future planning. Many issues can be addressed with service level agreements with reliable cloud service providers. The Tax Technology Strategy directs innovations and clarifies the overall design of the tax technology system for tax authorities.

5. Digital transformation of commercial taxes administration significantly changes how tax administration works. Staff need proper training to enhance their skills and adapt to new tax technologies. It's vital to clearly define and functions within the tax administration, ensuring communication and accountability are clear, and decision-making is transparent. A major part of managing this change is helping people become comfortable with technology so they can effectively use it in their daily tasks.

6. Performance measurement dashboards and reporting help maintain support from government and politicians while increasing transparency and accountability. To effectively measure performance, it is important to regularly assess key performance indicators (KPIs), progress, efficiency, and the impact of activities related to project goals.

Results from this monitoring can be shared in periodic progress reports, like semi-annual or annual updates, for key stakeholders. Sharing both successes and mistakes is essential to gain credibility and buy-in from the organization, and it also informs stakeholders and the public, fostering trust.

Findings

❖ It is crucial to tackle or circumvent highly intricate technical problems that require rapid integration of technological progress to prevent unnecessary loss of commercial taxes revenue.

❖ It is essential to establish efficient information system that will enable tax authorities to connect and capture taxpayers who evade or avoids taxes.

Suggestions

1. Adoption of sophisticated IT-driven administrative systems to combat tax evasion.

2. It is recommended for effective oversight and regulation of the tax system through information system mechanisms with a strong political dedication to enhance tax administration.

3. To ensure adequate training and development to employees with respect to advanced technological adoption.

IV. Conclusion

Digital transformation of commercial taxes administration improves taxpayer information services and increases revenue by implementing effective and sustainable systems. These systems help reduce malpractice and corruption by allowing taxpayers to interact electronically with the administration, minimizing face-to-face contact with officials. This digital transformation provides a record of actions, which can deter corrupt behavior. Additionally, information systems can lower costs by automating functions like form processing and taxpayer management, and help in monitoring compliance. By adopting a risk management model, tax administrations can better identify and address compliance risks, improve collections of tax debts, and enhance fraud detection. Overall, effective information systems can boost the efficiency of tax administration significantly, leveraging technology for all administrative functions.

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