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SCHOOL OF COMMERCE

Organizes

One Day National Conference on

"SECTORAL ANALYSIS OF GROWTH POTENTIAL IN THE MAJOR ECONOMIC INDUSTRIES AFTER THE GST"



Sponsored by

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FOREWORD



Dr. V. Vijayakumar

Principal

Nehru Arts and Science College, Coimbatore.

It is my privilege to present this edited volume of research papers arising from the One Day National Conference on “Sectoral Analysis of Growth Potential in the Major Economic Industries After the GST”, sponsored by the Indian Council of Social Science Research (ICSSR-SRC), Ministry of Education, Government of India. The introduction of the Goods and Services Tax (GST) has been a transformative reform in India’s fiscal framework, with far-reaching implications across diverse economic sectors. An analytical understanding of these sectoral dynamics is essential for informed policy formulation and sustainable economic development. This volume brings together scholarly contributions that offer critical insights into the opportunities and challenges experienced by major industries in the post-GST regime. The papers reflect rigorous research and provide valuable perspectives for academicians, researchers, and policymakers. I commend the efforts of the organizers, contributors, and editorial team in successfully bringing out this publication. I also acknowledge with gratitude the financial support extended by the ICSSR-SRC. I am confident that this work will serve as a meaningful addition to academic literature and a useful reference for future research.

CHIEF EDITOR



Dr. M. Kanagarathinam,

Dean, School of Commerce,

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With over 23 years of extensive experience in Teaching, Research, and Administration, she is a strategic leader who navigates complex challenges and empower her team to achieve outstanding results. She had visited foreign counties like Malaysia, Dubai, Singapore, Indonesia, Thailand to share her expertise and knowledge. She has published 30 research articles in peer reviewed and UGC Care-listed journals and authored more than 10 books. She has also presented over 50 research papers at national and international conferences. She has successfully guided 6 M.Phil. Scholars and 11 Ph.D. Scholars in their academic pursuits. She is a recipient of UGC and ICSSR projects. She is a remarkable individual known for her hard work and unwavering dedicated with an impressive array of achievement. She has been honored with numerous awards for her excellence. She actively promotes innovation and entrepreneurship among students and faculty. Her dedication and contributions to academia and institutional development are highly commendable.

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Digital Payments and Transparency

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Abstract

The global transition from a cash-dependent economy to a digital-first financial ecosystem has become a significant driver of fiscal transparency and improved tax compliance in the twenty-first century. Traditionally, the shadow economy expanded due to the anonymity of cash transactions, which enabled underreporting of income, untraceable financial activities, and widespread tax evasion. However, the rapid growth of digital payment systems—such as Unified Payments Interface (UPI), mobile wallets, online banking platforms, and emerging Central Bank Digital Currencies (CBDCs)—has fundamentally transformed the financial landscape. By integrating digital payment gateways with national tax systems, governments can compare reported business turnovers with actual digital transaction data in real time. This process helps reduce discrepancies between reported and actual income, thereby narrowing the tax gap and expanding the formal tax base. Small businesses and vendors that previously operated outside formal financial networks are gradually being brought into regulated economic systems. Furthermore, digital payment infrastructures provide a strong foundation for advanced technological tools that enhance transparency and regulatory oversight. Through big data analytics and artificial intelligence, tax administrations can analyse large volumes of transaction data to identify irregular patterns and potential cases of fraud. This automated monitoring reduces the need for intrusive manual audits and improves the efficiency of tax enforcement. Additionally, innovations such as electronic invoicing and automated pre-filling of tax returns simplify compliance procedures, improving accuracy and enhancing the ease of doing business for honest taxpayers.

Keywords : *Digital access, UPI, transparency, integration, etc.,*

Introduction

The global fiscal landscape is currently undergoing a radical transformation, moving away from the era of financial opacity toward a regime of "Radical Transparency" driven by the digitalization of currency. For decades, the primary challenge for tax administrations across the globe was the "Anonymity of Cash." Physical currency facilitated a sprawling shadow economy where transactions remained off the books, allowing businesses to under-report income and evade their tax obligations with minimal risk of detection. However, the rise of Digital Payment Ecosystems—comprising mobile wallets, Unified Payments Interface (UPI), and Central Bank Digital Currencies (CBDCs)—has fundamentally altered this dynamic. By converting every transaction into a traceable electronic data point, digital payments have effectively eliminated the invisibility that once protected tax evaders. This shift is not merely a technological trend but a structural revolution in how governments monitor economic activity and enforce fiscal discipline.

The core mechanism through which digital payments enhance transparency is the creation of an automated and immutable "Audit Trail." In a cash-based system, verifying a taxpayer's claims required labour-intensive manual audits and physical documentation, which were prone to corruption and human error. In contrast, every digital transaction leaves a permanent record in a searchable database. When these payment gateways are integrated with national tax networks, such as India's GSTN, authorities can perform "Data Triangulation." This process involves cross-referencing a firm's declared tax returns against its actual digital inflows. If a business reports a turnover of ₹10 lakhs but its digital

payment logs show ₹50 lakhs in credits, the system automatically flags the discrepancy. This technological oversight creates a "Glass- Pipe" economy where financial flows are visible, verifiable, and extremely difficult to manipulate.

Beyond simple monitoring, digital payments act as a powerful engine for "Broadening the Tax Base." In many developing economies, a significant portion of the population operates in the informal sector, often bypassing the tax net entirely. Digitalization incentivizes these informal players to formalize their operations, as digital payment history often serves as a "Financial Identity" required to access credit, insurance, and government subsidies. As street vendors and small-scale service providers adopt digital wallets, they unintentionally create a verifiable income history. This transition reduces the "Tax Gap"—the difference between the tax that should be collected and the tax that is actually collected—by bringing millions of previously "invisible" economic actors into the formal tax system. Consequently, tax transparency becomes a byproduct of economic convenience, as the ease of digital transactions outweighs the effort required to remain in the shadows.

However, the journey toward a fully transparent, technology-enabled fiscal regime is not without its hurdles. While digital payments offer unprecedented transparency, they also raise critical concerns regarding Data Privacy and Cybersecurity. As tax departments aggregate vast amounts of sensitive financial data, they must implement "Privacy-by-Design" protocols to prevent data breaches that could lead to identity theft or corporate espionage. Furthermore, the rise of sophisticated "Tech-Savvy" evasion, such as the use of privacy-focused cryptocurrencies and decentralized finance (DeFi) platforms, poses a new set of challenges for regulators. To remain effective, tax transparency mechanisms must evolve at the same pace as financial technology. This paper will explore how India and other emerging economies are navigating these complexities, demonstrating that while technology provides the tools for transparency, a robust legal and ethical framework is what ensures its long-term success and social acceptance.

1. Creation of an Immutable Audit Trail

Digital payments act as a permanent electronic ledger. Unlike cash, which leaves no record, every digital transaction (UPI, Card, or Net Banking) is timestamped and recorded by banks and payment aggregators. This creates an "Audit Trail" that cannot be deleted or altered easily. When tax authorities need to verify a business's income, they don't have to rely on physical bills; they can simply pull the digital logs, making it nearly impossible to hide "under-the-table" sales.

2. Real-Time Data Triangulation

One of the most powerful factors is the ability of tax departments to perform Data Triangulation. This technology allows the government to cross-verify a taxpayer's GST filings with their actual bank credits and digital payment receipts in real-time. If there is a massive gap between the reported turnover and the digital money flowing into the account, the system automatically triggers a red flag. This automated "check and balance" is the backbone of modern anti-evasion.

3. Formalization of the Informal Sector

Digital payments act as a "Financial Identity" for small-scale vendors and street traders. To use UPI or digital wallets, a person needs a bank account, which effectively brings them into the Formal Financial System. As these informal players start accepting digital payments, their invisible cash income becomes visible to the government. This factor significantly broadens the tax base by converting "shadow" economic activities into

traceable formal income.

4. Reduction in Anonymity of Wealth

Cash provides anonymity, which is the primary tool for tax evaders. However, the mass adoption of digital ecosystems removes this veil. High-value purchases (like luxury cars or property) are now linked to Digital Payment IDs and Biometrics (Aadhaar/PAN). This link ensures that the "Source of Funds" is always known. When the anonymity of wealth is removed, the opportunity to hide black money or launder funds through multiple cash layers is drastically reduced.

5. Automation of Tax Compliance (E-Invoicing)

Digital payments enable E-Invoicing and Automated Compliance. When a customer pays digitally, the system can automatically generate an invoice that is reported to the tax portal (like GSTN) at the same moment. This "Zero-Latency" reporting prevents businesses from manipulating their books at the end of the year. It also makes it easier for honest businesses to claim Input Tax Credits (ITC), as the entire chain of transactions is digitally verified.

6. Integration with AI and Predictive Modelling

The massive amount of data generated by digital payments allows for Predictive Modelling. Tax authorities use Artificial Intelligence to analyze spending patterns and identify "lifestyle- income mismatches." For example, if an individual's digital footprint shows luxury travel and high-end shopping, but their tax return shows low income, the AI flags it for a "precision audit." This factor makes tax transparency "predictive" rather than just "reactive."

Challenges in Digital Payments and Tax Transparency

1. Cybersecurity and Data Privacy Risks

The primary concern with digital transparency is the vulnerability of centralized databases to cyber-attacks. As tax authorities collect vast amounts of sensitive financial information linked to digital payments, they become high-value targets for hackers. A data breach could lead to identity theft or the leaking of corporate trade secrets. Maintaining a balance between "Total Transparency" and the individual's "Right to Privacy" is a significant legal and ethical hurdle.

2. The Digital Divide and Infrastructure Gaps

For digital payment-based transparency to work, 24/7 internet connectivity and a stable power supply are mandatory. In many rural areas of India, poor network penetration and frequent power outages make digital transactions unreliable. This "Digital Divide" prevents the formalization of the rural economy, as many people are forced back into cash transactions due to a lack of infrastructure, leaving a blind spot in the tax system.

3. Sophisticated Tech-Savvy Evasion

While digital payments track traditional money, tech-savvy evaders are moving toward Decentralized Finance (DeFi) and Privacy Coins (like Monero) to hide their wealth. These platforms operate outside the traditional banking system and offer high levels of anonymity. Tracking "crypto-tumbling" or offshore digital assets requires a level of technological expertise that many tax departments are still struggling to develop.

4. Algorithmic Bias and False Positives

Tax authorities use AI to flag suspicious digital transactions, but these algorithms are not perfect. Sometimes, legitimate but unusual transactions—such as a large one-time medical payment or a family loan—get flagged as "fraud" or "unreported income." These "False Positives" lead to unnecessary tax notices and harassment of honest taxpayers,

which can create a negative public perception of digital transparency.

5. High Compliance Costs for Small Businesses

Transitioning to a fully transparent digital system requires businesses to invest in POS (Point of Sale) machines, high-speed internet, and accounting software. For micro-enterprises and small vendors, these recurring costs can be a heavy burden. Many small businesses prefer cash not to evade taxes, but to avoid the overhead costs associated with digital compliance and bank transaction fees.

6. Cross-Border Jurisdictional Issues

Digital payments often cross-national borders, especially in e-commerce. Different countries have different tax laws and data protection rules. When a transaction happens through a foreign payment gateway, it becomes difficult for local tax authorities to verify the data or claim their share of tax. The lack of a global unified standard for digital transaction reporting allows multinational entities to exploit jurisdictional loopholes.

Conclusion

Digital payments have undoubtedly become the most effective weapon against the shadow economy, turning the once-invisible flow of cash into a transparent digital stream. By creating an immutable audit trail and enabling real-time data triangulation, technology has made tax evasion significantly more difficult and riskier. However, as this paper discusses, the transition is not without its obstacles. Challenges like cybersecurity, the digital divide, and sophisticated crypto-evasion must be addressed to ensure the system is both fair and secure. The future of tax transparency lies in a "Privacy-First" digital architecture where technology serves as a bridge between the government and the citizen, rather than a tool for surveillance. If India can successfully bridge the infrastructure gap and protect taxpayer data, digital payments will not only increase national revenue but also foster a more equitable and formal economy. Ultimately, a "less-cash" society is the cornerstone of a modern, transparent fiscal regime that benefits the nation as a whole.