# DIGITAL OVERREACH IN GST: DIGITIZED TAXATION AND CONSTITUTIONAL GUARDRAILS FOR TAXPAYER RIGHTS

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**ABSTRACT**

The introduction of the Goods and Services Tax Act, 2017, set the stage for the paradigm shift in taxation in India with technology driven framework. This included systems such as Goods and Services Tax Network (GSTN), automated compliance models and e-invoicing. As this progress aimed to streamline supervisory systems, improve efficiency and restrict tax evasion, it parallelly resulted in a key concern, which was the emergence of "digital overreach", by which algorithm-driven decision process undermines the taxpayers' procedural rights lacking proper legal safeguards and judicial oversight. In the light of these circumstances, the study focuses on analysing whether the growing reliance on opaque digital systems for issuing notices, blocking input tax credits, and conducting risk-based assessments are aligned with the guarantees of equality and freedom of trade under Articles 14 and 19(1)(g) of the Constitution of India. It also aims to analyse the constitutional consequences of such algorithmic tax administration with respect to procedural due process and principles of natural justice. The study adopts doctrinal methodology with an interdisciplinary approach, integrates analysis of constitutional provisions and judicial precedents with insights of the working of digital tax model. Landmark judgements are examined to evaluate the applicability of established principles of fairness, reasoned decision-making, and proportionality in the context of algorithmic governance. The paper discusses that automated decision-making within the GST framework usually works through ambiguous and arbitrary models, which leads to undermining the essentiality of clear and purposeful opportunity to be heard. It further opines those existing standards of judicial review stands limited in resources to deal with the complexities presented by technology-driven administration.

The study observes that the lack of transformed judicial scrutiny in the domain creates a major constitutional gap, where efficiency in tax administration risks dominating fundamental procedural protections. It reveals that there is a vital need to realign judicial review by adopting protocols such as mandatory disclosure of reasons in automated actions, the integration of human oversight in critical decisions, and the strengthening of procedural

guarantees for taxpayers.

**Keywords:** GST, Judicial Review, Algorithmic Governance, Natural Justice, Due Process, Taxpayers' Rights.

## I. INTRODUCTION

The landmark 101st Constitutional Amendment Act, 2016[2] introduced the Goods and Services Tax (GST) in India, which subsequently enabled the operation of the Central Goods and Services Tax Act, 2017.[3] This marked one of the dynamic shifts in the indirect taxation regime in India. Designed in a way that is exhaustive as well as precise fiscal reform in the post-independence era. GST aimed to deconstruct the prior complex system of central and state taxes, bringing in with much structured and unified system.[4]

This framework focused on the consolidation which was necessary to enhance revenue efficacy, remove the cascading effect in taxation and facilitate in establishing a national market which is unified.[5] The Goods and Services Tax Network (GSTN) created a platform where these objectives were accomplished through the comprehensive use of digital infrastructure.[6]

It is entrusted for handling and overseeing the entire IT ecosystem of the GST operations, which includes return filing, facilitating end to end online compliance and data reconciliation.[7] GSTN acts as the tech backbone of the GST operations.

After the implementation of GST system in India, it has resulted in evident improvements with respect to standardization and enhancing revenue.[8] It has improved compliance framework through the services like e-invoicing and automated return population, which has



[2] The Constitution (One Hundred and First Amendment) Act 2016
[3] The Central Goods and Services Tax Act 2017
[4] M Govinda Rao, 'Goods and Services Tax in India: Progress, Performance and Prospects' (2019) 54 *Economic and Political Weekly* 35.
[5] Michael Keen, 'The Anatomy of the VAT' (2013) 4 *National Tax Journal* 423.
[6] OECD, 'Tax Administration 3.0: The Digital Transformation of Tax Administration' (2020) *OECD Tax Journal*.
[7] Goods and Services Tax Network, *'Goods and Services Tax Portal'* https://www.gst.gov.in
[8] M Govinda Rao, 'Goods and Services Tax in India: Progress, Performance and Prospects' (2019) 54 *Economic and Political Weekly* 35.

also restricted ways for evading tax. This resulted in increased reliability in audits.[9] As the dependence on these highly technological based facilities has increased extensively over the years, it is noteworthy to observe what has increased as a concern parallelly. In many ways, the centralized nature of the algorithmic decision-making framework in the GST operations through its tech logic has taken over the conventional and established standards of legal reasoning.[10] This transformation is concerning as it gives out the notion of limiting the procedural safeguards like the fundamental legal rules which have been recognised as integral to the constitutional governance like the principles of natural justice.[11]

The issue gains its significance when three most important aspects are observed.

Firstly, there is the concern with respect to transparency. The information and understanding about how automated systems function and how these systems come to a conclusion that may be contrary to the taxpayers' interests.

Secondly, the proportionality question arises as to if in case results through the direct and automated rule application aligns with the facet of rational nexus with the type and significance of the taxpayer conduct. The principle in which the administrative actions must be proportional in nature and should be based on the situation is often devalued by the rigidity involved in the automated systems which can increase the risk leading to results in mismatch.

And the third aspect and the most important is that if the alignment of the frameworks integrated algorithmic systems with guarantees embedded in Articles 14 and 19(1)(g) of the Constitution of India. This concern again becomes significant through the possible attenuation of fundamental legal principles like the principles of natural justice, especially with respect to right to be heard and the aspect of explainability.

In the very same context of tech-driven governance and administration, there is limited transparency in which the automated processes work. This can affect the individual's capacity to comprehend the rationale behind a decision or the ability even to actually challenge it. It can affect the procedural fairness to just a formality when there is no reasoning. Such

[9] OECD, 'Tax Administration 3.0: The Digital Transformation of Tax Administration' (2020) *OECD Tax Journal.*

[10] Cary Coglianese and David Lehr, 'Regulating by Robot: Administrative Decision Making in the Machine Learning Era' (2017) 105 *Georgetown Law Journal* 1147.

[11] *A K Kraipak v. Union of India* (1969) 2 SCC 262; Danielle Keats Citron, 'Technological Due Process' (2008) 85 *Washington University Law Review* 1249.

instances can hinder the legitimacy and affect the accountability.[12] These can affect the foundational and fundamental facets of the legal system itself.

With this context, the paper analyses that the present framework that exists with the integration of digital architecture under the GSTN is observable as "digital overreach", as it overrides the procedural safeguards that are essential with the narrative of efficiency and effectiveness.

## II. THE GOODS AND SERVICES TAX NETWORK (GSTN) ARCHITECTURE

### 2.1 The integration of algorithm and automation

The Goods and Services Tax Network (GSTN) work with massive data system and comprehensive infrastructure where it processes the operational datasets constantly. Its main functions include tech-enabled reconciliation, here the invoices are shown by the suppliers in their respective GSTR-1 returns, where these are cross checked with the corresponding input tax credit (ITC) claims presented in the user's GSTR-2B statements.

When there is a mismatch or gap or error, whether it is because of supplier's non-compliance or documentation inconsistency or systemic inaccuracies, the platform has been designed in a way if there no regular human oversight, the system immediately flag or refuse the ITC claims.

This highlights the focus on efficiency over a tailored oversight or context-based insight, this indicates that the platform structure is modelled in a way where an embedded design preference exists. The structure is automated with the assumption that when there is an instance of mismatch, it is to be presumed as the prima facie evidence of document inconsistency. But in reality, the reasons for the inconsistency or irregularity can be multiple.[13] This can include platform glitches, technical mishaps, genuine errors, unforeseen circumstances faced by suppliers or logistical reasons.[14]



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[12] Cary Coglianese and David Lehr, 'Regulating by Robot: Administrative Decision Making in the Machine Learning Era' (2017) 105 *Georgetown Law Journal* 1147.
[13] *Samay Alloys India Pvt Ltd v. State of Gujarat* (2022) SCC OnLine Guj 279.
[14] *Adfert Technologies Pvt Ltd v. Union of India* (2020) SCC OnLine P&H 361.

### 2.2 Risk-Based Analysis and The Lack of Transparency in Selection

Apart from automated invoice matching architecture, the framework also adopts risk-based digital and logical approaches for the purpose of investigation, audit, analysis and also to classify taxpayers for the same. The reasons and parameters for such selection mechanisms are not disclosed, as they are usually flagged as administratively sensitive information. It is important to note that the Central Goods and Services Tax Act, 2017 or even its related legislations do not mandate or even mention about the transparency as a requirement with respect to these criteria.

The ambiguity and lack of transparency that exists actually signifies major constitutional aftermath. It is also important to highlight that if in case a taxpayer is constraint or subjected to compliance, whether this decision was based on the ground of rational or objective reasoning or if it is the result of algorithmic error or unreasonable classification, the individual will not be allowed to access their GSTN system. The equity principle is affected as there is lack of standards. Also, it highlights that the process, from the point of view of individual is unreasonable and inconsistent.

As a result, this poses the risk of what is generally understood as data driven and well thought administrative operation, will be just lack of transparent and unaccountable digital architecture.

### 2.3 Auto-Generated Notices and the Lack of Answerability

The framework extensively uses the feature of auto-generated notices, like for the deferred filing of returns, presumed noncompliance, data inconsistencies. These notices are template based and uniform design. It lacks reasoning, context and explainability. The criteria on which the decision was taken will also be not notified. This action is conveyed through just a notification of system-flagged consistency and not as a duly reasoned order.[15]

The Hon'ble Supreme Court, in the case *S. N. Mukherjee v. Union of India*,[16] emphasised that the obligation to provide reasons includes the fundamental aspect of fairness.

In this context, the framework that GSTN is following stands contrary to the well-established principle of answerability.

[15] *Aggarwal Dyeing and Printing Works v. State of Gujarat* (2022) SCC OnLine Guj 1403.
[16] *S N Mukherjee v. Union of India* (1990) 4 SCC 594.

The template based auto generated notices do not disclose the reason behind the pointed out issue, this lacks the constitutional standard, which underestimates the aspects of accountability, explainability and fairness.

## III. ARTICLES 14 AND 19(1)(g)

### 3.1 Article 14

One of the most significant rights which is guaranteed by the Constitution of India is equality before the law and equal protection of the laws – Article 14. This Article has been comprehensively interpreted by the Hon'ble Supreme Court to prohibit any arbitrariness in the State action. In the *E. P. Royappa v. State of Tamil Nadu*,[17] the Court highlighted the foundational principle that "arbitrariness is antithetical to equality."

This indicates that any action taken by the State must not lack rational or must not lack fairness.

This was reinforced in the landmark judgement of *Maneka Gandhi v. Union of India*,[18] where the Hon'ble Court held that any procedure established by law must satisfy the requirements of fairness, reasonableness and non-arbitrariness.

In the context of tax administration that is integrated with an algorithmic and automated system, the above-mentioned cases present a contrary Constitutional view. The contrary outcomes which are the result of automated and algorithmic systems in the activities, for instance, like the refusing the ITC, without disclosing the reason or any logic or lack of human oversight results in procedural unreasonableness. The lack of transparency and flexibility of the process limits the outcome. This can further deprive the taxpayer of any rationale on which the action was based on.

As in the case of *Om Kumar v. Union of India*,[19] where the Hon'ble Supreme Court adapted the Doctrine of Proportionality, reemphasizes the same. The measures taken by the authorities must be reasonable to the very objectives that they were set out to achieve. It focuses on restricting the imposition of disproportionate or overbearing burdens.



[17] *E. P. Royappa v. State of Tamil Nadu* (1974) 4 SCC 3; AIR 1974 SC 555
[18] *Maneka Gandhi v. Union of India* (1978) 1 SCC 248; AIR 1978 SC 597.
[19] *Om Kumar v. Union of India* (2001) 2 SCC 386

### 3.2 Article 19(1)(g)

Another significant rights which are guaranteed by the Constitution of India is freedom to practise any profession or to carry on any occupation, trade or business, subject to only reasonable restrictions, Article 19(1)(g).

The Hon'ble Supreme Court has time and again emphasised that these restrictions are to be both considerable and must satisfy procedural reasonableness. It is important to observe that the impact of tech driven tax administration within the GST framework, in this context, is immediate as well as evident. When the automation blocks ITC or flags it, the taxpayer will be given no opportunity to be heard at all. This directly affects the business that they are into, as the concept of ITC plays a major role as working capital for cast enterprises, this very restriction can lead to concerns like liquidity issue. It has to be observed that these scenarios arise due to refusal, a refusal which is not because of any actual transaction but from the secondary factors like technical glitch. And the aftermath, it directly restricting the business without justification, in the light of Article 19.

In the Rule of 86A of the Central Goods and Services Tax Rules, 2017, empowers the authorities to restrict ITC if there are "reasons to believe" that these credits are exploitatively obtained, exempts this concern. Whereas, the judicial review of this provision has highlighted the requirement of following the principles of natural justice, specifically the necessity of right to be heard.



## IV. LIMITATIONS OF THE JUDICIAL REVIEW

Though judicial interventions are very important, the actual standard remedy for the aggrieved remains actually inaccessible, as major segment of taxpayers are specifically small enterprise owners. The judiciary, with respect to judicial review already works in a limited system. So, emphasising on the relief only after a mishap and also only to those who actually approach the Courts, having such resources and ability, makes this response driven. This can majorly contribute to the aspect of accessibility.

The judicial review is affected by the informational asymmetry. It is known that Courts decide cases on the basis of the information which is presented before them, in the present scenario, there are many aspects which acts as limitations, like the undisclosed parameters based on which the decision was taken, lack of transparency in the automated process and the reasons behind a decision. This evidently reduces the effectiveness of judicial review. At the outset, the Courts can adjudicate on the unreasonableness in the decisions, but challenge posed by the algorithm and automation is much higher and complex in nature.

It is noteworthy that the number of cases related to GST highlights a consistent structural and its digital framework concern. The writ jurisdiction of the High Courts is impactful. It is to be considered that these are not designed to implement or restructure any tech driven systems. Therefore, effective solutions are essential which are exhaustive in nature through regulations from the legislature and executive scrutiny, and not case specific.

## V. COMPARATIVE PERSPECTIVES

When it is observed, the analysis of comparing the various international systems around the world, it can be said that the challenges posed by algorithmic integration into administration and governance is not anything new and it is not that is cannot be resolved.

For instance, the notable and comprehensive, European Union's General Data Protection Regulation (GDPR),[20] recognizes a right against decisions that are only based on algorithmic and automated processing decisions which have serious implications, which includes the aspects of transparency and human oversight.

Whereas in the case of United States, in order to expand the automated and algorithmic based outcomes in policy frameworks, the interpretation of the same is based on the aspects of explaining the decision taken with respective to administration.

On the other hand, in the United Kingdom, there is an emphasis within the administrative framework that focuses algorithmic and automated decision-making processes with respect to justification and human oversight.

From these above-mentioned examples it can be highlighted that answerability, transparency, accountability and unbiased process are the most essential facets and cannot be compromised in the name of technology and digital efficiency and effective operations.

In the Indian perspective, the Indian Constitution is an expansive framework which as well includes Articles 14, 19 and the emphasis given to natural justice is noteworthy, this highlights that it is well supported to contextualise the guardrails too.

[20] Regulation (EU) 2016/679 of the European Parliament and of the Council (General Data Protection Regulation).

## VI. SUGGESTIONS

The study presents several aspects where changes are very essential. The main concern about the transparency has to be addressed with respect to the algorithmic process. The way in which risk-based option, input tax credit limitations and aspects which enables oversight must be transparent where the taxpayers can understand and address the measures that is taken.

There must be human oversight which presents meaningful actions in the important decisions. Algorithmic indications which are significant that lead to critical consequences should be followed by human verification, as this can check the aspects to be considered before any serious action is taken. This results in mutual obligation and consideration.

For the grievances which is the result of system errors, algorithmic bias and portal glitches, there must be an easy and efficient remedy that is operational in nature. A dedicated system of reviewers can be instituted with defined frameworks and functions which can help in the navigation of alternatives rather than moving to Courts at the very first instance.

The concern with the auto-generated notices needs to be addressed effectively. These template-based notices which are designed to be same for all the cases by not considering any context needs impactful changes. These notices are to be redesigned in a way where it includes material facts, reasons based on which the action is taken and its aftermath. This can help the taxpayers to have the context in mind and the further steps that is to be taken where they can exercise their right to be heard.



## VII. CONCLUSION

The integration of technological systems like these into essential frameworks like GST signifies the advancement in administration and governance by modernising it. The way in which GSTN has been working by processing massive amounts of data is undoubtedly the indication of enhanced efficiency and advanced improvements in the tax oversight in India.

But the efficiency cannot be justified at the cost of constitutional guarantees. It can be clearly observed through the repeated pattern of judicial oversight across Courts which also shows the conflict between fundamental legal rules and algorithmic governance.

When there are no transparency, reasoning and proportional guardrails in the algorithmic decision-making, it becomes arbitrary in nature.

Fundamental legal aspects integrated in the Articles 14 and 19(1)(g) which is interpreted alongside the principles of natural justice, the conditions posed by algorithm becomes inconsistent. Regardless of the integration of advanced technological systems, it places the duty upon the State to ensure that governance and administrative frameworks are aligned with fairness, substantiated decision making and case specific justice.

The reforms that are essential here indicates basic constitutional requirements and digital governance. And if such reforms are not given the importance it needs to be given, it may amount to algorithmic opacity overriding the basic essential legal accountability which can only result in increasing the risk for the system as a whole and where constitutional protection becomes important only when Courts step in. This can lead to inconsistency with the very concept of Constitutional Democracy guided by the aspects like Rule of Law.