

Digital Tax Administration as A Mechanism to Combat Black Money: Legal and Technological Perspectives

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Abstract

The problem of black money has been one of the critical issues confronting the economic, fiscal and legal system of India. Not only does this undocumented income led to considerable revenue losses for the state, but it is also responsible for promoting corruption, tax evasion, money laundering, benami transactions, and illicit accumulation of wealth. The traditional approach to tax administration implies a manual system of collecting, assessing, and managing taxes through the means of paper documentation and personal contacts. Thus, it can be assumed that the traditional approach to tax administration might encounter difficulties in addressing black money and tax evasion since a large amount of financial information is hard to gather, verify and analyze in a traditional way. There might be limited opportunities of identifying any income which has not been reported, suspicious transactions or inconsistencies between the declared income of a taxpayer and his or her financial operations. The digital tax administration implies the use of technology, electronic databases, data analytics, automation, and artificial intelligence (AI). Thus, digital tax administration has greatly changed the process of identifying, monitoring, and tackling undisclosed income and tax evasion. The shift from Income-tax Act, 1961 to the Income-tax Act, 2025 in context of the rising use of AI, data analytics, and digital technology for the detection of untold income and tax evasion. The paper will focus on the various challenges posed to technology-based tax administration through constitution and legislation. These include the problems of privacy, natural justice, transparency, and protection of the taxpayer's right.

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1. INTRODUCTION

The phenomenon of black money has been a constant issue in the Indian economy as well as law. The reasons for the occurrence of black money may be tax evasion, misreporting of income, inaccurate accounts, undisclosed transactions, corruption, benami transactions, and many more illegal financial activities. The problem of black money goes far beyond the issue of tax revenue losses. Economic inequality, weakness of the governmental institutions, distortions of fair competition, corruption and money laundering – all these are related to black money problem. Traditional approach to taxation system was based mainly on paper-based documentation, manual examination, data gathered from

individual taxpayers and personal contact between taxpayer and assessing officer. Increase in the number of transactions, development of digital commerce, international transactions and complicated corporate structures makes the process of manual examination of each of transactions nearly impossible. Therefore, digitalization becomes a crucial element of the tax administration system. Digital tax administration gives an opportunity to gather, analyze and compare huge amounts of financial data. Taxpayer can file his return using electronic means, while the data gathered from banks, financial organizations, employers and other reporter's helps find inconsistencies. The change has been particularly relevant in view of the Income-tax Act, 2025. According to the Income

Tax Department, “the Income-tax Act, 1961 is deemed to have been repealed with effect from 1st April, 2026 although the previous Act would continue to apply to earlier years of income in the transitional period”. The Department has also assured that the existing digital systems such as PAN, TAN, faceless assessment and faceless appeals will continue in the new Act. This means that there has been a transformation of tax governance philosophy through digitalization.

2. CONCEPT OF BLACK MONEY

The term ‘Black Money’ is not defined under any taxation laws and financial statutes, including Income Tax Act. Black Money means the income or wealth that has escaped from lawful taxation or disclosure. The Black Money is broader than tax evasion because the undisclosed income may originate from both legal and illegal sources.

The Black Money may be classified into two categories:

2.1 Income from legal activities but not disclosed:

Income may be generated through legal activities but concealed from tax authorities such as unreported business receipts, suppression of sales, maintaining parallel accounts, receiving cash payments without accounting, false expenditure claims, under-invoicing or over-invoicing and concealment of investment income.

2.2 Income from illegal activities:

Income from unlawful activities such as bribery, corruption, money laundering, drug trafficking, smuggling, illegal gambling and fraud.

The distinction is important because the tax administration must examine both deliberate tax evasion and the movement of illicit financial assets. Any unaccounted money that is hidden from taxing authorities gives rise to the black market. The concept of Black Money is interrelated with the tax evasion, corruption, illegal economic activities and concealment of income. The provisions relating to the black money under Taxation Laws are dealing with undisclosed income, unexplained amounts, concealment of income, misreporting, penalties, prosecution and assessment of escaped income.

3. EVOLUTION OF DIGITAL TAX ADMINISTRATION

In India, the tax administration has transformed from paper-based and taxpayer-facing system into an electronic, data driven and technology-enabled system. In earlier times, tax administration began on paper and it was manual and paper based. Taxpayer filled out forms and submitted physical returns and documents, while tax officers carried out assessments and maintained records manually. Later, the tax departments began to maintain taxpayer information, process returns and improve record management through the use of computers. The computerization of tax records and administrative processes laid the foundation for the evolution of digital tax administration. The next stage was the introduction of the Permanent Account Number (PAN) and digital identification. This provided a unique identifier for taxpayers and enabled tax authorities to connect different financial and tax-related transactions with the relevant taxpayers. The major shift from physical submission to online compliance has introduced and expanded through the e-filing of income-tax returns. Tax payments progressively moved from traditional physical methods to electronic payment systems. Further, these systems help tax authorities to receive financial information from banks, financial institutions, employers, property registries and

other reporting entities. A major development has been moved towards faceless assessment and appeals. Under a faceless system, technology is used to allocate cases, exchange documents, communicate with taxpayers and conduct assessment proceedings electronically. The evolving stage of the digital tax administration involves the use of Artificial Intelligence, machine learning, data analytics and automated risk assessment. Artificial Intelligence is increasingly being used by tax administrations to improve efficiency and effectiveness within the tax administration on a range of areas, from improving customer service to detecting tax fraud.

4. LEGAL FRAMEWORK FOR COMBATING BLACK MONEY

In India, the legal framework for combating black money consists of various taxation, anti-money-laundering, financial and criminal laws. Its aim to detect undisclosed income, prevent tax evasion, trace illicit assets and punish persons involved in concealment or laundering of money.

4.1 Income-tax Act, 2025

The Act constitutes the principal legislation governing income taxation for the new tax regime. It came into force from 1 April, 2026. The transition from the Income-tax Act, 1961 to the new act does not mean that previous proceedings disappear. The Income-tax Act, 2025 provides the statutory foundation for contemporary tax administration while allowing continuity in ongoing assessments, appeals and other proceedings. It also provides for assessment of undisclosed income, reassessment, search and seizure, penalties and prosecution for tax evasion.

4.2 Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015

The Act specifically deals with undisclosed foreign income and assets. It was introduced to deal with situations in which Indian residents conceal income or assets outside India. It provides for taxation and penalties in relation to such undisclosed foreign holdings. Digital information exchange and international cooperation have become increasingly important for enforcement under such legislation. Anil Rasiklal Mehta v. Union of India, the Bombay High Court upheld the constitutional validity of the BMA. The court clarified that taxing an undisclosed foreign asset in the year it comes to the knowledge of the Assessing Officer (rather than the year it was acquired) is constitutionally valid and does not amount to a prohibited retrospective tax. Ram Jethmalani v. Union of India, the Supreme Court delivered a landmark judgment addressing the recovery of unaccounted “black money” stashed by India citizens in foreign banks. It established foundational oversight and special Investigation Team (SIT) parameters regarding unaccounted offshore wealth.

4.3 Prevention of Money Laundering Act, 2002

Money laundering involves the processing of proceeds of crime in a manner intended to conceal their illegal origin. Tax administration and anti-money-laundering enforcement increasingly intersect because financial data can reveal suspicious transactions, unexplained transfers and complex financial networks. The Act prevents the conversion and concealment of proceeds of crime. It also provides for attachment, confiscation and prosecution in accordance with the Act.

4.4 Prohibition of Benami Property Transactions Act, 1988

The Act prohibits benami transactions and provides for attachment and confiscation of benami properties. Benami transactions facilitate concealment of beneficial ownership, digital records, property databases and financial information can assist authorities in identifying discrepancies between legal ownership and actual control.

4.5 Companies Act, 2013

The Act contains provisions relating to corporate financial reporting, maintenance of accounts, disclosure requirements and investigation of financial irregularities. In relation to black money, the act helps by promoting financial transparency, proper accounting, auditing and disclosure, thereby reducing opportunities for companies to conceal income, manipulate accounts or engage in fraudulent.

4.6 Foreign Exchange Management Act, 1999

The Act is an important Indian law regulating foreign exchange transactions and cross-border financial activities. It helps address illegal movement or holding of foreign exchange and assets contrary to foreign-exchange law. It requires individuals and entities to comply with prescribed rules when dealing with foreign currency and overseas assets. Violation involving unauthorized foreign exchange transaction or concealment of foreign assets can attract penalties and enforcement action under the law.

4.7 Prevention of Corruption Act, 1988

The Act contributes to combating black money by addressing corruption at its source, discouraging illicit financial gains, and promoting integrity and accountability in public administration. It also aimed at preventing and punishing corruption and bribery involving public servants. Corruption can be a significant source of illegally acquired and concealed wealth. Bribes, illegal commissions and other undue advantages received by public servants may generate unaccounted income and assets.

4.8 Information Technology and Digital Governance Framework

The Digital Personal Data Protection Act, 2023 is particularly relevant because modern tax administration involves the processing of significant quantities of personal and financial information. The Act contains provisions concerning exemptions and processing in specified circumstances, illustrating the need to balance data protection with legitimate governmental functions.

5. DIGITAL MECHANISMS FOR DETECTING BLACK MONEY

Digital mechanisms play an important role in detecting undisclosed income, unaccounted transactions and tax evasion.

- **Electronic Filing** – Electronic filing creates a structured database of taxpayer information. It reduces dependence on physical documents and enables automated comparison of information. Electronic filing can facilitate faster processing, automated validation, identification of discrepancies, electronic communication, digital record preservation and data-driven scrutiny.
- **Annual Information Statement** – Annual Information Statement is one of the most important digital tax administration mechanisms. AIS can help detect

situations where the bank interest is not disclosed, securities transactions are inconsistent with declared income, property transactions appear disproportionate, high-value transactions are not adequately explained, TDS information does not correspond with the return, or financial activity substantially exceeds declared income.

- **Statement of Financial Transactions** – Financial institutions and other reporting entities provide information regarding specified financial transactions. Specified financial transactions enables tax authorities to obtain information about high-value financial activity. Such information can subsequently be compared with income-tax returns.
- **TDS and TCS** – TDS and TCS mechanisms create information trails relating to income and transactions. When a taxpayer deducts tax at source, information is electronically transmitted to the tax system. This makes it more difficult for taxpayers to completely conceal certain categories of income.
- **E-Payment of Taxes** – Digital payment systems reduce dependence on cash transactions and create verifiable records. The Income Tax Department's current e-payment system is different from the payments under the old act for earlier tax years and payment under the new act for Tax Year 2026-2027 onwards.

6. ROLE OF ARTIFICIAL INTELLIGENCE AND DATA ANALYTICS

In digital tax administration, artificial intelligence (AI) and data analytics plays an important role in helping tax authorities to identify undisclosed income, suspicious transactions and tax evasion from large volume of financial data.

- **Data Matching** – Automated systems can compare information received from different sources. Data matching can identify such inconsistencies for further examination.
- **Risk-Based Assessment** – Artificial Intelligence can classify taxpayers according to their compliance and risk patterns. This allows tax authorities to focus their resources on cases that have a higher probability of tax evasion rather than examining every taxpayer in the same manner.
- **Network Analysis** – Black money is often concealed through networks of companies, intermediaries and individuals. Data analytics can map relationship between taxpayers, companies, bank accounts, directors, properties, transactions and related entities.
- **Predictive Analytics** – Artificial Intelligence can analyze historical patterns and predict areas where tax evasion or concealment of income is more likely. The supports preventive as well as investigate tax administration.

7. LEGAL AND CONSTITUTIONAL CHALLENGES

The use of technology in digital tax administration has improved the detection of black money and tax evasion but it also creates several legal and constitutional challenges.

- **Right to Privacy** – Article 21 of the Indian Constitution, protects the right to privacy. The Supreme Court decision in Justice. K.S. Puttaswamy v. Union of India, recognized privacy as a fundamental right. Digital tax systems may collect and process the taxpayers' financial information such as bank transaction,

investments, property and other financial activities. Such collection of information must have a proper legal basis and appropriate safeguards.

- **Natural Justice** – Taxpayers are entitled to basic procedural fairness. The principles of natural justice include, notice, opportunity of hearing, access to relevant information. Impartial decision-making and reasoned decisions. Digital tax system cannot eliminate these principles.
- **Transparency** – Transparency does not necessarily require disclosure of every technical detail of an algorithm. However, taxpayers should receive sufficient reasons to understand and challenge adverse administrative action. Lack of transparency in automated decision-making can create concerns regarding accountability and the right to receive a reasoned decision.
- **Data Security** – In digital tax system, the tax authorities handle highly sensitive financial information such as PAN information, income information, bank-related data, property information, investment, business records and personal identification. There may be a violation of the principle of privacy and confidentiality in cases of unauthorized disclosure, excessive data collection, or the improper use of taxpayer information.

8. TECHNOLOGICAL CHALLENGES

The use of technology in digital tax administration has improved the detection of black money and tax evasion but it also creates several technological challenges.

- **Data Quality** – Some incorrect or outdated data can produce incorrect tax conclusions. An algorithm is only as reliable as the data used by it.
- **Algorithmic Bias** – If the underlying data or assumptions are flawed risk models may unintentionally produce biased outcomes.
- **False Positives** – In unusual circumstances, a legitimate transaction may appear suspicious. So, Human verification is essential. For example, a taxpayer may purchase a large property by using accumulated savings, inheritance or legitimate loan. Automated systems may identify the transaction as high-risk even though no tax evasion exists.
- **Cybersecurity** – Large centralized tax databases are attractive targets for cyberattacks. In tax administration security must be treated as a core component than merely an information-technology issue.
- **Digital Divide** – Not all taxpayers possess equal digital literacy or access to technology. Small businesses, elderly taxpayers and persons in areas with limited digital connectivity may face difficulties in accessing and using digital tax services.

9. DIGITAL TAX ADMINISTRATION AND BLACK MONEY: EFFECTIVENESS

In several reasons, the digital tax administration helps to fight against black money. Firstly, the digital systems reduce opportunities for concealment by creating transaction trails. Secondly, the information from multiple sources can be integrated. Thirdly, if there are any inconsistencies the automated systems can identify it more quickly than manual processes. Fourthly, the digital payments reduce dependence on anonymous cash transactions. Fifthly, the faceless administration can reduce direct interaction between taxpayers and officials. Lastly, international information exchange can

assist in identifying undisclosed foreign assets. However, technology cannot independently eliminate black money. Black money is fundamentally a behavioral, economic and legal problem. Individuals may deliberately structure transactions to evade digital detection. Consequently, technology should be understood as an enforcement tool rather than a complete solution.

10. RECOMMENDATIONS

Digital Tax Administration may be an effective means of tackling black money were technology and law work in harmony. The following steps would improve digital tax administration in India.

- **Law for AI in Tax Administration** – It should clarify how AI is to be deployed for risk assessment, case selection, fraud detection, information matching, and administrative decision making.
- **Human Oversight** – Recommendations generated by AI must be subjected to effective human review before they have any adverse legal effect.
- **Algorithmic Accountability** – Appropriate documentation about the model, data source, important modifications to the algorithm, and human intervention must be kept by the tax administration.
- **Explainable Decision Making** – An explanation of why certain decisions affecting taxpayers' rights were made should be provided to them.
- **Robust Data Protection** – Financial data should be safeguarded using encryption, authentication, access based on role, data minimization, auditing logs, retention and security testing.
- **Independent Review** – Mechanisms should be put in place for reviewing decisions made through the automated system.
- **Improved Inter-Agency Cooperation** – Information should be shared between tax authorities, financial regulators, law enforcement and other relevant institutions on the basis of defined statutory safeguards.
- **International Cooperation** – Black money is often created in cross-border transactions. This calls for international cooperation and exchange of financial information.
- **Digital Literacy** – Taxpayers should be assisted in digital terms especially for small businesses that do not have experience of working online.
- **Protection Against Algorithmic Errors** – Taxpayers should be able to challenge inaccurate information and automated risk assessments.

11. CONCLUSION

The problem of black money continues to be a threat to the economic development, tax revenues and lawfulness of the country. It includes money which were gained through illegal actions or were not declared for taxation. The conventional tools of tax administration become increasingly obsolete in the context of huge amounts of financial data, complicated transactions and digital economy. The digitized tools of tax administration are the effective way of solving this problem. Such measures as electronic filings, AIS, SFT, TDS/TCS, e-verification, digital payments, faceless assessment and data analytics enable to detect the discrepancies and potential tax evasion. AIS, in particular, shows how the use of digital information regarding taxpayers may serve both for increasing voluntary compliance and helping enforcement procedures.

The introduction of the Income-tax Act, 2025 is an important step in the evolution of the contemporary Indian tax system. According to the Income Tax Department, the digital means of administration, including faceless proceedings, will be used further within the framework of this act. However, digitalization does not mean unlimited access of the government to information. The artificial intelligence can find out any pattern, but it cannot substitute for legal judgment. The analytics software can find out unusual activity, but mere suspicion cannot determine tax responsibility. The automation software can make the process more efficient, but it has to provide an opportunity to the taxpayer to explain and contest any unfavorable decision. This way, the future of tax administration should be based on the right-oriented technological model. This technological model should provide efficient use of analytics, privacy protection, transparency, cybersecurity, human oversight, and grievance procedures. The goal of such an approach cannot be limited merely to the creation of the highly technological tax administration. It should provide efficient, transparent, accountable, and secure tax administration. Digital technologies can turn into the instrument against black money, but their legitimacy depends upon the balance of technological efficiency and the rule of law.

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Author Contribution

The author conceptualized the research, conducted the literature review and doctrinal analysis, drafted the manuscript, and finalised the article for submission.

Conflict of Interest

Conflict of interest declared none.

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AI Declaration

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