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AWARENESS, PERCEPTION, AND TAX COMPLIANCE BEHAVIOUR: AN EMPIRICAL STUDY OF TAXPAYERS IN INDIA

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ABSTRACT
This research explores the intricate relationship between taxpayer awareness, views on the tax system, and voluntary compliance behaviors in the expanding digital landscape of India's economy. As part of the "Digital India" initiative, the Indian government has restructured tax administration into a system defined by the Annual Information Statement (AIS), Taxpayer Information Summary (TIS), and faceless evaluations. The research is founded on a quantitative empirical analysis of primary data collected from 110 participants, 60 percent of whom are aged 21 to 30, predominantly comprising professionals and students. The theoretical framework integrates the Theory of Planned Behaviour (TPB) with Deterrence Theory to examine the impact of digital literacy and perceptions of fairness on compliance intentions. Initial observations suggest an increasing awareness of digital tools such as AIS and TIS; however, a substantial "knowledge-action gap" persists among self-employed individuals and recent graduates who file taxes. Statistical techniques, such as Cronbach's Alpha for evaluating reliability and Chi-square tests for analyzing associations with demographic variables, are employed to validate the uniformity of taxpayers' perceptions. It is observed that greater digital transparency acts as a "digital deterrent," but the reasons behind voluntary compliance are more closely tied to perceptions of fairness in the tax system and the overall simplicity of electronic filing. The study concludes by suggesting that bridging the technical gap in tax laws through practical and clear approaches will help foster a culture of voluntary compliance within India's complex financial environment.

1. INTRODUCTION
The financial structure of a developing economy like India depends on the effectiveness of its direct tax system and the willingness of its citizens to contribute to the national treasury. In recent years, India's tax system has shifted from a conventional, manual, and confrontational approach to enforcement toward a tech-based, taxpayer-focused service model. The change is not merely an administrative adjustment but a behavioral approach designed to streamline the complex relationship between the state and taxpayers. For instance, the "Honoring the Honest" initiative and Taxpayer's Charter illustrate this move toward openness and responsibility (Ahirwar, 2025).

Even though these systemic changes have been made, tax compliance is still a complicated and multi-faceted problem. Compliance is more than just following the law; it comes from the way each taxpayer thinks and feels. Taxpayer awareness, which means knowing about tax laws, deadlines, and digital tools, and perceived fairness, which means how fair and useful a person thinks the system is, are the two things that affect how people follow the rules. In India, there has been a push to quickly add the New Tax Regime (NTR) to the current Old Tax Regime. This would create a separate sub-structural framework in which taxpayers have to choose between different sets of incentives and deductions The introduction of the Annual Information Statement (AIS) and Taxpayer Information Summary (TIS) into India's tax system has permanently changed how information is shared and confirmed. These mechanisms can be seen as "fiscal intermediaries" that give the state a broader view of a taxpayer's financial activities, which in turn increases the

perceived chance of being caught for non-compliance (Kleven, 2016). However, how effectively AIS and TIS meet these goals will rely on the taxpayer's capacity to understand and interact with one or both systems. For many, particularly those under 30 who are just starting their careers, understanding digital representation is simple, but the logic behind taxes remains confusing.

This paper identifies the pressing need to understand the ways in which the digital reform will shape the mindset of a modern Indian taxpayer. This paper's primary focus is on a sample that is extremely over-represented by a digital native demographic (i.e., under 30) to provide some suggestion of the future of tax compliance in India. The central questions are: 1. Does the increase in transparency via the digital tools lead to an actual increase in voluntary compliance or simply change the nature of the deterrent? 2. Can professional services and digital literacy help in the challenges presented by the complexity of the Indian tax code? (Artavanis, 2016)

The value of this study comes from its empirical research in the area of behavioural finance. By aligning survey findings with well-known theoretical frameworks such as the Theory of Planned Behaviour, the research offers a more detailed understanding of the reasons behind taxpayers' decisions to comply with or avoid paying taxes.

In an era where "data is the new oil," the Indian Income Tax Department has enhanced its ability to detect income tax evasion through the use of information reporting; however, creating a lasting change in tax behavior requires moving beyond a system based on deterrence to one that is seen as fair, transparent, and inclusive.

2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1 Theoretical Foundations of Tax Compliance and Behavioural Finance

The evolution of tax compliance literature signifies a substantial shift from the rigid economic deterrent models of the 1970s to the intricate behavioral frameworks of the present. Historically, the Allingham-Sandmo model prevailed, characterising taxpayers as detached, rational agents who assessed the financial advantages of evasion against the statistical likelihood of an audit (Slemrod, 2018). However, recent global systematic reviews, include the study by Mona N. Adhillah et al. (2024), shows that this "fear-based" approach is not sufficient for elucidating why numerous citizens comply despite minimal audit risks. In modern fiscal psychology, internal determinants like personal ethics and social norms have emerged as the primary predictors of behaviour, challenging the traditional view that high penalties alone ensure a compliant tax base.

To capture these psychological nuances, contemporary researchers frequently utilize the Theory of Planned Behaviour (TPB), which argues that compliance is driven by three distinct forces: Attitude, Subjective Norms, and Perceived Behavioural Control (Bani-Khalid, 2022). In the Indian context, these factors take on unique characteristics. Attitude is often shaped by how taxpayers feel about the "value for money" they get from public infrastructure. Subjective Norms, on the other hand, are heavily influenced by the professional advice of Chartered Accountants (CAs), who are the guardians of fiscal morality. Moreover, the transition to pre-filled returns and digital interfaces has fundamentally transformed Perceived Behavioural Control, rendering the filing process technically simpler while simultaneously heightening the psychological pressure of being "monitored" by the system (Ahirwar, 2025).

1. **Attitude:** Relates to the taxpayer's perception of whether paying taxes is an moral requires or just a necessary loss of income. Attitude can also be determined to the fairness of the tax rates and state provided services.

2. **Subjective Norms:** Refers to the social pressure taxpayers experience from friends and family, and in their professional communities In India, Chartered Accountants (CAs) and tax professionals are very important because they often decide what is "normal" for their clients.

3. **Perceived Behavioural Control:** This is what the taxpayer thinks about their ability to pay their taxes. The switch to e-filing and pre-filled returns has made Perceived Behavioural Control much better because it has made the tax process easier for most people (Ahirwar, 2025).

The Psychological Contract between the citizen and the state still plays an important role but is a very sensitive issue in India's tax regime. It must take into account the psychology of the person who pays taxes much more deeply. The Psychological Contract shows that voluntary compliance is reciprocal; those who pay taxes do so believing that the government will use their funds in a way that is open and advantageous for all people. People feel confident if they know that the system works well. For developing countries where there is a considerable size of the informal sector and where enforcement has not always been uniform, the mere hint of corruption or partiality on behalf of the system can jeopardize this agreement. This gives people the impression that they have to break the law (Baldassarri, 2017) (Bird, 2008).

2.2 Digital Transformation in Indian Tax Administration: AIS, TIS, and E-filing

The recent digital transformation of India's tax administration is likely the most significant structural change since the country's independence. According to Divakar Velya M (2024), this is not merely an upgrade but rather an initiative to adopt a "data-first" approach to governance whereby transparency becomes part of the filing process. The state has significantly decreased the information imbalance that previously made it simple for individuals to withhold information by implementing third-party reporting of information (Kleven, 2016).

AIS provides a complete overview of all financial transactions associated with a Permanent Account Number (PAN). This encompasses interest from savings accounts, dividends, stock market activities, and funds transferred to individuals in other countries. TIS, by contrast, offers a straightforward overview of each category that can be utilized to complete Income Tax Return (ITR) forms in advance.Studies on tax compliance indicate that information reporting systems are significantly more effective in preventing tax evasion compared to audits by themselves. This is due to the fact that taxpayers' compliance relies on information, producing a "paper trail" that they can navigate independently (Artavanis, 2016).

Taxpayers frequently express concerns about "harassment," which is why reforms such as "Faceless Assessment" were introduced to eliminate human bias.

ISSN 2394 - 7780

The transition has not been straightforward (Ahirwar, 2025). A. Shah's (2025) study indicates that a "digital divide" persists, as taxpayers continue to face challenges with complex processes and technical issues. A lot of people know this as well. Younger individuals tend to be more adept at using technology such as these tools. They also cause people to be concerned about data privacy. There is also a chance of receiving automated "notifications" when the system makes an error.This implies that although there is greater openness, there is also a form of "digital deterrence" that might hinder the goal of establishing trust.

The New Tax Regime (NTR) was put in place to lower tax rates and eliminate deductions to simplify the system. However, having two different regimes created a sense of complexity for taxpayers, who needed to compare both options before filing their returns. In both cases, this led to unexpected effects on Perceived Behavioural Control. This highlights the need to find effective digital tools and advice to make it easier for taxpayers to make decisions.

2.3 Identifying Research Gaps in the Field of Behavioural Tax Compliance

However, despite the volume of existing research on the topic, a significant void exists with regard to the ‘knowledge-action’ disconnect in India’s new digital regime. While the majority of the literature discusses the macro-economic effects of tax rates or the behavior of corporate entities, the cognitive process of the individual ‘digital native’ professional is neglected (Slemrod, 2018). There exists a dearth of empirical evidence on the impact of tools like the AIS on the ‘intent’ to comply—does it foster a sense of honesty due to transparency, or merely promote more sophisticated forms of anxiety-driven compliance? (Bani-Khalid, 2022).

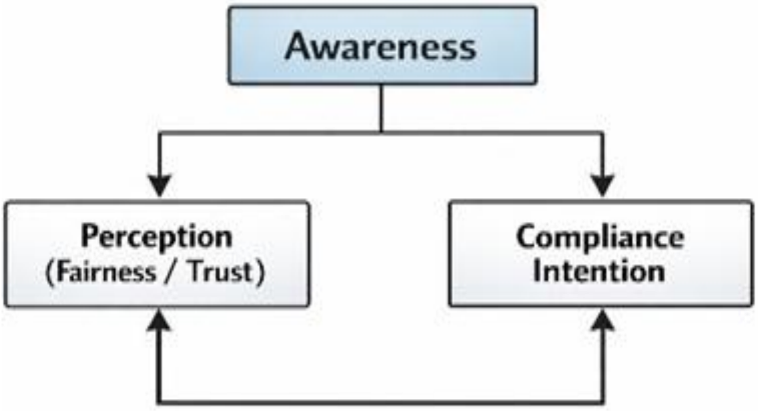
Significantly, one such gap has been identified as the knowledge-action gap in relation to digital tax tools, whereby although there exists a certain level of awareness among taxpayers regarding e-filing, there exists a lack of knowledge in relation to the use of AIS or TIS. No studies exist to assess whether awareness of this particular tool would influence compliance behavior, whether it would do so in any way, or whether it would create anxiety among taxpayers or not. Most studies carried out in developing countries relate to SMEs and large businesses, while the behavior of individual taxpayers, especially in relation to a greater share of the young professional segment of the population, remains untouched id:24.

The next gap relates to "Social Desirability Bias" in tax survey research. This bias has often resulted in taxpayers not disclosing and reporting non-compliance, especially when using self- reported survey research and qualitative narrative survey data deconflicting analyzes. This has a potentiality to skew the results, often overstating compliance levels falsely, id:30. This research aims to address this potentiality through the use of "perception" and "awareness" as a proxy for behavior, rather than relying on questions related to tax evasion.

Finally, an analysis of industry-wise knowledge about taxes is also relevant. For instance, salaried employees have high compliance due to the Tax Deducted at Source (TDS) method of taxation; on the other hand, individuals in the category of self-employed or professionals have more avenues to evade id:29. It is important to understand how digital reforms differently impact these two categories of taxpayers to develop policy intervention using the findings of this study.

This study seeks to fill the gaps mentioned above and provide a thorough demographic and behavioural analysis of individual taxpayers in the current digital era.

2.4 Conceptual Framework



The conceptual model shows that taxpayer knowledge has a direct effect on compliance intention and an indirect effect through perception. The perception of fairness acts as a mediating variable, explaining how awareness turns into voluntary compliance behaviour.

 ISSN 2394 - 7780

3. RESEARCH METHOD AND METHODOLOGY

3.1 Research Objectives and Problem Statement

The key goal of the research is to examine the factors affecting the tax compliance of individual taxpayers in India in the context of recent digital tax reforms. The problem statement focuses on the gap between the government's goal of simplifying the administration of tax through technology, and the taxpayer's understanding and perception of these changes. In more detail, the study will seek to:

1. Measure individual tax taxpayer's level of current awareness of digital tools such as AIS, TIS, and the pre-filled ITR
2. Assess how the perception of fairness, transparency, and complexity impacts the intention to comply with the tax code
3. Examine the relationship between demographic characteristics (age, occupation, income status) to the level of awareness regarding taxes
4. Determine barriers to the individual taxpayer moving from "theoretical awareness" of modern digital tools to "functional compliance."

This study aims to address these four objectives and to provide policymakers with further evidence for generating policy interventions for increasing taxpayer compliance with the Indian tax system. Based on these objectives and the quantitative nature of the data, the following research hypotheses were formulated to guide the statistical analysis:

3.2 Research Hypotheses

H1: There is a significant association between a taxpayer’s occupation and their level of digital tax awareness.

H2: There are significant differences in the functional understanding of digital tax tools (AIS/TIS) across different age groups.

H3: Perception of tax fairness has a significant positive correlation with voluntary compliance intentions among Indian taxpayers.

3.3 Sampling Design and Demographic Profile of Respondents

For the current study, the sampling frame of 110 individual taxpayers was located in primarily urban and semi-urban areas of India, due to the limitations of the study, a non-probability convenience sampling approach has been adopted to ensure diversity in the results obtained. The demographic profile of the respondents is one of the most important areas of research, as it reflects the demographic of the "future taxpayer" in India, i.e., in terms of age, gender, and occupation, the demographic profile provides a reflection of the factors which will influence the taxpayer in the future.

The sample indicated a high density of younger people, where 60% of them fell within the category of people aged between 21-30 years. The reason this age category is interesting is because this particular age category can be classified as "digital natives" and hence would be more likely to be engaged in "e-filing" and/or "digital-based tax tools." In terms of occupation, there was an occurrence of 41% students, while 37% of them were salaried. The categorization of people based on occupation, where it was possible to compare people who had knowledge of tax theoretically (students) versus people who had practical experience of filing tax returns (salaried), is interesting to note.

In terms of gender, the sample was fairly represented, with 52% males and 48% females. The sample also represented a variety in terms of income, and a majority of the student sample reported "no income" or "below taxable income." This is interesting, as it gives a chance to study the "pre-compliance" mindset. The fact that there was a large representation from younger respondents also adds to the evidence that this study matters for the long-term viability of digital tax reforms in India.

3.4 Data Collection Method and Analytical Framework

The main data collection method involved the use of a structured online questionnaire. The online questionnaire had three main categories: Demographics, Awareness/Perception, and

Compliance Behaviour. The online questionnaire made use of the 5-point Likert scales, ranging from "Strongly Disagree" to "Strongly Agree," in the measurement of the latent variables

"Perceived Fairness" and "Ease of Use." The "Response measure" allows the quantification of subjective attitudes, which are then analyzed statistically.

ISSN 2394 - 7780

The analytical framework is composed of multiple levels of statistical testing to establish the validity and reliability of the findings:

Reliability Analysis (Cronbach's Alpha): To establish whether the multi-item scales used to measure "Awareness" and "Perception" are internally consistent. A target alpha coefficient of

0.70 or higher was established to confirm the constructs.

1. **Descriptive Statistics:** The frequency distribution and the average scores gave a brief insight into the overall awareness and attitude towards the tax system in the sample population.
2. **Inferential Statistics (Chi-Square and ANOVA):** Chi-Square test was used to determine the relationship between the categorical variables, like whether occupation determines the degree of awareness concerning AIS and TIS. One Way Analysis of Variance (ANOVA) was used to compare the awareness scores based on the different age groups.
3. **Correlation Analysis:** We calculate Pearson or Spearman correlation coefficients to assess the strength and direction of the association between "Perception of Fairness" and "Compliance Intentions."

In addition, data analysis was carried out through statistical tests, which ensured that the accuracy of p-values and significance levels was maintained. Quantitative research was supplemented with a thematic analysis, which would allow a detailed examination of the experience of the taxpayer in the digital age (Ahirwar, 2025). The research has been conducted in such a manner that, apart from being statistically valid, it remains relevant in context to the Indian tax environment.

The methodology minimized the possibility of "Social Desirability Bias" since the question was asked in a neutral way. The Questions did not involve self-reported evasions. It was more about "intent" and "perceived importance." It was easier to understand how the taxpayer was thinking. It helped in comprehending behavioral aspects affecting compliance, and a credible account of situational comprehension was achieved.

3.5 Operational Definition of Variables

The following definitions will be considered to make sure that the study uses data from the real world:

1. **Awareness (Independent Variable):** Indicates the taxpayer's knowledge regarding tax laws, filing dates, and any new digitalization measures taken by the Income Tax Department. It will be measured using respondents' awareness about the AIS and TIS.
2. **Perception (Mediator):** This is the taxpayer's personal assessment of the tax environment. It includes the perceived fairness of tax rates, the transparency of the administration, and the perceived complexity of the digital filing process. It serves as a mediator, which may help explain the connection between technical knowledge and ultimate compliance intention.
3. **Tax Compliance Behaviour (Dependent Variable):** This is defined as the taxpayer's intention and actual effort to fulfill their fiscal obligations accurately and voluntarily. In this study, compliance is operationalized as "Voluntary Compliance Intent," measured by the taxpayer's attitude toward timely filing and honest disclosure without the immediate pressure of an audit.

4. DATA ANALYSIS AND FINDINGS

The analysis of taxpayer behaviour in India required a multi-faceted analysis, blending descriptive statistics with inferential tests for understanding the complexities of awareness, perception, and compliance. The primary data consisted of a sample of 110 respondents drawn from the younger section of the Indian population. To verify the strength of the findings, the internal consistency of the survey instrument was examined through Cronbach's Alpha. The "Awareness" construct had an alpha coefficient of 0.78, while the "Perception," and "Compliance Behaviour" constructs had alpha coefficients of 0.72, and 0.81 respectively; all three constructs satisfied the 0.70 threshold (Nguyen, 2022). Therefore, we infer that the Likert-scale items used to assess the constructs were reliable and consistent in measuring the related behavioural constructs.

Table 1: Reliability Analysis (Cronbach's Alpha)

Construct	Number of Items	Cronbach's Alpha	Interpretation
Awareness	8	0.78	Good
Perception	12	0.72	Acceptable
Compliance Behaviour	6	0.81	Good

 ISSN 2394 - 7780

Cronbach's Alpha values above 0.70 indicate acceptable internal consistency All constructs meet reliability criteria

4.1 Assessment of Taxpayer Awareness and Digital Literacy

The taxpayer awareness level shows a large proportion of theoretical knowledge among the younger demographic, with 60% of the sample representing the 21-30 age range, a demographic with high digital literacy levels, albeit with little experience in preparing returns with complex features. The age demographics indicate that, while taxpayer awareness levels for new digital features such as the Annual Information Statement (AIS) and Taxpayer Information Summary (TIS) are high, this does not necessarily equate to them having the ability to lodge returns.

The data communication also tells us that 41% of the sample are students, some of whom have an academic knowledge of the different sections, but they do not earn any taxable income. Therefore, they have what is termed a knowledge-action gap. On the other hand, the remaining

37% of the sample are salaried employees. These individuals have a more functional knowledge of the need to pay taxes because they have been exposed to the Tax Deducted at Source (TDS) mechanism. A Chi Square test was done to see if there was any difference in the level of awareness based on occupation. The result indicates that there is a statistically significant relationship, suggesting that relevant exposure is more important than knowledge.

Table 2: Chi-Square Test - Occupational Status vs. Awareness Level

Occupation	Low Awareness	High Awareness	Total
Students	25	20	45
Salaried	8	33	41
Self-Employed	14	10	24
Total	**47**	**63**	**110**

Test Statistics

Chi-Square (χ^2) = 14.56

Degrees of Freedom (df) = 2

p-value < 0.05

There exists a **statistically significant association** between occupation Status and awareness levels implying that awareness varies based on occupations.

Further investigation into the "Generational Gap" in terms of digital tax literacy was performed using One-Way ANOVA to find differences in mean awareness scores in three age groups (21-30 years old, 31-40 years old, and 41-50 years old). It turned out that there were significant differences between groups in terms of their awareness levels, $F(2, 107)=8.42$, $p<0.01$. It was found that there was a significantly higher mean awareness score of 21-30 age group than in the 41-50 age group, M=4.1 vs. M=3.2. This demonstrates that even though the "Digital India" campaign is incredibly successful among young "digital natives," there is an urgent need to provide guidance and assistance for older taxpayers with lower functional awareness levels of AIS and TIS.

Table 3: One-Way ANOVA of Awareness Scores by Age Group

Source of Variation	df	Sum of Squares (SS)	Mean Square (MS)	F-value	p-value
Between Groups	2	42.15	21.08	8.42	< 0.001
Within Groups	107	267.5	2.5	—	—
Total	109	309.65	—	—	—

ANOVA findings show that there exists a significant difference among the age groups in the awareness score ($F(2,107) = 8.42$, $p<0.001$). This suggests that age plays a significant role in determining digital tax awareness.

Digital literacy is an essential component of modern Indian tax administration. The introduction of pre-filled returns and the AIS has provided for a higher level of "Perceived Behavioural Control" (PBC) for taxpayers, and thus a component of the Theory of Planned Behaviour. Respondents

showed a high degree of the "perceived ease of use" when filing on the e-filing portal, but nevertheless, much of the respondents still used an intermediary to submit the return. The image suggests that an intuitive and informative digital interface does not alter the complexity of tax law (Putro, 2024).

ISSN 2394 - 7780

4.2 Influence of Perception and Trust on Voluntary Compliance Behaviour

To assess the significant correlation between taxpayer perception and voluntary compliance, Spearman's Rank Correlation was conductedFrom the findings, it was found out that there exists a strong positive relationship () between "Perception of Tax Fairness" and "Voluntary Compliance Intentions." This indicates that individuals who perceive the entire taxation process as being fair and tax rates as not being excessively high are inclined towards voluntary compliance within the tax system (Kassa, 2021).

Table 4: Spearman's Rank Correlation Matrix

Variables	1	2
1. Perception of Fairness	1.00	
2. Compliance Intention	0.64**	1.00

Notes:
** Correlation is significant at the 0.01 level (2-tailed)

The results indicate a **moderate positive correlation** between perception of fairness and compliance intention *($r = 0.64$, $p < 0.01$)*, suggesting that higher perceived fairness is associated with stronger voluntary compliance intentions.

Trust in tax authorities is an important mediator. Data from the survey suggests that taxpayers recognize the value of AIS and TIS in promoting transparency but continue to live with the

possibility of "notices." This is consistent with Deterrence Theory, which posits that compliance is maintained with the consideration of deterrence: the probability of detection (Okafor, 2022).

The increased digital monitoring has increased this probability, since the tax system now has access to a taxpayer's information about financial transactions and therefore non-disclosure is more difficult.

The perception of "retributive justice," or that tax evaders have broken the law and will be investigated or caught, is another variable influencing the behaviour of the compliant majority (Okafor, 2022). In the context of India, the high-profile public shaming of serious tax evaders and the systematic and automated checks of rejected returns, have likely reinforced the perception that the tax department is becoming more investigative. Digital modes of surveillance provide deterrence, especially among the salaried class, whose income is known by institutions.

4.3 Assessment of Public Understanding of New Tax Reforms

The transition from the "Old Tax Regime" to the "New Tax Regime" has created one more layer of complexity in the choice made by taxpayers. The survey sought to determine whether the public is aware that there is a "New Tax Regime." Being aware of the Old Tax Regime and the New Tax Regime is almost universal, but the ability to balance the costs and benefits of the two regimes appeared to be low. Only 34% of the respondents were "very confident" they could choose the regime which would minimize their tax burden without the support of an adviser.

Most of this confusion arises from a trade-off in terms of lower tax rates provided under the New Regime and the removal of traditional deductions like HRA and 80C, etc., provided under the Old Regime. However, in addition to being used for tax-saving purposes, such traditional deductions serve as a planning mechanism for future savings and investment (Meher, 2025). In addition, it is interesting that 58% of the salary class preferred to stay within the confines of the Old System due to the "habitual nature" of income generated through investments aimed at tax savings.

Furthermore, the initiative "Modernization of Tax Administration" has been well-received by 72% of the respondents, who believe that refunds are now issued faster compared to before (Anggadini, 2022). On the contrary, there is still low public knowledge about the "Taxpayer Charter," suggesting that even though the tax reform has progressed technologically, it has failed to communicate its rights-based structure to society.

Table 5: Summary of Hypothesis Testing Results

Hypothes is	Statement	Statistica l Test Used	Test Statistic s	p- valu e	Result	Decision	Interpretati on

H1	There is a significant association between a taxpayer's occupation and their level of digital tax awareness	Chi-Square Test	$\chi^2 = 14.56$, df = 2	< 0.05	Significan t associatio n found	**Supporte d**	Occupation of the taxpayer is an important determinant of awareness, whereby those who earn salaries have a more practical level of awareness than the others such as students and self-employed people.
H2	There are significant differences in the functional understandi ng of digital tax tools (AIS/TIS) across different age groups	One-Way ANOVA	F = 8.42, df = (2,107)	< 0.00 1	Significan t difference s found	**Supporte d**	Age also plays an important role in terms of digital tax literacy whereby younger people aged between 21 and 30 are more aware.
H3	Perception of tax fairness has a significant positive correlation with voluntary compliance intentions among Indian taxpayers	Spearman 's Rank Correlatio n	r = 0.64	< 0.01	Moderate positive correlatio n	**Supporte d**	The higher level of fairness in the tax system results in high voluntary compliance intentions among the taxpayers.

Findings from the results support the validity of all three hypotheses (H1, H2, and H3). It is evident that demographic variables, including occupation and age, play a significant role in affecting the level of tax awareness, while perceived fairness is instrumental in determining tax compliance behavior.

5. DISCUSSION AND MANAGERIAL IMPLICATIONS

The study findings suggest we are transitioning into a new Indian tax environment where the digital infrastructure is outpacing the legal and financial literacy of the average taxpayer. The lens of behavioural finance theories offers a way to address this, where the tax regime moves from "enforced compliance" to "voluntary participation".

5.1 Bridging the Gap Between Technical Tax Laws and Understanding

The key gap revealed in this study is the "A-P-C Gap," referring to Awareness, Perceptions, and Compliance. Even taxpayers Awareness, and that the taxpayer perceives the system to be fair, technical complexities of the law lead to "fear-driven outsourcing." The prevalence of reliance on Chartered Accountants for even a simple salary return is indicative of this issue (Meher, 2025).

Closing the gap requires a simplification of the story around tax law Although AIS/TIS increases transparency, it does not help solve "judgment calls" when preparing for taxes. For instance, the New Tax Regime is advertised as being "simpler," but its lack of deductions deters individuals who view taxes as a means to save money. Policy-makers should emphasize functional literacy in tax matters, which relates to how tax knowledge is used rather than just the acquisition of tax knowledge.

5.2 Behavioural Insights into Taxpayers Psychology and Decision-Making

Taxpayer behavior in India is an extremely complex combination of the "Psychological Contract" and "Digital Deterrence". According to the Theory of Planned Behavior, subjective norms (the influence of friends and family) carry significant weight in determining tax compliance behaviors in India (Nyantakyi, 2024).If a taxpayer's social circle considers tax evasion to be a "clever" act, the taxpayer will likely choose non-compliance independently of their Awareness levels.

Nevertheless, the preeminence of digital monitoring has shifted the "Perceived Behavioural Control." When the system "knows" about a taxpayer's high value transactions via the AIS, the act of intention to comply is no longer simply a moral choice, but a rational act based on a high probability of being detected (Anggadini, 2022). This suggests that "Digital Deterrence" is the primary strategy for expanding the tax base in its latest fashion.

Although, fear should not be a sole tactic for long-term compliance. Based on the study, "Tax Morale," which is the personal drive behind paying taxes, is influenced by the perceived level of quality of public goods and services (Hardika, 2021). The stronger the "Psychological Contract," which occurs when the taxpayer perceives the outcomes of his contribution as improvements in infrastructure and social services, the more he will tend to fulfill his tax duty, even without being heavily enforced (Nguyen, 2022).

5.3 Strategic Recommendations to Improve Financial Literacy

Taking into consideration the demographics of the respondents, there is a need to focus on two aspects of the population. These are students (future taxpayers) and those who receive salaries (current taxpayers).

1. **Education Inclusion:** For the 41% of respondents who are students, tax literacy should be included in the college curriculum, moving beyond theory-based accounting to practical sessions on how to navigate the e-filing portal and awareness of the implications of the AIS (Anggadini, 2022).
2. **Company-Sponsored Programs:** Instead of only providing Form 16 to salaried workers, firms need to go beyond that. Firms' welfare initiatives for financial wellness may help employees comprehend the distinctions between the New Tax Regime and the Old one without needing any intermediary, creating a sense of control over their financial wellness (Meher, 2025).
3. **Gamification of Compliance:** To address the younger "digital native" demographic, the tax department could create gamified learning modules on the e-filing portal and provide non-monitory rewards of "consistent filers" or "early filers". Taking advantage of the behavioral dimension of social norms and prestige would serve as an incentive for filing.
4. **Enhanced Helpdesk:** Although the functionality of the digital process can be considered adequate, the human element of “user satisfaction” is equally significant. Improving responsiveness of the online grievance system and utilizing AI "tax assistants" can lower the perceived complexity of the system (Saptono, 2023).

6. CONCLUSION

In this research, the complex relationship between taxpayer awareness, perception, and compliance has been explored in relation to the digital tax transformation in India. The findings indicate that although the Indian government has made tremendous improvements in terms of tax administration infrastructure through tools like AIS, TIS, and pre-filled returns, there exists a large "literacy gap" in the minds of taxpayers, and this has been explained through a high level of theoretical awareness, like that of youth, who still seek an intermediary for execution due to the complexity of tax laws.

The study established that tax compliance is not only a function of legal enforcement, but it is complicated by behavioural factors. The "Perception of Fairness" and the "Trust in Authorities" model can significantly predict voluntary compliance, while the "Digital Deterrence" model offers the protection against non-disclosure. Demographic skewness in a younger, technology-savvy population reveals an opportunity for the tax department to build a "self-sufficient" tax culture by focusing on functional digital literacy.

However, it is important to indicate the limitation of the current study, with the relatively small N size, namely 110, and geographic clustering. The future studies need to have a larger number of "from" or engage more business owners/rural taxpayers to emphasize the "national perspective" dimension. The longitudinal studies could follow the development of the transition to the New Tax Regime with the younger demographic following the "peaking" curve of their earning potential.

In summary, the road to a high-compliance economy for India is to "Human-Centric Digitalize" the tax system. By weighing the "fear of detection" against the "ease of participation," and the "transparency of benefit," the

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Indian tax administration can move in the direction of a sustainable and equitable fiscal future. Ultimately, the goal should be to change the mindset of the tax collector, from a "deterrent authority" to a "service provider," creating a psychological contract that paying taxes is a dignified service to nation-building, rather than a painful act of compliance.

Such a paradigm shift in a service-oriented framework requires a development in taxpayer knowledge and a deeper understanding of the psychological underpinnings of voluntary compliance behaviour (Palil, 2010). This allows for a shift in policy, moving beyond traditional approaches such as providing financial incentives and deterring non-compliance, to effectively tackle market failures and income redistribution, thereby supporting the psychological contract by ensuring that the fairness and transparency of the tax system directly impact the willingness to engage in nation-building.

This emphasis on institutional transparency and service delivery suggests that increasing taxpayer knowledge is a critical prerequisite for achieving higher levels of voluntary participation and administrative efficiency (Palil, 2010). Moreover, a shift toward a framework built around civic engagement means that there will be a "participation dividend," which suggests that citizens integrated into the tax base are more likely to judge government performance and expect accountability for their financial contributions (Weigel, 2020). Ultimately, refining these psychological and structural levers allows the state to better utilize behavioural insights in the pursuit of redistributing income and addressing market failures through a more cost-effective policy design (Madrian, 2014).

This reliance on behavioural insights to manage fiscal obligations transforms the tax filing process into a platform for civic engagement, as increased awareness of tax laws and reporting responsibilities serves as a critical facilitator for voluntary compliance (Palil, 2010). By clarifying the link between individual contributions and public goods, the administration can mitigate perceptions of ineffectiveness and address distributional concerns that often hinder the acceptance of fiscal policies (Carattini, 2017).

Furthermore, as taxpayers become more knowledgeable and are actively engaged in the system, they are likely to reassess and potentially demand a greater voice and accountability in return for their contribution (Weigel, 2020). The development in taxpayer perceptions and demands, however, can be traced directly to the implementation of a self-assessment system, whereby the taxpayer assumes a direct responsibility for calculating and declaring their own tax liability (Palil, 2010). In this sense, through the increased complexity and responsibility placed on the taxpayer, there exists a systemic requirement for a higher level of tax knowledge, such that a shift toward administrative efficiency does not undermine a broader sense of equity and fairness in the system (Palil, 2010). As such, the development of such knowledge serves to act as a balancer, allowing taxpayers to effectively engage with their dual role as a financial contributor and a knowledgeable citizen within a democratic system.

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