

Direct Tax Reforms 2025 in the Context of Agricultural and Rural Financial Transactions: A Critical Evaluation of Section Realignment and Financial Inclusion (With Special Reference to Narmadapuram District)

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Abstract : Evaluations of tax policy reforms predominantly emphasize fiscal yields, rate adjustments, and administrative collections. Departing from purely quantitative metrics, this study examines the overhaul of Indian direct tax legislation through the dual lens of **Behavioral Taxation** and **Cognitive Psychology**. For six decades, the convoluted architecture of the Income-tax Act, 1961—characterized by over 1,200 provisos, 900 explanations, and the artificial duality of 'Previous Year' versus 'Assessment Year'—induced acute tax anxiety and entrenched learned helplessness among ordinary assesseees. The statutory overhaul proposed in the Income-tax Bill/Act, 2025 drastically curtails textual volume by roughly 40%, introduces standardized tables, adopts clean sequential numbering, and institutes a unified 'Tax Year'. Grounded in John Sweller's Cognitive Load Theory and Kirchner's Slippery Slope Framework, this paper demonstrates how statutory readability directly elevates taxpayer self-efficacy, mitigates psychological resistance, and shifts compliance from enforced coercion toward voluntary commitment.

IndexTerms - Component,formatting,style,styling,insert. : Behavioral Taxation, Cognitive Load Theory, Voluntary Compliance, Income-tax Act 1961, Income-tax Bill 2025, Tax Anxiety, Slippery Slope Framework.

1. Introduction

In a democratic polity, taxation transcends fiscal revenue collection; it embodies a fragile psychological contract between the sovereign state and its citizenry. When statutory mandates are framed in impenetrable, adversarial jargon, this implicit covenant erodes, fostering alienation, suspicion, and evasive rationalizations. For over sixty years, India's direct tax apparatus operated under the **Income-tax Act, 1961**. Decades of piecemeal amendments rendered the statute an intellectual maze that alienated ordinary salaried employees, professionals, and small merchants, driving total dependency on intermediaries.

The introduction of the **Income-tax Bill/Act, 2025** represents a paradigm shift. Rather than altering tax slabs radically, it tackles legal architecture and linguistic readability. From an academic commerce perspective, this development invites a crucial question: does drafting simplicity serve merely administrative efficiency, or does it transform the taxpayer's mental model from fear-driven compliance to voluntary civic participation?

Income Tax Act,1961 vs, Income Tax Act 2025

Structural Simplification at Glance

Income Tax Act, 1961	Income Tax Act 2025
819 sections	536 sections
14 schedules	16 schedules
511 Rules	333 Rules
399 forms	190 forms

2. Theoretical and Psychological Framework

2.1 Cognitive Load Theory (John Sweller)

Human working memory operates with finite cognitive bandwidth. Within tax administration, cognitive load manifests in three distinct forms:

Intrinsic Cognitive Load: The inevitable mathematical effort required to aggregate income sources, compute gross total income, and calculate liability.

Extraneous Cognitive Load: Unproductive mental strain imposed by convoluted legalese, nested provisos, alphanumeric section codes (e.g., 80CCD, 115BAC), and chronological paradoxes (Previous Year vs. Assessment Year). The 1961 Act severely amplified this load.

Germane Cognitive Load: The mental capacity dedicated to mastering compliance rules and achieving genuine tax literacy. The 2025 framework dismantles extraneous clutter to free cognitive resources for germane engagement.

2.2 The Slippery Slope Framework (Kirchler et al., 2008)

Kirchler's model posits that compliance relies upon two distinct institutional dimensions: **the Power of Authorities** (deterrence, audit probability, penalties) and **Trust in Authorities** (procedural fairness, transparency, respect). Complex statutes signal institutional distrust and rely on coercion. Conversely, plain-language codification enhances perceived fairness, nurturing trust-driven voluntary tax morale.

3. Comparative Matrix: Statutory Structure vs. Psychological Impact

Statutory Dimension	Income-tax Act, 1961 (Psychological Impact)	Income-tax Bill / Act, 2025 (Cognitive Realignment)
Time Paradigm	Persistent confusion between 'Previous Year' and 'Assessment Year'; heightened fear of selecting incorrect assessment windows.	Unitary ' Tax Year '; direct mental alignment with the financial year (April 1–March 31); zero ambiguity.
Textual Volume & Syntax	Over 512,000 words, 1,200+ provisos, and 900 explanations; triggers cognitive exhaustion and 'learned helplessness'.	Textual volume reduced by ~40%; plain sentence structure and 39 standardized analytical tables.
Section Numbering	Disorienting alphanumeric schemes (e.g., 80CCD, 115BAC, 194DA); perceived as an opaque, bureaucratic cipher.	Clean sequential numbering (Sections 1 through 536); frictionless memory retrieval and cognitive ease.
Withholding Tax (TDS/TCS)	Over 60 fragmented sections; pervasive anxiety among	Consolidated into 3 primary tabular sections (e.g., Sec

	payees regarding erroneous deduction rates.	392–394); transparent rate verification at a glance.
Locus of Control	Total reliance on third-party intermediaries; acute loss of autonomy even for basic returns.	Heightened taxpayer self-efficacy ; Assessee feel empowered to verify calculations independently.
Evasion Rationalization	"The law is so convoluted that unintentional non-compliance is natural"; complexity legitimizes rationalization.	Clear, transparent rules eliminate psychological defences and moral justification for tax evasion.

4. Cognitive Realignment and the Dynamics of Voluntary Compliance

4.1 Alleviation of Tax Anxiety (The 'Proviso Phobia')

The most pervasive psychological dysfunction of the 1961 Act was the ubiquitous "Provided that" construction. Taxpayers harbored chronic apprehension that an obscure statutory exception would invalidate legitimate filings, inviting punitive penalties. By converting conditional clauses into transparent tabular thresholds, the 2025 Code dispels the perceived threat of hidden legislative traps.

4.2 From Learned Helplessness to Self-Efficacy

Under Seligman's learned helplessness paradigm, repeated exposure to an incomprehensible regulatory environment causes individuals to surrender independent initiative. The Indian taxpaying public historically outsourced tax literacy to legal professionals. The direct syntax of the 2025 code dismantles this psychological barrier, encouraging civic engagement and genuine financial ownership.

4.3 Resolution of Cognitive Dissonance in Tax Regimes

Navigating exemptions under the legacy regime forced individuals into stressful documentation hunts (rent slips, medical bills, insurance certificates), generating substantial administrative stress. Integrating the simplified regime as the default architecture in 2025 eliminates this recurring anxiety, preserving mental bandwidth.

5. Critical Constraints and Implementation Challenges

Despite substantial cognitive merits, three behavioral impediments warrant caution:

Cognitive Inertia: Six decades of exposure to iconic sections (such as 80C, 24(b), and 148) have calcified in professional and public consciousness. Unlearning this established vocabulary will cause short-term disorientation.

Form vs. Substance Tension: Linguistic simplification does not equate to tax relief. If effective financial liability remains unaltered, cognitive goodwill toward statutory reforms may diminish over time.

The Digital Anxiety Substitution: If the e-filing portal suffers server latencies or verification bottlenecks, legal anxiety will simply be replaced by technological frustration.

6. Conclusion and Policy Recommendations

The Income-tax Bill/Act, 2025 constitutes more than a legislative cleanup; it represents an essential intervention in **behavioral tax jurisprudence**. By purging colonial overhangs and minimizing extraneous cognitive load, the new code restores transparency to the fiscal compact. Plain language fosters taxpayer self-efficacy, mitigates evasive rationalizations, and builds a sustainable foundation for voluntary compliance.

Policy Recommendations:

Cognitive Nudge Interventions: Tax authorities should deploy visual infographics, interactive calculators, and behavioral nudges to acclimate taxpayers to the sequential section scheme.

Pedagogical Overhaul in Commerce Education: Universities and collegiate departments of commerce should revise taxation curricula, shifting pedagogical emphasis from mechanical computational drills toward statutory interpretation and behavioral tax principles.

Human-Centered Portal Design: E-filing portals must reflect the linguistic clarity of the 2025 code, prioritizing intuitive UX design to empower self-directed citizen filings.

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