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A STUDY OF ARTIFICIAL INTELLIGENCE IN TAX ADMINISTRATION WITH SPECIAL REFERENCE TO THE AUTOMATION OF THE ASSESSMENT UNDER FACELESS ASSESSMENT SCHEME AND PRIVACY CONCERNS

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ABSTRACT

The introduction of Artificial Intelligence (AI) in the Indian tax collection most notably in the Faceless Assessment Scheme in Sec 144B of the Income Tax Act, 1961 is the point of transformation in the fiscal governance. Although AI-enabled tools are a promise of increased efficiency, transparency, and reduction of corruption based on algorithmic scrutiny selection, automated processing, and faceless adjudication, they also pose new constitutional and statutory challenges in the area of procedural fairness, algorithmic accountability, and informational privacy that have never been seen previously.

The Article examines the data privacy policy implications of the digital tax surveillance system in India in the light of the proportionality standard that the Supreme Court unanimously upheld in Justice K.S. Puttaswamy (Retd.) v. Union of India (2017). It considers the sufficiency of the Information Technology Act, 2000 and Digital Personal Data Protection Act, 2023 in fully tackling algorithmic opacity, risks of data aggregation, function creep, and lack of an independent oversight mechanism to process tax data.

INTRODUCTION

The development of Artificial Intelligence (AI) has brought about a lot of changes in the way people should administer their governments and in such a case, the way people should pay their taxes. The Income Tax Department in India has also been embracing AI-based applications in faceless assessment, automated scrutiny, data analytics, and risk profiling to make it more efficient, transparent, and user-friendly to taxpayers. The advent of the Faceless Assessment Scheme was a paradigm shift of the traditional human-centred assessments to the use of technology in making decisions.

Nonetheless, mass application of AI in tax administration implies high volume of personal and financial information of taxpayers collected, processed and stored. This poses very critical

issues associated with data privacy, data security, transparency of the algorithm, and the possibility of misusing personal data. The legal environment of data protection and privacy has become highly noticeable with the legislation of the Information Technology Act, 2000, and the Digital Personal Data Protection Act, 2023.

CONCEPTUAL FOUNDATION OF ARTIFICIAL INTELLIGENCE

The capability to observe, understand, and learn from novel situations or circumstances is referred to as intelligence. Anything created by human creativity and action is referred to as artificial, setting it apart from naturally occurring entities.¹⁹⁹⁴

¹⁹⁹⁴ Ferom Mohammed Al-Saleh, Boujaada Elias, Slimani Azeddine, “The Role of Artificial Intelligence-Based Information Systems in the Decision-Making Process”, a paper presented at the 6th National Symposium on the

Therefore, the human-engineered intelligence built into computers or machines can be summed up as artificial intelligence. It positions artificial intelligence (AI) as a scientific field with the overarching goal of enabling robots to perform jobs that require intellectual capabilities. It captures the idea of giving machines or computers the original cognitive capacities of humans.¹⁹⁹⁵

According to Copeland and Proudfoot, artificial intelligence is the creation of computer systems that can do tasks like visual perception, speech recognition, decision-making, and translation that have historically required human intellect.¹⁹⁹⁶ Marvin Lee Minsky goes on to define artificial intelligence (AI) as the development of computer programs that carry out activities that, when completed by humans, are deemed adequate because they require sophisticated mental processes including cognitive learning, memory structure, and critical thinking.¹⁹⁹⁷

AI systems are distinguished by their capacity to behave intelligently, assessing their environment and acting partially autonomously to achieve predetermined goals. These definitions make it evident that artificial intelligence covers a wide range of initiatives aimed at creating computer programs that can imitate human behaviour and mental processes. This represents an important turning point in the relationship between technology and human intelligence by enabling these systems to perform concrete tasks in a smoothly integrated manner.

MEANING AND DEFINITION OF ARTIFICIAL INTELLIGENCE

Black's Law Dictionary is a frequently used resource for definition and phrases. "Software used to make computers and robots work better

than humans" is how Black's Law Dictionary defines artificial intelligence. Neural networks or rule-based systems are used. Robotics, computer vision, human language comprehension, and innovative product development all benefit from it.¹⁹⁹⁸

This definition has serious flaws that contradict our current understanding of artificial intelligence, particularly when compared to machine learning. Nevertheless, this description restricts AI to two types: neural networks and rule-based systems. Therefore, for something to be considered AI under the first two prong, it must: (1) be software, which is uncontroversial, though what constitutes software may have a loaded meaning or ambiguity; and (2) the systems must be rule-based or neural networks.¹⁹⁹⁹

The later portion of the definition is useless, even though this is a nice beginning that offers some guidance. Black's description of AI as a tool is accurate in and of itself. Improving our life or being more productive in some way is the main goal of development. However, these tools don't seem to be like software that functions independently when compared to what we now refer to as "tools," like hammers, books or Westlaw. It would be incorrect to claim that there are no autonomous tools of any kind (such as automated factories), but there is a distinction between learning to make better autonomous stock investment selections and adhering to pre-registered activities to build a car.²⁰⁰⁰

In other words, if it is performing the complex task by itself, it does not appear to be a tool. Furthermore, the definition's last section is simply too general. Digital watches are included because they use rule-based software and are more accurate than human timekeepers. AI,

Role of Quantitative Techniques in Managerial Decision Making, University of Skikda, p.11

¹⁹⁹⁵ Yacine Saad Ghalib, "Fundamentals of Management Information Systems and Information Technology", Dar Al-Manahji for publishing and Distribution, 1st Edition, Amman, Jordan, 2012, p.114

¹⁹⁹⁶ Hiba Abdel Monem, Mohamed Ismail, "The Economic Impacts of the Fourth Industrial Revolution (Artificial Intelligence)", Economic Studies Series, 2021, p.7

¹⁹⁹⁷ Abdullah Mousa, Ahmed Habib Bilal, "Artificial Intelligence: A Revolution in Modern Technology", Arab Group for Education and Publishing, Cairo, Egypt, 2019, p. 20.

¹⁹⁹⁸ Artificial Intelligence, THE LAW DICTIONARY, <https://thelawdictionary.org/artificial-intelligence/> [<https://perma.cc/5BPN-YBTE>] (last visited Jan. 16, 2026)

¹⁹⁹⁹ Software, BLACK'S LAW DICTIONARY (10th ed. 2014).

²⁰⁰⁰ AI News: Artificial Intelligence Trends and Leading Stocks, INV. BUS. DAILY, <https://www.investors.com/news/technology/ai-news-artificial-intelligence-trends-and-leading-stocks/> [<https://perma.cc/8WQL-AZRL>]

however, is very different from digital timepieces. The final section of the definition is confusing and deceptive.

The qualification is limited to these specific applications by this definition. This is problematic because the definition concentrates on certain uses, yet AI's applications are by no means limited. This definition, first and foremost, disregards autonomy. These are only a handful of the numerous issues this definition raises. Although Black's Law Dictionary is not a statute or legally binding precedent, it is a frequent instrument used by the legal community and may be a source of guidance for judges, attorneys, or policy makers; in this instance, however, that guidance is inadequate.

EVOLUTION AND DEVELOPMENT OF AI TECHNOLOGIES

A trailblazing team of scientists set out to create intelligent machines in the middle of the twentieth century. The development of a new mathematical theory of information, advances in automatic control made possible by the development of the digital computer, and advances in neuroscience all influenced this quest. During this time, devices that could simulate human computational thought processes were developed.

The term "Artificial Intelligence" (AI), which became popular in the 1950s, was officially coined in 1956 at the Dartmouth Conference on Artificial Intelligence. With 1.6 million papers and over 3,40,000 patent filings since then, the discipline has seen a boom in scholarly activity, demonstrating the widespread interest in and investment in AI technologies.²⁰⁰¹

Machine Learning, Algorithms, and Automated Decision-Making

These days, the most popular and advanced computer vision method that has acquired the most popularity in both industry and research is

machine learning. It is currently the most well-liked cutting-edge field in terms of health care, finance, security, data management, trend analysis, and prediction. Machine learning is based on making a system clever enough to make judgments without the aid of external software.

The ENIAC, the first computer system, was developed in 1946. The idea of machine learning originated with Arthur Samuel's (IBM) first self-playing game program in 1952. Rosenblatt then presented the perceptron model in 1957, which was a simplex approach to the neuron model. In 1967, the nearest neighbor method—also referred to as pattern recognition—was created. Machine learning gained popularity in the 1990s as a result of the integration of statistical and computer science methods.²⁰⁰² The most promising areas of research for academics are machine learning and related subjects because artificial intelligence is ubiquitous in today's world. Since artificial intelligence is pervasive in today's environment, machine learning and its related fields are the most promising fields of study for scholars.²⁰⁰³

The technique of automatically learning a computer system or machine using given data—often referred to as raw data or datasets—is known as machine learning. This procedure usually consists of two primary steps:

- I. Training Models
- II. Making decisions or testing models

For this reason, we have two types of datasets: training data and test data. Training data, which comprises feature extraction and data preparation, is used to train the model. The obtained trained model is used to determine the results of test data, or unknown datasets. The accuracy of the model can also be determined

²⁰⁰¹ Amal Fawzri Ahmad Awad, "Digital Ownership in the Age of Artificial Intelligence: Challenges of the Present and Future", Arab Democratic Centre for strategic, Political, and Economic Studies Publications, Berlin, Germany, 2021, p.03

²⁰⁰² Ron Kohavi, Foster Provost, "Glossary of terms: Machine Learning," pp. 271-274, 1998.

²⁰⁰³ Darpan Pandey, Kamal Niwaria, Bharti Chourasia, "Machine Learning Algorithms: A Review", International Research Journal of Engineering and Technology (IRJET), Volume: 06 Issue:02, Feb 2019.

by making choices based on test data or outcomes that we already know.²⁰⁰⁴

AI IN PUBLIC GOVERNANCE

Indian tax system: The central government, state governments, and local bodies oversee the country's three-tier tax structure. The Indian tax system is based on the self-assessment procedure, in which the taxpayer files their tax return in the required format to the tax department after declaring their income based on self-assessment. The tax system in India is incredibly intricate. Based on their nature, Indian taxes can be separated into two categories: direct taxes and indirect taxes. Indirect tax is collected by a third party and deposited with the tax agency, whereas direct tax is collected directly from the person who imposed it. Following the introduction of the Goods and Services Tax (GST), the government said that it would employ artificial intelligence (AI) and machine learning (ML) in taxation to improve the administration of taxes and increase system transparency. People in India were losing faith in the current tax assessment procedure because of the severe issues with tax evasion and corruption.

The tax agency is also receiving complaints over the assessing officer's misleading call regarding tax compliance and corruption. Initially, the Indian government is only using AI and ML in administrative procedures; it is not using them to make life easier for taxpayers. The intricacy of the system and the length of the scrutiny procedure make it challenging for the tax administrators to finish the process on time, and the tax department lacks the manpower to do so. The technology will now employ structured electronic data to learn the inspection procedure and apply it with high precision, giving the department deep and error-free results. Artificial intelligence will be utilized in this process to eliminate repetitive, time-consuming tasks like processing papers and responding to

complaints, as well as to make conclusions about the accuracy of the return and identify any issues with noncompliance with tax laws. Additionally, it will assist people with virtual support systems and employ natural language processing to obtain information.²⁰⁰⁵

CONCEPT OF AUTOMATION IN TAX ADMINISTRATION

A paradigm shifts in the way tax administration is carried out has been brought about by the development of artificial intelligence (AI), machine learning, robotic process automation (RPA), natural language processing, and cloud computing. AI-enabled products were progressively used by Indian companies and public sector organizations between 2023 and 2025 to support real-time financial reporting, increase operational efficiency, and improve accuracy. Professionals may now concentrate on decision support, strategic planning, and value-added advisory roles because the technologies like automated assessment can manage massive amounts of data with no human intervention. Continuous auditing, anomaly identification, predictive forecasting, and risk assessment are just a few of the areas where AI-driven analytics have grown traditional retrospective reporting and toward proactive, forward-looking methods.

TRADITIONAL TAX ASSESSMENT MECHANISMS

Traditionally it has been thought of as a filed based on manual data processing, and defined regulations. The Income Tax Act allows for several assessment methods, including best judgment, summary, and self-evaluation. The process by which the income tax department reviews the assessee's income tax return, including reassessment, is referred to as assessment.²⁰⁰⁶ The first step in the assessment procedure is filing an income return ²⁰⁰⁷provided, which is governed by Sec 139 of the Act. ²⁰⁰⁸

²⁰⁰⁴ N.K. Chauhan, K. Singh, "A Review on Conventional Machine Learning vs Deep Learning," International Conference on Computing, Power and Communication Technologies (GUCON), 2018

²⁰⁰⁵ Ankit Rathi, Dr. Saurabh Sharma, Dr. Gaurav Lodha, Dr. Manoj Srivastava, "A study on Application of Artificial Intelligence and Machine Learning in Indian Taxation System", Psychology and Education (2021) 58(2): 1226-1233

²⁰⁰⁶ Income Tax Act, 1961, Section 2(8)

²⁰⁰⁷ Income Tax Act, 1961, Section 234 F

²⁰⁰⁸ Income Tax Act, 1961, section 89

According to this section, any resident who is beneficial owner or beneficiary of assets located outside of India, as well as any individual, business, or corporation whose total assessable income in the previous year exceeds the maximum amount not taxable under the Act, must file an income return by the specified due dates. The several forms of evaluation are summarized as follows:

- **Self- Assessment:** Assessing one's overall income and tax liability for a specific prior year is a straightforward process.²⁰⁰⁹ When determining the tax payable under the type of assessment, tax deductions, tax credits, other miscellaneous reliefs, and interest imposed for late filing of the returns specified under the statute are considered. Based on their return, the assessee will pay taxes, which are considered assessed taxes. Therefore, it continues to be a tax assessed and collected in compliance with the law until it is disrupted by any subsequent regular assessment.²⁰¹⁰
- **Summary Assessment:** - A summary assessment under section 143(1) of the Act is a first, non- examined review of the income return submitted by the assessee under Section 139. After making the required adjustments under the provision, the total revenue or losses is calculated. In event of a tax liability, the income tax department should notify the assessee of the computation. This notification functions as a demand notice. This notification must be sent within a year of the end of the fiscal year in which the income return is submitted.
- **Scrutiny Assessment:** This type of assessment allows the assessee to confirm the income, deductions, allowances, and other information shown on the income return. In situations where a return has been filed under Section 139 or in response to a notice under Subsection (1) of Section 142, the Assessing Officer may serve the assessee with a notice requiring him to either appear at his office on a designated date or to produce, or cause to be

produced there, any evidence that the assessee may rely on to support the return, if he believes it is necessary or expedient to ensure that the assessee has not understated the income, computed excessive loss, or underpaid the taxes.²⁰¹¹ The notification under this paragraph must be served within Six months of the end of the fiscal year in which the income return is filed. After examining the relevant records and the assessee's supporting documentation, the Assessing Officer will issue the assessment order.

- **Best Judgment Assessment:** - The right to be heard is granted to the assessee under this kind of evaluation. This kind of assessment is covered by Section 144 of the Act, which states that the Assessing Officer makes the assessment after considering the pertinent information and giving the assessee a chance to be heard. This clause will come into play if someone doesn't file the return or amended return required by section 139(1), (4), and (5), or if they don't follow the instruction given under section 142 (2A) or the terms of notice given under Section 142 (2A) or the terms of notice given under Section 142(1) or Section 143(2).²⁰¹² The assessment order will be set aside and the matter will be remanded back for a reassessment after taking into account the assessee's response to both grounds if the assessing officer makes amendments about two grounds but only disclosed one in the show-cause notice.²⁰¹³ Natural Justice ideals are upheld by this kind of evaluation.

- **Re- Assessment:** - If the Assessing Officer has reason to believe that any income covered by the Act has not been assessed for a particular assessment year, this type of assessment is conducted. In this case, the Assessing Officer will either review the fleeing income or recalculate any loss or allowance for the relevant assessment year. No action under section 147 may be taken after four years from the end of the relevant assessment year if an

²⁰⁰⁹ Income Tax Act, 1961, Section 90 & 91

²⁰¹⁰ Commissioner of Income tax v. Shelly Products and another, WP No. 7501-7504 of 1997.

²⁰¹¹ Income Tax Act, 1961, Section 143 (2)

²⁰¹² Income Tax Act, 1961, Section 144

²⁰¹³ Kandan & Kannan Medical Agency v. Income Tax Officer, Non-Corp Ward 10(2), Chennai, (2020) 113 taxmann.com 340 (Madras)

assessment under section 143(3) or section 147 has been made, unless the assessee failed to make a return under section 139 or in response to a notice issued under sub-section (1) of section 142 or section 148, or to fully and truly disclose all material facts necessary for his assessment, for that assessment year. However, if the revenue that escaped assessment originated from an asset outside of India, this provision does not apply.²⁰¹⁴ The process of reevaluating the fleeing revenue that is liable to the Act's charges is known as re-assessment.

➤ **Block Assessment:** – Block assessment is the method by which the Income Tax Department blocks a few years and evaluates each year. This kind of evaluation requires a search under Section 132 or the questioning of papers under section 132 A. In accordance with section 153A, the Assessing Officer must notify the individual in question to provide a return on income for each of the six years before to the assessment year of the relevant prior year in which the search under Section 132 or the questioning under Section 132 A was conducted. Additionally, the officer will evaluate or reevaluate each assessment year's total revenue. The evaluation or re-evaluation that was ongoing at the time of the search will be postponed. The evaluation must be completed within 21 months of the end of the fiscal year in which the search or request was carried out. The evaluation under Section 153A must be based on the seized material; it cannot be made arbitrarily or without any connection to the material.²⁰¹⁵ Only the concealed income discovered from the seized material may be added to the assessee's overall income during the block period assessment. The assessee may claim deductions for created loss if they have already reported it by making the required entries in the books of accounts.²⁰¹⁶ Therefore, under section 153A of the Act, only the concealed income discovered by executing

section 132 & section 132A will be subject to block assessment.

EMERGENCE OF E-GOVERNANCE IN TAX SYSTEMS

E-governance has become a key component of contemporary public administration because of the quick development of digital technologies, which has drastically changed how governments function and engage with the public. The provision of online public services to businesses and citizens is known as e-government. It involves using the internet or other digital tools such information and communication technology (ICTs), to deliver government services to citizens and other stakeholders in the hopes of increasing the effectiveness and transparency of those services. Strong regulatory frameworks are essential to guaranteeing accountability, transparency, data security, and the validity of digital interactions as governments increasingly turn to digital platforms.

Taxation is one of the most urgent aspects of e-governance. Since precolonial times, taxes have continuously been the main source of funding for the government. The government uses taxes to raise money for public goals. It is essential to both public service delivery and national growth. Digital technologies provide better methods for tax collection and compliance, but they also bring with them new difficulties. Because services are digital, there are complicated issues with their classification and taxation, especially when it comes to cross-border transactions, data protection, and jurisdictional boundaries. The global nature of internet commerce makes it difficult for traditional tax structurers, which are sometimes predicated on the physical presence of enterprises, to keep up.

Furthermore, secure digital infrastructure, updated legislative frameworks, and the ability to handle massive amounts of sensitive data are necessary for the deployment of e-governance-based taxation systems. Although e-governance streamlines procedures and increases transparency for businesses and the economy, problems including cybersecurity

²⁰¹⁴ Income Tax Act, 1961, section 147

²⁰¹⁵ S K Gandhu, Scope of incriminating material in Block Assessment. (2016) 71 taxmann.com 190, 4

²⁰¹⁶ Commissioner of Income Tax v Naman Associates, (2020) 118 taxmann.com 165 (Gujarat)

threats, digital literacy, and legal loopholes continue to jeopardize the system's integrity.²⁰¹⁷

MEANING AND SCOPE OF AUTOMATED ASSESSMENT

Complex tax computations, filing returns, and adhering to changing tax regulations are all made easier by automation. In India, e-invoicing, compliance checks, and GST reconciliation are now supported by digital tools. By examining past data and spotting optimization opportunities, AI also helps with tax planning. Most medium-sized and large-sized Indian businesses have implemented AI-powered compliance technologies by 2025 which reduced filing errors and expedited reporting timelines.

Faceless Assessment Mechanism

Faceless Assessment Scheme is the new scheme for assessment under the Income Tax Act, which has been implemented by the Indian government. Changing laws to reflect societal shifts and technology advancements is important. As a result, this scheme has transformed a few of the current processes into ones that are contemporary, effective, and efficient. The faceless assessment scheme seeks to minimize or eliminate the interface between the assessee and the assessing officer or any other authority, to the extent that it is possible with the technology at hand. The scheme also aims to develop dynamic jurisdiction and make the most use of available resources. The Income Tax Act's Section 143(3A)²⁰¹⁸ gives the Central Government the authority to implement such a scheme. The Central Board of Direct Taxation launched the faceless Assessment Scheme on August 13, 2020, with notification number 60/2020. This program is an update to the e-assessment program that was unveiled the year before this.

Genesis and objectives of the faceless Scheme

- National e-Assessment Centre: - This body was created with the intention of centralizing the assessment process. Additionally, it has the authority to perform assessments in compliance with the Scheme's rules. NeAC will help the Income Tax administration and taxpayers or assessors communicate with one other.
- Regional Assessment Centres: - These are established in large cities to carry out and supervise the assessment using a variety of sub-units. A chief Commissioner will oversee the centres.
- Assessment Units: - Assessment units will carry out the assessment by identifying the liabilities and points of concern, gathering and analysing the documents provided by the assessors, and carrying out other various tasks necessary for the assessment.
- Verification Units: - This unit will carry out the verification function to make the e-assessment process easier. Conducting inquiries, examining documents, witnesses, books of accounts, cross-examinations, recording statements, and more are all part of the verification process.
- Technical Units: - Depending on the needs of the case, this unit's duties include offering technical support in the areas of law, audit, data analytics, accounting, information technology, forensics, transfer pricing etc
- Review Units: - It carries out the task of examining the draft evaluation order. This unit will analyse to ensure that the pertinent precedents are appropriately taken into consideration, the pertinent issues of fact and law are appropriately included in the draft order, and the important evidence is presented on record. Additionally, it will verify the accuracy of the arithmetic and any suggested changes.

STRUCTURAL FRAMEWORK OF FACELESS ASSESSMENT

The process for carrying out a faceless assessment is provided by the scheme. The assessee receives a notice, just as in any other process. The National e-Assessment Centre

²⁰¹⁷ Stephanie M. Antonia, Florinda G. Vigonte, Marmelo V. Abante, "Regulating the Digital State: A Narrative Review of Challenges, Issues, Impact, Innovations in E-Governance Taxation Systems, and Best Practices with a Case study of India"

²⁰¹⁸ Income Tax Act, 1961, Section 143(3A)

(NeAC) serves this notice under Section 143(2)²⁰¹⁹, and a response must be submitted within 15 days of receiving it. Assessments under Section 143(3)²⁰²⁰ and Section 144²⁰²¹ of the Act are referred to as assessments under this scheme. Selecting and assigning a case for the e-Assessment to an Assessment Unit at a specific Regional e-Assessment Centre is the responsibility of National e-Assessment. An automatic allocation system is used to carry of this assignment process.

After the case has been assigned by NeAC, the Assessment Unit may, if necessary, ask NeAC to seek any further data, supporting documentation, or proof from the assessee or any other individual, depending on the circumstances. The NeAC will acknowledge the request and send a notice to the person in question requesting the documents. The individual must reply to the notice within the allotted time. To conduct an inquiry and seek technical assistance, respectively, the unit may also ask NeAC to allocate such a case to the Verification Unit and Technical Unit. This request will be sent to the relevant Unit via an automatic allocation system. The relevant Assessment Unit will get the report from these Units from the NeAC.

The NeAC will send a notice under Section 144²⁰²² for making a best judgement assessment if the assessee does not respond to the notification. The relevant Assessment Unit will draft an assessment order under Section 144 if the assessee does not reply to the notice.

After reviewing all pertinent documents, the Assessment Unit will produce an assessment order and submit it to the NeAC. The NeAC may, after obtaining the draft assessment order.

- Forward to the Review Unit and ask for any recommendations; or
- Complete the assessment and deliver a copy of the order to the assessee, coupled with

a notice in the event of a penalty proceeding or a demand notice for the amount owed or refund determined by the assessment; or

- If the assessee modifies their income return, give them a show-cause notice. The Assessment Unit will then update the draft order in response to the assessee's response. The draft order will be finalized if the assessee does not reply.

After giving the assessee, a chance to determine whether the change will negatively impact them, the NeAC will finalize the updated order. The NeAC will immediately finalize the updated order if the suggested revision does not negatively impact the assessee. All electronic records must be transferred by the NeAC to the Assessing officer with jurisdiction either after the assessment is finished or at any point throughout the assessment process. The e-Assessment order may be appealed to the Commissioner (Appeals), who has jurisdiction over the Jurisdictional Assessing officer.

Under this Scheme, all correspondence and notifications will be sent via electronic means, such as email or the assessee's electronic filing portal. The notice must be sent by email if it is delivered to someone other than the assessee. Only the assessee's registered account (income tax E-filing portal account) may be used to reply to such letters or notices. The Information Technology Act's Sec.13²⁰²³ governs how the date and time of notice service are determined.

Apart from oral submissions by the assessee or his or her representative in response to a show-cause notice issued in line with the proposed amendment and recording of the assessee's remarks, no personal hearing is held under this scheme. Video conferencing is the only method used for this process.²⁰²⁴

²⁰¹⁹ Income Tax Act, 1961, Section 143(2)

²⁰²⁰ Income Tax Act 1961, Section 143(3)

²⁰²¹ Income Tax Act 1961, Section 144

²⁰²² Income Tax Act, 1961, section 144

²⁰²³ Information Technology Act, 2000, Section 13

²⁰²⁴ Sahana S, "Types of Assessment- Critical Analysis of Faceless Assessment Scheme", 2020, Supremo Amicus, Volume 23, www.supremoamicus.org

Role of Technology and AI in Assessment Proceedings

Complex tax computations, filing returns, and adhering to changing tax regulations are all made easier by automation. In India, e-invoicing, compliance checks, and GST reconciliation are now supported by digital tools. By analysing past data and spotting optimization opportunities, AI also helps with tax planning. Most medium-sized and large-sized Indian businesses have implemented AI-powered compliance technologies by 2025, which streamlined reporting timelines and decreased filing errors.²⁰²⁵

INFORMATIONAL PRIVACY: CONCEPTUAL UNDERSTANDING

Informational Privacy, also known as data privacy or data protection, refers to a person's right to manage the collection, use, and sharing of their personal data. The globe has been enchanted by recent advancements in AI worldwide. The right to privacy is the foundation of the idea of informational privacy.

Charles Fried, "Privacy" Fried contends that because privacy permits discretion in who one shares information with, it is essential for the preservation of close and interpersonal relationships.²⁰²⁶

Judith Jarvis Thomson, The Right to Privacy and contends that it is neither coherent nor unique as a legal or conceptual concept; neither is it different from other rights, such as property, nor does it have a single essential quality (coherence). Therefore, privacy is byproduct of other rights. If liberty is to be upheld, privacy must be acknowledged as a right.²⁰²⁷

Constitutional Recognition of Privacy

India's Constitution, which guarantees the rights to liberty and freedom under Articles 19(1)²⁰²⁸

²⁰²⁵ Dr. Kunjan Pandey, Dr. Raju Patel, "AI and Automation in Accounting: Implication for Commerce Professionals in India, The Rubrics Journal of Interdisciplinary Studies, Volume 8 Issue 1, January 2026.

²⁰²⁶ Charles Fried, The Nature and Importance of Liberty, HARVARD JOURNAL OF LAW & PUBLIC POLICY, vol 29, page no: 3-8, (2005)

²⁰²⁷ A M Bhattacharjee, equality, liberty and property under the constitution of India, eastern law house, New Delhi, p.55, (1997)

²⁰²⁸ The Constitution of India, Article 19(1)

and 21²⁰²⁹ respectively, is a pillar of freedom and liberty. According to certain interpretations, the rights outlined in Article 21 of the UN International Covenant on Civil and Political rights encompass more than just existing and surviving. Because it encompasses all those aspects that improve a person's life's worth, significance, and purpose, life is better. One of the aspects is the right to be left alone.²⁰³⁰ According to the Supreme Court, maintaining freedom depends on the right to privacy.²⁰³¹ Even though no article specifically addresses privacy or data protection, these rights have developed through declarations.²⁰³² In this digital age, privacy and data protection are becoming more important due to technological advancements

Privacy in the Digital Governance Era

Security and privacy of data are also important issues. Sensitive financial and personal data is handled by tax authorities, and the application of AI raises additional concerns about data breaches, unauthorized access, and information misuse. Strict controls over automated decision-making are required by GDPR and other data protection laws, but many nations lack comprehensive regulations to enforce these limits. The International Monetary Fund (IMF, 2021) states that strong legal protections, open procedures, and efficient stakeholder scrutiny are necessary to guarantee moral AI governance in tax systems.²⁰³³

The Indian Contract Act of 1872, the IT Act of 2000 (Ministry of Law, Justice and Company Affairs, 2000), the Privacy law enshrined in Art 21 of the Constitution, the IT Rules on Sensitive Personal Data on Information (Ministry of Communication and Information Technology,

²⁰²⁹ The constitution of India, Article 21

²⁰³⁰ Messrs. Samuel D. Warren and Louis D. Brandeis, the Right to privacy, HARVARD LAW REVIEW (1890).

²⁰³¹ Ram Jethmalani and Ors v. Union of India (2011) 8 SCC 1

²⁰³² Jayanta G Uday S, "Privacy and Data Protection Laws in India: A right-Based Analysis" Bharti Law Review, Vol. V, issue. 2, (Oct-Dec 2016), pp. 54-72.

²⁰³³ Mannan, K A Farhana, K. M, and Chowdhury, G.M.O.F.(2025), "e-Tax Filing and Assessment in the Age of Artificial Intelligence: A Global Perspective", Journal of Management Accounting, Governance and Performance, Forthcoming DOI...

2011), and other pertinent sectoral regulations issued by RBI, SEBI, IRDAI, TRAI, etc.²⁰³⁴

Overview of the Information Technology Act, 2000

One important piece of Indian legislation that regulates cyberspace and electronic commerce is the Information Technology Act, 2000 (ITA 2000). India's digital landscape has been significantly shaped by ITA 2000, which was enacted with the goals of tracking cybercrimes, boosting e-governance, and facilitating electronic commerce. When the IT Act of 2000 was introduced, India was embracing the digital age and technology was developing at a rapid pace. It became clear that a legal framework was required to regulate electronic transactions and safeguard digital assets. The Act was passed in light of India's determination to promote a strong e-commerce sector and conform to international technology standards. India's legal framework for digital signatures, cybercrimes, and electronic commerce was significantly shaped by the Information Technology Act, 2000.²⁰³⁵

Data safeguarding (Section 43A): The Act prescribes fines for data breaches and requires the safeguarding of sensitive personal data. The Information Technology Act, 2000 (IT Act 2000), as of latest amendment. Lacked Comprehensive provisions for data protection and privacy and instead concentrated on concerns pertaining to cybercrimes, digital signatures, and electronic commerce. However, privacy and data protection law were still on going. There were no explicit, thorough requirements pertaining to privacy and data protection in the IT act of 2000.

Rather, different legislative frameworks and guidelines were used to address privacy and data protection challenges. Data protection rules in India were significantly created by the Information Technology (Reasonable Security Practices and Procedures and Sensitive Personal

Data or Information) Rules, 2011. Guidelines for handling sensitive personal data were developed under these regulations. India was actively developing a specific Personal Data Protection Bill to properly handle privacy and data protection issues, and the act is currently in force.²⁰³⁶

Overview of the Digital Personal Data Protection Act, 2023

To address the growing concerns of data privacy and cybersecurity in an increasingly digitized environment, the Digital Personal Data Protection Act, 2023 (DPDP Act) is a significant development in the history of the Indian legal system. Cyberattacks, data breaches, and the exploitation of personal information are on the rise in India, where over 86% of all households are currently connected to the internet. The number of cybersecurity incidents in India increased from 10.29 lakh in 2022 to 22.68 lakh in 2024, underscoring the urgent need for strict data protection legislation and their efficient enforcement.²⁰³⁷ The development of an appropriate legal framework for collection, processing, and storage of personal data in accordance with other industry standards, such as the General Data Protection Regulation (GDPR), but applied to the Indian context, will be largely dependent on the DPDP Act, a law that supports citizen's privacy. India's digital revolution has accelerated over the past 10 years, increasing data collection, storage, and transit speeds across various platforms and creating significant privacy, misuse, and unauthorized access risks. Data privacy is currently a major topic in legal, social, and political discussions because of these issues being brought to the public's attention.

By giving people more control over their personal data and holding data processors accountable for violations of these rights, the DPDP Act aims to address these problems. Data

²⁰³⁴ Alok Shankar Pandey, Nisheeth Dixit, Mahim Sagar "Data Protection Framework for India", Telecom Business Review, A journal of Symbiosis Institute of Digital and Telecom Management. Page no:36 -46

²⁰³⁵ Vivek Sood, cyber laws simplified: the ultimate guide to cyber laws in India, 165-178, Notion Press, 2018.

²⁰³⁶ [A BRIEF OVERVIEW OF INFORMATION AND TECHNOLOGY ACT,2000 - Legal Vidhiya](https://www.legalvidhiya.com), <https://www.legalvidhiya.com>

²⁰³⁷ Press Information Bureau.(2025. October 8). Curbing cyber frauds in Digital India. Government of India. <https://www.pib.gov.in/PressNoteDetails.aspx> (last visited on March 5)

protection rules are becoming increasingly important on global scale. Other countries have tried to create comparable legal frameworks to protect people's data in the age of digital technology since countries like the European Union were the first to enact the General Data Protection Regulation (GDPR). The DPDP act, originally known as the Data Protection Bill, was developed in India and was influenced by both national digital protection issues and worldwide trends. Data protection was first organized piecemeal by the Indian government.²⁰³⁸

The DPDP act, which provides a comprehensive legislative framework to address the same, has now taken its place. The Puttaswamy Case (2017), which established privacy as a fundamental right, is one of the many facets of data protection in India that have already been debated.²⁰³⁹ Concerns over the data localization provision and exclusions for government bodies have been brought up in the most recent debates of the DPDP Act, both of which could compromise the Act's effectiveness.²⁰⁴⁰

Furthermore, worldwide comparisons especially with the GDPR show that while the DPDP Act shares some characteristics with international norms, it falls short in terms of data portability and the right to be forgotten.²⁰⁴¹

Even though the public has access to a wide range of AI applications, only a few nations mostly in the Global North have conducted exploratory study on the practical use of AI in tax administration, published tax policy formulation, or initiatives related to tax policy. Tax administrations are already using it in several sectors; most reported initiatives are related to tax compliance, which includes both fraud detection and tax evasion circumvention. AI has been used to analyse large datasets in tax compliance, particularly fraud detection,

automatically fraud detection, automatically shifting through the noise to find the few accounts where questionable activity can be identified for human inspection. Additional applications related to tax compliance that have been reported include the use of data analytics to identify corruption in tax audit procedures, chatbots for frequently asked questions, sophisticated forecasting models to predict the yield of tax policies or tax compliance, especially around major events, and scraping and analysing social media datasets to identify noncompliance.

The remaining AI applications, which aim to improve internal efficiency and or securely manage key internal data, fall under the broader yet crucial area of operational and knowledge management. Expert humans can devote more time to more delicate and sensitive jobs by automating the data administration and internal annotation process.²⁰⁴²

CONCLUSION

This article attempted to focus on the question of whether India has used Artificial Intelligence in its tax administration specifically the Faceless Assessment Scheme and the informational privacy and algorithmic accountability of the overall digital tax surveillance system meet the constitutional and statutory provisions of procedural fairness. The results of the study acknowledge no easy conclusion: AI-based tax administration in India has brought significant and quantifiable efficiency, corruption mitigation, and treatment consistency; and has also brought forth critical and currently under-addressed issues with taxpayer rights that must be legislated, adjudicated, and institutionalized.

The legislative review confirms that the IT Act, 2000 and the DPDP Act, 2023, although serving as a significant step in the data protection process in India, lack constitutionally sufficient protection of taxpayers subjected to AI-driven

²⁰³⁸ Malhotra, C. & Malhotra, U. (2024). "Putting Interests of Digital Nagriks First: Digital Personal Data Protection (DPDP) Act 2023 of India". *Indian Journal of Public Administration*, 70(3), 516-531

²⁰³⁹ Jain, A. & Anand, A. (2025). Tracing the constitutional Journey of Data Privacy in India: From Puttaswamy to the Draft DPDP Rules, 2025, SSRN

²⁰⁴⁰ Ahmed, S., & Nasir, M. Digital Personal Data Protection Act, 2023: A critical Analysis. *Indian studies review*, 1

²⁰⁴¹ Manindra Singh Hanspal, "The Digital Personal Data Protection Act, 2023: Key Provisions, Issues, and Future Directions", *Delhi Metropolitan Education Journal of Law*, Volume 6, Issue 2 (2025)

²⁰⁴² Vamsee Pamisetty, "Leverage Artificial Intelligence for Strategic Decision-Making in Tax Administration and Policy Design", *International Journal of Innovative Research in Electrical, Electronics, Instrumentation and Control Engineering*, Vol. 11. Issue 12, December 2023.

assessment and data processing. The key gaps which include the lack of a right to explanation, the wide-ranging exemptions under government in the DPDP Act, the lack of independent regulatory oversight of the use of AI in tax matters, and the lack of pre-deployment impact assessment measures are a systemic failure to apply data protection principles to the most significant use of government data power.

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