

## Taxation as an Invisible Controller: Examining The Hidden Power of the Tax State in India

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### Abstract

While taxation has traditionally been regarded as the source for the generation of revenue for public expenditure and welfare measures by the State, its scope and reach are not limited only to that. The regulation and control of financial activities by the State through taxation involves the making of economic choices, the regulation of financial activities, mandatory disclosures and constant interplay between private citizens, businesses and the government. It can be said that taxation acts as an invisible controller as the influence and control of the state through taxation occurs in an indirect manner through incentives, disclosure and reporting requirements, compliance with tax law and the fear of the consequences of breaching tax law. In India, with the digitalization of tax administration, the capacity of the state to collect and analyse information about finances of people has increased greatly. In this article, the topic of the tax State in India will be viewed from a legal and theoretical standpoint, and an examination will be made on the effects that taxes can have on the behaviour of individuals and the economy. The constraints on state power under the Constitution of India shall also be taken into consideration in order to find a balance between efficient administration and taxpayers' rights.

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### 1. INTRODUCTION

Taxation is one of the main tools with which the State raises money for public spending and carries out its functions both economically and socially. Conventionally, taxation has been regarded mainly as an instrument for raising revenue for the State. But the role that it plays in a modern State does not stop at the raising of revenue. Tax law determines how people and enterprises will get their income, spend, save, invest and distribute their wealth. The State can promote some economic activity by way of taxes, while others could be discouraged. Taxation serves not just as a fiscal tool but also as a governance tool. The notion of the "tax State" signifies a much broader connection between taxation and State power. In a modern tax State, the State must have the capacity to identify activities that are liable to tax, get financial information related to such activities, assess liability and ensure compliance. As a result, the connection between taxpayers and the State does not end with the paying of tax. People and enterprises might be required to declare their income, keep accounting and report on specific

transactions. Economic transactions become progressively more visible through such processes to the state. This aspect of the taxation regime may be termed as "invisible control." Unlike the imposition of controls directly by the government, tax control is normally indirect in nature. Citizens continue to retain freedom to choose economically, yet the tax implications arising from that choice may have an effect on that decision. Some transactions may be made unattractive due to the higher tax consequences while others are promoted due to the tax deductions, exemptions or incentives associated with the transaction. In addition, obligations and penalties provide added incentives for citizens to behave according to legal expectations. The growth of digital technology in India has added to the capability of the tax authorities to perform the regulatory role. Filing electronically, tax deductions and collections, tax information reporting and assessment digitally have enhanced the capacity of the tax authorities to collect, compare and analyse information about the taxpayer. This will help to improve compliance and detect hidden transactions. However, this brings its own concerns regarding privacy,

informational autonomy and procedural fairness. The increased scope of the tax State, therefore, demands attention in terms of its legal and constitutional implications. It is not the need for taxation that needs to be questioned here, but rather the degree to which taxation operates, and the measures necessary to avoid an imbalance of such power. This research considers the phenomenon of taxation in India as an invisible tool of State power, analysing the connections between taxation, behaviour, information, and compliance, while taking into account the challenge of balancing the effectiveness of tax collection with individual rights and constitutional protection.

## 2. LITERATURE REVIEW

The link between State power and taxation has been explored using theories such as the tax State, fiscal sociology, and public finance theory. Conventional economic studies usually present taxation as a tool for generating revenue, funding public goods and services, and redistribution. Nonetheless, more encompassing academic literature has shown that taxation is, in addition, indicative of the State-society relationship. The State's capacity to levy and collect taxes rests upon administrative capacity, legal power, information, and taxpayer compliance. The tax State has especially been linked with the examination of how governments finance themselves and the impact that fiscal considerations have on the evolution of political and administrative institutions. Academics like Joseph Schumpeter have analysed taxation as an essential factor in the process of development of the modern State. In such a case, taxation does not amount merely to a technical financial practice; it is also one of the institutional relations between government and citizen. The State's ability to determine taxable resources and ensure compliance can therefore be regarded as an essential aspect of its power. A different stream of literature centres on tax compliance and the behaviour of the taxpayer. Behavioural economics and tax psychology research has established that the taxpayer's behaviour is not solely determined by statutory tax rates. It can also depend upon such factors as the taxpayer's view of fairness of the tax regime, probability of being detected, tax office's behaviour, social expectations and the penalty for non-compliance. Such literature highlights the fact that tax administration can impact behaviour even without resorting to any physical coercion. However, the emergence of digital taxation and administration through the use of information has added another layer to this field of research. Modern tax administrations increasingly depend on digital record keeping, third party information and transactions reporting. Digital tools can speed up the process of tax administration and increase the efficiency in spotting inconsistencies between information provided by taxpayers and information that is accessible to tax authorities. On the other hand, there has been growing concern about gathering and processing vast quantities of personal and financial information. Privacy, transparency, algorithmic decision making and access to adequate remedy become especially relevant when tax administration increasingly depends on technology. There is a considerable body of literature on Indian tax reforms, tax compliance, black money, digital taxation and tax payers' rights. These topics have been researched separately though. Less consideration has been given to the interconnection between taxation, information, behavioural regulation and state power. The increasing use of digital tax administration tools renders this connection especially relevant since the modern taxpayer is a person that conducts financial operations creating different types of information available to

tax authorities. The current literature, thus, forms the basis of the theoretical framework for taxation going beyond its being a tool for generating revenues. There is still much to be researched on how the Indian tax system exerts its indirect control over the taxpayer by means of substantive tax laws, compliance obligations, information collection and administration processes. This research will attempt to fill this gap and analyse taxation as an invisible means of exercising power, while also analysing the constitutional and legal limitations needed to ensure that fiscal administration does not become excessive.

## 3. RATIONALE OF THE STUDY

Taxation has been studied in relation to revenues, economic development and redistribution. Yet, due to increasing complexity of tax administration, a wider approach to the problem of the relationship between taxation and State power is required. Modern tax systems do not exist merely at the moments when taxes are collected. Through continuous reporting obligations, disclosure obligations, information collection, verification procedures and punishments for non-compliance, tax administration has the effect of controlling behaviour of the taxpayer without regulating his or her choices. The Indian taxation system has been moving gradually towards a technologically based taxation system. Financial activities are becoming increasingly visible because of digital filing, e-communication, information reporting, and data verification. These changes will help make the process more transparent and will reduce any scope of tax evasion; however, the increased visibility of taxpayers' activities implies that more information is now available to the State. In such cases, there is a need to analyse whether the increased visibility of the taxpayers' activities is matched with proper protection of their privacy and freedom. This research is important because it analyses the concept of taxation from the viewpoint of state power instead of considering it a mere financial issue. The objective of the research is to find out how tax law and administration mechanisms influence behaviour and the way taxpayers react to the visibility of their financial activities. At the same time, the importance of tax administration is not overlooked. The main justification behind the research is therefore to analyse the interaction of fiscal power and individual freedom. A modern tax regime has enough power to ensure its compliance, but it must be restrained through law, proportionality, transparency and accountability. An analysis of taxation as an "invisible regulator" will allow us to comprehend this relationship and explore the ways in which Indian Tax State can be effective without interfering in the freedoms of taxpayers.

## 4. THEORETICAL FRAMEWORK

The study rests upon the assumption that taxation serves not only as a means of public finance, but also as a regulatory power employed by the State. The theoretical framework integrates ideas of the tax State, fiscal sociology, behavioural regulation and informational visibility to explain how taxation affects individuals and firms without restricting their freedom of choice.

### 4.1 Tax State and State Power

By tax state we mean a State where its financial potential greatly relies on the right of taxation. Taxing provides for the institutional link between the State and its tax-payers based on

laws establishing taxable operations, obligations and means of control over them. So, the power to tax goes beyond the mere claim for money payments and implies certain requirements concerning disclosure, record-keeping, reporting and verification. Thus, the modern tax state works on the basis of legal, administrative and informational powers.

#### **4.2 Fiscal Sociology and Taxation**

Fiscal sociology is the study of relations between fiscal institutions and society. According to this approach, taxation represents the division of financial duties and powers between the State and the citizens. So, besides setting the amount of revenue raised by the State, tax laws establish rules of recognizing, controlling and redistributing economic assets. In other words, this approach directs attention away from purely technical aspect of calculating tax liability to social implications of taxation. The main issue here is not only the tax payments themselves but their impact on economic relations and individual conduct.

#### **4.3 Taxation as a Means of Behavioural Regulation**

Behavioural regulation by means of taxation takes place due to incentives and disincentives for taxpayers. Deductions, exemptions and tax incentives may be used as a tool of encouraging investment, savings, philanthropic giving or some kind of economic activity. At the same time higher taxes, restriction on deductions and fines may be used as a tool of discouraging certain transactions or behaviour. This kind of regulation is typically indirect. While individuals are still free to take one decision or another, the tax implications following from that choice might be influential in their decision-making process.

#### **4.4 Visibility, Information and Compliance**

Modern tax state is highly dependent on the visibility of financial transactions. Financial data about income, transactions and financial connections help the tax authority to evaluate the level of compliance and discover any potential evasion. Development of digital technologies improved the ability of the state to collect and analyse the information. Increased visibility helps with compliance and administration of the system. But it also gives rise to questions concerning collecting and using the information about taxpayers. Together, all these terms form the basis of studying taxation as an “invisible controller.” The term “invisible controller” does not suggest that taxation itself is coercive or illegal. Instead, it brings out those aspects in which tax regulations, tax policies, compliance, and information systems can have a direct influence on economic behaviour, within the scope of law.

### **5. METHODOLOGY**

In this research, doctrinal and analytical legal research methodology has been used in studying the relationship between taxation and State power in India. This research uses legal and academic literature for understanding the impact of laws, administrative procedures, and digital compliance systems on the taxpaying behaviour of taxpayers as well as the exercise of fiscal power. Legal literature consists of constitutional provisions, tax laws, delegated legislation, judgments and other official material provided by tax agencies. Focus has been laid on legal provisions relating to taxation, compliance, reporting of information, assessment and procedural protection. Judicial decisions have been assessed to understand the limitations on exercising of governmental and

tax administrative powers imposed by the Constitution. Secondary sources consist of books, articles published in peer-reviewed journals, research papers, and various other academic publications related to taxation, fiscal sociology, tax compliance, privacy, digital governance, and the rights of taxpayers. This literature will be reviewed to construct the theory of the research and establish the controversies around the increasing role of the tax State. A qualitative and critical approach is chosen for this research. Unlike statistical measurements of the effectiveness of each tax provision, it focuses on the mechanisms through which different parts of the tax system affect taxpayers' actions. The main attention will be paid to the interrelation of tax laws, compliance requirements, data gathering, digital governance, and individual liberty. Finally, this research will use a constitutional approach and examine whether the increasing exercise of tax-administrative power is compatible with the legality, equality, privacy, proportionality, and procedural fairness. The aim is not to doubt the need for taxes but to establish the legal limits of fiscal power. The research focuses on the analysis of Indian taxation regime without trying to empirically measure the taxpayer conduct. The main purpose is to provide a legal and conceptual framework for taxation as an indirect control tool of the State.

### **6. TAXATION AS AN INVISIBLE CONTROL MECHANISMS IN INDIA**

Controlling character of taxation is revealed once taxation is evaluated in aspects other than raising money for the State budget. Contemporary tax administration regime in India consists of financial, obligatory disclosure, third party report, digitization, verifications and compliance tools. This set of tools does not prevent taxpayers from making certain economic decisions but imposes legal, financial and procedural consequences for such decisions. Thus, taxation continues to be viewed as a revenue-raising tool despite of the impact it has on taxpayers' response.

#### **6.1 Taxation and Economic Behaviour**

Tax legislation affects the financial implications attached to certain actions. In some cases, taxpayers make decisions about saving, investing, buying property, carrying out a certain business operation or arranging their transactions with regard to the resulting tax burden. In the same way, various tax deductions, exemptions, reliefs and other tax allowances might encourage certain activities desired by the state from the economic or social perspective. Here lies the regulatory aspect of taxation. The taxpayer remains entitled to perform a certain transaction under the law, but its financial implications through taxation might affect his decision about undertaking this transaction. Hence, the state regulates behaviour of people indirectly without imposing any prohibitive legislation. The regulatory power of the tax system is not always coercive or negative. Tax incentives can be applied to achieve the goals of investments, employment, savings, charitable donations and other legislative policies. Yet, the reaction of people should remain subject to the legitimate aim of legislation and be limited by constitutional provisions and regulations.

#### **6.2 Disclosure, Reporting and Increase in Tax Visibility**

One aspect of modern tax administration which stands out clearly is the increase in visibility of the financial transactions. In order to administer taxes effectively, one needs information about whether the taxpayer has reported his/her income accurately and has fulfilled his/her responsibilities. The

increased use of third-party reporting and e-information systems has thus altered the dynamics between taxpayers and tax authorities. One good example in this context is the AIS. According to the Income Tax Department, AIS is an all-encompassing collection of information available with a taxpayer and it aims to ensure voluntary compliance, pre-filing and also to deter non-compliance. Such information can include information relating to TDS/TCS, specific financial transactions, tax payments, etc. The usefulness of such systems goes beyond administrative efficiency. Once the information collected through various sources is made available, the economic activity of the taxpayer becomes increasingly visible to the administration. The assumption that there might be independent information available to verify is enough to motivate people to provide accurate reports.

This can be considered as a case of informational control. The government does not require direct oversight of all economic transactions. In fact, the information that is generated by the economic system can be gathered, organized and compared through administrative methods. Taxpayers therefore find themselves operating in a situation where their economic actions are becoming increasingly easy to identify and verify. There must also be certain obligations related to increased visibility. Financial information gathered for purposes of tax administration must have legal justifications, be relevant and be adequately protected. Over collection, improper protection or improper use of the information can make the process of compliance into undue infringement of taxpayer freedoms.

### **6.3 Digital Tax Administration and Automated Compliance**

Digitalization has also bolstered the administrative power of the Indian Tax State. Tax returns, notices, replies, and assessment processes can now be done electronically. Under the faceless assessment mechanism, section 144B of the Income-tax Act, 1961 establishes an electronic process that incorporates the National Faceless Assessment Centre and various functional units. This process provides for electronic communication and assessment function allocation in the faceless regime. The transition from physical to electronic communication alters the nature of tax administration. In the case of faceless assessment, communications, notices, questionnaire, and orders are communicated electronically, and replies are made by taxpayers using the e-filing system. There are various advantages associated with digital tax administration. It may eliminate unnecessary physical interaction, create uniformity, help with documentation, enable taxpayers to participate in the process without being physically present before any specific officer, and minimize chances of any improper personal interference due to separation of the functions of assessment from conventional jurisdictional communication. However, digitalisation produces a new kind of administrative power. When tax administration becomes ever more dependent on information processing and technology-assisted verification and decision making, a taxpayer might face difficulties in determining how particular information had affected his or her case. The lack of human contact must be accompanied by sufficient transparency of procedure and possibility of reaction. This is especially true when technology is used for identification of any inconsistencies or cases that need further investigation. Technology must support legal administration and not undermine it. Unfaced administration must not turn into the administration without accountability.

### **6.4 Tax Administration, Surveillance and Individual Autonomy**

Development of tax information systems produces another issue which deals with the problem of relation between taxation and individual autonomy. Tax administration implies the access to the required financial information. But information itself creates certain institutional power. The larger amount of financial information the State has, the greater its capabilities to discover financial transactions, to make comparisons and to ask taxpayers explanations. This does not, however, imply that tax administration can necessarily be seen as being surveillance. It is the duty of the tax authorities to collect taxes and prevent any form of tax evasion and ensure compliance. The problem occurs when there is an excess in the gathering of the information or when the process is not sufficiently transparent and adequately secured. The constitutional guarantee of the right to privacy is important. In *K.S. Puttaswamy (Retd.) v Union of India* (2017), the Supreme Court recognised privacy as a constitutionally guaranteed fundamental right under Article 21 and Part III of the Constitution. This highlights the importance of constitutional protection whenever there is State action concerning a constitutionally protected personal interest. This implies that in tax administration, there is the need for a balance between fiscal purposes and the requirements of legality, necessity, and proportionality. Financial data cannot be assumed to be an unlimited administrative resource simply because it may contribute to fiscal efficiency.

### **6.5 Taxation and Behavioural Governance**

Tax incentives, reporting obligations, and digital management provide for the wider behavioural function of taxation. The taxpayer's behaviour could be affected on different levels. To begin with, tax implications play a role in determining how economic activity is carried out. Secondly, reporting and disclosure obligations determine how such transaction needs to be reported. Thirdly, the use of digital technology allows for comparing such reported information with the data gathered by other means. What comes out is a system where compliance is ensured not just because of the presence of sanctions, but also thanks to the very visibility of actions. When people know that their financial information is to be reported and checked in comparison with other information sources, the potential risk of being detected may change people's behaviour. The state thus has an influence on them even without intervention into each economic decision. The notion of "invisible controller" of taxation refers to such an indirect way of influencing taxpayers. Such influence exists right there within the regular economic and administrative process, while taxpayers remain free to earn, spend, save, invest and act economically. Being information-oriented and technological, transparency, privacy, procedural justice and accountability become necessary precautions. Thus, the contemporary Indian tax regime shows how the taxation process may be used simultaneously as a source of income, regulation and an information tool. Its impact is usually indirect, as people change their decisions because of tax implications, report information due to legal requirements, and follow laws because of economic visibility to the authorities. The task for a constitutional state is not to eradicate this regulatory aspect of taxation but to keep it within the framework of legality and accountability.

## 7. CONSTITUTIONAL AND LEGAL LIMITS ON TAX STATE POWER

It is an undeniable fact that the power to tax is inherent in the concept of State but it is an uncontrolled power. The powers of fiscal authority function under the ambit of constitutionality, equality, fundamental rights and procedure of the laws in India. It is very significant to note here that the State can exercise its powers of taxation as an “invisible controller” but the power of taxation should remain bound by certain constitutional and legal constraints. The Supreme Court has acknowledged that though the power of taxation vested in the legislative body is wide, yet it is bound to follow the provisions of the Constitution and cannot operate independently thereof.

### 7.1. *Equality and Non-Arbitrariness*

Article 14 of the Constitution provides for equality before the law and equality of the protection of the laws. The provisions of the tax laws are not required to burden each person equally. The Legislature can make reasonable classification taking into consideration the differentiations among them and the differentiation must have a relation with the object of the law but it should not be arbitrary and discriminatory. The principle imposes an important constitutional limitation on the regulatory aspect of taxation. Tax benefits, exemptions, and different rates can have legitimate goals in economics or society, yet they must have some link to a constitutionally permissible legislative goal. It should not be assumed that since taxation has the ability to affect behavior that the State can grant or burden certain persons without cause through it. Non-arbitrariness applies to tax administration as well. Powers for assessment, collection, verification, and compliance must be done under rules and law and not on the basis of unfettered discretion. This means that even if the effect of taxation is invisible, it must still have some legal basis. The Supreme Court recently clarified that financial actions are still subject to constitutional standards, such as reasonable classification and non-arbitrariness.

### 7.2. *Taxation, Privacy and Personal Liberty*

The connection between taxation and Article 21 becomes more apparent as the tax process includes collection and processing of personal and financial information. The right to privacy was recognized by the Supreme Court as constitutionally protected right in the case of *K.S. Puttaswamy (Retd.) v Union of India* (2017), which includes aspects related to personal autonomy and management of information. The administration of taxes inherently involves accessing necessary financial information in order to evaluate the taxes, prevent evasion, and enforce the law. Nevertheless, a valid goal in the field of taxation cannot dispense with the necessity of the existence of appropriate legal protection. Therefore, collecting and using the taxpayer's information should be based on legal justification and connected with administrative purposes. This problem acquires new importance with the advent of data-driven taxation. Information technologies make it possible to collect, compare and analyse information from various sources, making economic transactions more transparent. Hence, taxpayer's information and informational autonomy play an important role within the constitutional constraints on modern tax administration.

### 7.3. *Legislative Authority to Tax*

According to Article 265, “no tax shall be levied or collected except by authority of law.” This is a basic constraint on the

power to tax under the Constitution. The Supreme Court has held that a tax demands legislative power and an executive order alone cannot impose a tax liability without the backing of legislation. The importance of Article 265 becomes apparent if one sees tax as an instrument of State power. It makes sure that the power to tax does not function just through practice. The taxpayer must be assured that his liability has some legal basis. Moreover, it makes a distinction between the power to levy and the authority to collect taxes, thereby emphasizing that both have to be within law.

### 7.4. *Procedure and Rights of the Taxpayer*

There are some procedures in the operation of the power to tax. The taxpayer may be asked to answer certain notices or produce documents or give an account of certain transactions or dispute assessments. Such procedures are important as State power often operates in practice. The concept of procedural fairness means that the taxpayer must be given a chance to properly understand the case made against him or her and respond through appropriate legal channels. This entails an efficient and effective method of electronic communication in addition to having enough time to respond, and well-reasoned decisions, and effective methods of appeal or review. In fact, technology-based and anonymous administration can lead to the decrease of unproductive human contact and uniformity. Nonetheless, efficiency does not mean that the taxpayer will no longer have a chance to understand, question, or challenge the administrative action since the process is digital. It means, thus, that there are certain limitations that the power of invisible taxation faces according to the constitution and law. The State uses taxation to finance itself, stimulate economy, and enforce compliance; however, these purposes need to be performed under the rule of law.

## 8. CHALLENGES AND CRITICAL ISSUES

The growth of the tax State has enhanced the capacity of tax authorities to discover non-compliance and to conduct tax administration effectively. On the other hand, additional legal and practical issues arise from increased fiscal and informational capacities. The main issue is how to guarantee that good tax administration practices will not be too burdensome and lack transparency.

### 8.1 *Imposing Excessive Compliance Cost*

Taxpayers in modern days have to comply with many obligations related to documentation, verification and reporting. Although such practices assist in discovering any undeclared revenues and discrepancies, they entail considerable costs, especially for individuals and small firms. Imposing too much bureaucracy may complicate economic transactions. Tax administration must separate information required for enforcement and unnecessary compliance cost.

### 8.2 *Information Asymmetry and Transparency*

In a digital taxation environment, governments are privy to financial data from different sources while the taxpayer may not know the extent of information available or the interpretation thereof. This information asymmetry may affect their response in the event that there are measures taken against them. Transparency thus involves reasonable access to information and an opportunity to rectify mistakes.

### 8.3 Digital Exclusion

Digital transformation is aimed at increasing efficiency in the collection of taxes but it could present problems for taxpayers who lack digital skills and knowledge or those without access to the internet. Digitalisation should therefore be accompanied by assistance and adequate facilities for those who face genuine technological barriers.

### 8.4 Automated Decision-Making

Automated decision-making is useful in helping the system to identify discrepancies but it creates challenges regarding explainability and accountability. An individual must receive a comprehensible explanation on the grounds in case of any use of technology for scrutiny or the infringement of taxpayer rights. Human intervention is necessary where there are potential negative financial or legal implications for the taxpayer.

### 8.5 Privacy, Surveillance and Administrative Discretion

While the aggregation of financial data enhances the enforcement process, this makes the state more aware of private economic activities. Hence, the state should ensure that the data is collected for legitimate reasons, protected from any form of abuse and not easily accessible without proper authorization. Likewise, the state should allow the tax authority some discretionary power to determine liability and ensure compliance; this should, however, be guided by certain legal criteria.

## 9. SUGGESTIONS AND POLICY RECOMMENDATIONS

For the effective functioning of the tax state, there has to be a balance between efficiency in revenue collection and the protection of taxpayers' rights. In other words, the design of the tax system should not only take into consideration detection of compliance but also other aspects like transparency and fairness.

- **Rights of taxpayers must be respected:** Taxpayer rights must be central in digital tax administration. Taxpayers' information should only be collected and used for genuine tax purposes and adequate measures must be put in place to protect it.
- **Transparency must increase:** Discrepancies, information and the reason for further analysis should be communicated to the taxpayer and taxpayers should be given an opportunity to give their side of the story.
- **Human review of information is necessary:** Information may be processed and help identify risk areas using technology but the decision process must involve adequate human review.
- **Compliance process should be simplified:** Unnecessary paperwork, documentation and processes that would make compliance burdensome especially for small taxpayers should be avoided.
- **Grievance and appeal process should be effective:** The digital tax system should allow proper notices, response time and process of correcting mistakes and disputing decisions.
- **Privacy and protection of data must be guaranteed:** Taxpayer's information must be secure, protected from unauthorized access and not be disclosed unnecessarily. Access, retention and use of data must be well defined.
- **Encourage trust-based tax administration:** Strong enforcement is essential for those who deliberately evade taxes; however, tax administration should

encourage principles of fairness, certainty, and trust, rather than focusing on surveillance and coercion.

- **Keep constitutional accountability:** Taxation should be a legitimate regulatory power, proportionate, and accountable, so that the efficiency of the tax State does not infringe upon personal freedom.

## 10. CONCLUSION

Traditionally, taxes have been considered the primary tool used by the State to collect revenues; however, the role of taxes goes well beyond collecting revenues. In this paper, it has been shown how taxes may be considered an invisible control mechanism of the State due to their capacity to affect economic choices, generate compliance requirements and increase transparency of financial transactions. In contrast to direct governmental controls, tax control is typically indirect through the use of incentives, disincentives, information requirements, reporting and penalties for non-compliance. The advent of e-taxation has reinforced this element of State power. E-filing, information reporting, data verification and data-assisted evaluation have enabled tax administrations to analyse and interrelate a significant amount of financial data. This may help enhance compliance and tax enforcement and improve tax administration efficiency. At the same time, the very same technologies create privacy, information asymmetry, technological exclusion, transparency and administrative accountability issues. The idea of the tax State thus has to be considered not only with regard to its ability to generate resources but also to its ability to shape behaviour and collect information. The more information-gathering and revenue-generating powers of the State there are, the more there is a need for legal protections. Articles 14, 21 and 265 of the Constitution contain useful provisions which can help evaluate the use of such powers, whereas fairness and availability of redress are necessary elements of a legitimate tax administration. The goal cannot be to prevent the State from exercising its right to levy taxes, which remain an indispensable tool for financing state activities, including social security and public services. It is rather to make sure that the hidden or disguised power of taxation would not become arbitrary. In the modern world, a tax system must balance effectiveness, proportionality, privacy protection, transparency, participation and human control. Ultimately, what legitimizes the Indian Tax State is not just how efficiently it raises revenues but how responsible it is about the power that it acquires through taxation.

### Author Contribution

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

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Conflict of interest declared none.

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### AI Declaration

The authors declare that no artificial intelligence (AI) tools were used in the preparation, writing, or development of this manuscript.

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