Important Issues of the Day

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- Fireandfury – Page No. , GS 2
- Losing the way – Page No.12 , GS 3
- AI-powered tax governance – Page No.12 , GS 3
- Free Movement Regime – Page No.16 , GS 2
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- JalJeevan Mission – Page No.18 , Prelims
- Stockholm Water Prize 2026 – Prelims

Page No.16 , GS 2

Unfenced border with Myanmar in focus after arrest of seven foreigners

Vijaita Singh
NEW DELHI

Amid the recent arrest of seven foreign nationals, including six Ukrainians and a U.S. citizen, who allegedly crossed illegally into Myanmar via Mizoram to train armed ethnic groups in weapons handling and drone operations, data show that 43 km of the total 1,643 km border with Myanmar has been fenced so far.

The National Investigation Agency (NIA) has accused the foreigners of importing drones from Europe to Myanmar via India for the use of ethnically armed groups (EAGs) in the country. The government recently informed a parliamentary panel that to check illegal migration, trafficking and insurgent activities along the Myanmar border, "coordination with local communities, Myanmar Army and associated security agencies is maintained" and a "joint counter-drone mechanism with monthly reporting has also been instituted".

The fencing project will include gates that record biometrics and photographs of people who cross the border. FILE PHOTO

The fencing project, which includes installation of gates that record biometrics and photographs of people who cross the border, has faced resistance as people on either side share deep ethnic, social and cultural ties.

As many as 43 designated exit and entry gates were proposed to regulate the movement of people and biometrics and gate passes were introduced.

However, over the past two years, the number of gates has declined to 38 and only 20 are now functional, a government source said.

According to latest data provided by the Ministry to a Parliamentary Standing Committee on Home Affairs, of the total 1,643 km of fencing approved by the government, 390.39 km has been sanctioned and only 43.75 km of fencing has been completed so far; 346.64 km is currently under construction.

India and Myanmar share an unfenced border and have a unique arrangement called the Free Movement Regime (FMR). While Union Home Minister Amit Shah announced in February 2024 that the FMR was being scrapped, it was only regulated and free movement of people – without visas and passports on either side of the unfenced border – was restricted to 10 km from the earlier 16 km.


Arunachal Pradesh
Assam
Nagaland
BHUTAN
Meghalaya
Manipur
RIKHAWDAR
KHAMPAT
CHINA
Moreh
SHAN STATE
Mizoram
Zowkhathar
MYANMAR
BANGLADESH
CHIN STATE
LAOS
RAKHINE STATE
KAYIN STATE
NAYPYIDAW
Bay Of Bengal
THAILAND

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Mains Question

Q1. *Myanmar is central to India's Act East Policy and Northeast connectivity.* Discuss the strategic importance of Myanmar for India. *(250 words)*

प्र श्न 1 .

मय्मांयरभयरतकीएक्टईस्टनीततऔरउत्तर-पूर्वीसपांककयकेंद्र है।

भयरत के लिए मय्मांयर के सयमररक महत्व पर चचय ककीजिए। *(250 शब्द)*

Page No.18 , Prelims

24 States, U.T.s set aside funds for new rural jobs scheme

They use past expenditure under the MGNREGA as the baseline as the Centre is yet to notify the formula for determining the State-wise normative allocations under the VB-GRAM (G) Act

Sobhana K. Nair
NEW DELHI

With the Centre yet to notify the formula for determining State-wise normative allocations under the Viksit Bharat Guarantee for Rozgar and Ajeevika Mission (Gramin) Act, 2025, at least 24 States and Union Territories have nevertheless earmarked funds for the new rural employment programme.

Under the Act, States must bear 40% of the scheme's expenditure, except in the northeastern and hilly States and UTs such as Jammu & Kashmir, which receive a relaxation.

Union Rural Development Minister Shivraj Singh Chouhan informed the Rajya Sabha on Tuesday that 27 States and UTs are making provisions for the new scheme, though he read out allocations for only 24 of them, amounting to a little over ₹31,000 crore. The Union Budget for 2026-27 has set aside ₹95,652 crore as the Centre's share.

Under the Act, States must bear 40% of the scheme's expenditure, except in the northeastern and hilly States. AFP

The Union Budget for 2026-27 has set aside ₹95,652 crore as the Centre's share

Responding to criticism that States may struggle to shoulder their share of the financial burden, Mr. Chouhan highlighted that even Congress ruled Himachal Pradesh, despite its opposition to the Act, had allocated ₹143 crore. Karnataka, he noted, was the only major outlier. "Many members asked where States will find the money. I am only addressing their anxiety," he said.

A key pending element is the Centre's formula for normative allocation. Section 4(5) of the Act mandates that the Union government determine State-wise allocations annually based on "objective parameters".

The clause aims to ensure equitable distribution, following complaints from economically weaker States that they receive disproportionately lower funding.

In the absence of clarity, most States have used their past expenditure under the MGNREGA as the baseline while also accounting for the additional 25 workdays promised under new Act, which extends guaranteed employment from 100 to 125 days. For instance, Rajasthan has spent over ₹7,597 crore under the MGNREGA so far, this financial year. Its 40% share comes to roughly ₹3,038 crore. The State, keeping a margin for the expanded work guarantee and anticipating uncertainty in Central allocations, has set aside ₹4,000 crore.

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What makes Viksit Bharat-G RAM G better than MGNREGA?

MGNREGA	Viksit Bharat-G RAM G
100 days of wage employment per rural household	125 days of wage employment per rural household
Multiple and scattered categories of works with limited strategic focus	4 clearly defined priority areas focusing on water security, rural infrastructure, livelihoods and climate resilience
Center bears unskilled wage costs, states bear unemployment allowance	State cost-sharing for wages, 60:40 for most states, 90:10 for certain special-category regions
No explicit statutory "pause window"	States can notify up to 60 days in a FY when work will not be executed
Demand based funding with unpredictable allocations	Normative funding ensuring predictable budgeting while protecting the employment guarantee
Gram Panchayat planning is central	Integrates institutionalised convergence and infrastructure planning

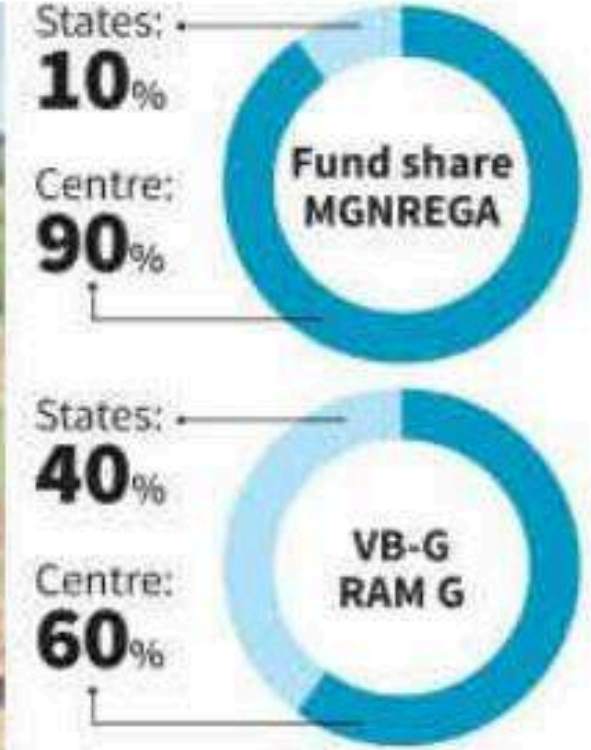
Source: Ministry of Rural Development

Framework change

The government has circulated the VB-G RAM G Bill to MPs, framing it as legislation to 'establish a rural development framework aligned with the national vision of Viksit Bharat @2047'

Shifts from MGNREGA to VB-G RAM G Bill

- Rights-based employment guarantee → **Supply-driven employment and livelihood scheme**
- 100 days of wage employment → **125 days**
- Flexible budget → **Budget cap**
- Year-round → **Seasonal pause allowed**



*North-Eastern, Himalayan States, and J&K retain 90:10 ratio

Page No.18 , Prelims

Lack of 'sustainable water sources' will thwart Jal Jeevan Mission: panel

Jacob Koshy
NEW DELHI

A parliamentary committee has said that the objectives of the Jal Shakti Ministry's flagship ₹8.69-lakh-crore Jal Jeevan Mission (JJM) – that aims to provide consistent and potable water supply to all rural households – will remain "unfulfilled" if sustainable sources of water supply are not found.

This comes after an official in the Department of Drinking Water and Sanitation – an arm of the Ministry – told the committee that despite taps under the scheme having been installed at many places, there was an "...issue of water availability due to shortage of sources" and that in some places "...water sources were being exhausted within a year or two".

This prompted the committee to observe that "...the objective of providing water for the next 25-30 years under JJM will remain unfulfilled due to lack of source sustainability". Sources include rivers, lakes, ponds or any natural pool.

The programme, originally envisioned to achieve 100% coverage by 2024, has been stuck at around 81% since 2025. K. MURALI KUMAR

The committee recommended that the Ministry implement "source to tap" schemes, under which the entire chain of water supply such as the source of water, tank, supply, were accounted for. There are 6.83 lakh sanctioned schemes under the JJM.

The committee "note(d) with concern" that there was no information from the States on how many of these schemes were "source to tap". The panel said it was "...of the view that to maintain a long-term steady supply of safe drinking water, source sustainability is of paramount importance otherwise assets created under JJM will come to naught after extinguishment of available sources".

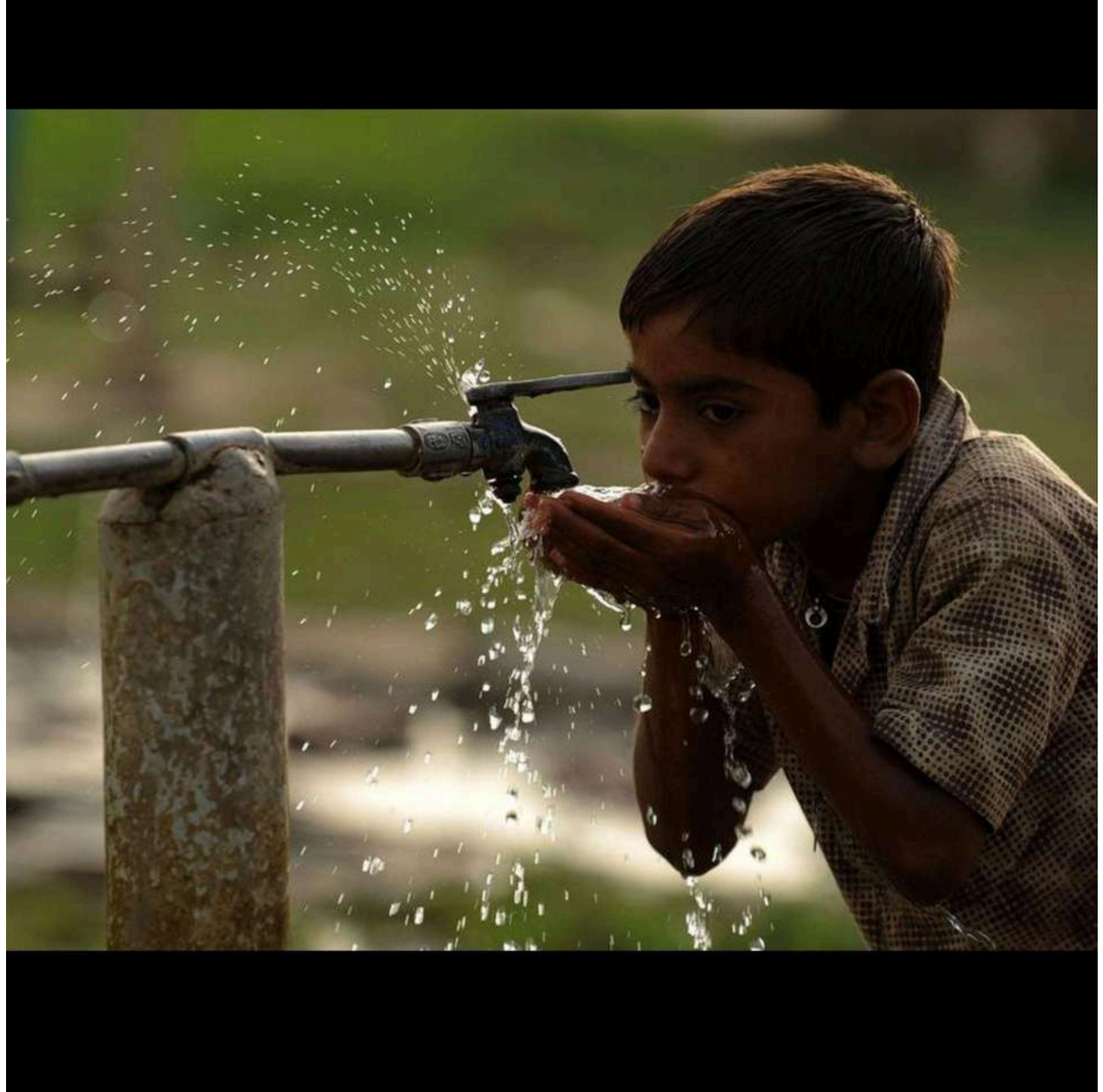
Govt. nod for extension

The Union Cabinet last week approved extending the JJM programme to 2028 and allocated additional funds to meet its target. A press note from the Ministry had noted that the programme's focus will change "...from infrastructure creation to service delivery, supported by drinking water governance and institutional ecosystem for sustainable rural piped potable water supply".

"To this end, a uniform national digital framework, namely 'Sujalam Bharat', shall be instituted, under which every village shall be assigned a unique Sujal Gaon/Service Area ID digitally mapping the complete drinking water supply system from source to tap," a Ministry statement said.

The programme, originally envisioned to achieve 100% coverage by 2024, has been stuck at around 81% since 2025. As *The Hindu* has previously reported, covering the remaining 20% requires more money than has already been spent so far.

From the baseline of 3.23 crore (17%) rural households with existing tap water connections in 2019, more than 12.56 crore additional rural households have been provided with tap water connections so far under the JJM.



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- **LaunchedonAugust 15, 2019, JalJeevanMissionisaCentrallySponsoredScheme to provide Functional Household Tap Connections (FHTCs) to all rural households by 2024.**
  The Scheme has been extended till 2028.
- **Governing Ministry: Ministry of Jal Shakti.**
- **Key Target: “Har Ghar Jal”, ensuring 55 litres per capita per day (lpcd) of safe, adequate**
- **drinking water to every rural household.**


SUSTAINABLE DEVELOPMENT GOALS
1 NO POVERTY
2 ZERO HUNGER
3 GOOD HEALTH AND WELL-BEING
4 QUALITY EDUCATION
5 GENDER EQUALITY
6 CLEAN WATER AND SANITATION
7 AFFORDABLE AND CLEAN ENERGY
8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
10 REDUCED INEQUALITIES
11 SUSTAINABLE CITIES AND COMMUNITIES
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION
14 LIFE BELOW WATER
15 LIFE ON LAND
16 PEACE, JUSTICE AND STRONG INSTITUTIONS
17 PARTNERSHIPS FOR THE GOALS

Mains Question

Q3. *Despite its ambitious targets, the Jal Jeevan Mission faces multiple challenges in implementation.*
Critically analyze these challenges and suggest measures for effective delivery. *(250 words)*

प्रश्न 3.महत्त्वयकयक्षाी ि क्षों् के बयर्विूद ि ि ीर्वन लमशन के कयय्न्कर्व्न में

अनेक चुनौततय् ँहैं।
इन चुनौततों् कय समयिोचनयत्मक वर्वश्ोषिण कीजिए तर्य प्रभयर्वी क्रियन्र्व्न के उपय् सुझयइए। *(250 शब्द)*

Stockholm Water Prize 2026

- **Kaveh Madani has been awarded the 2026 Stockholm Water Prize, the world's most prestigious water-related honour.**
  He is the youngest laureate and first UN official to receive the award for linking
- **water science with policy, diplomacy, and public outreach.**
  The Stockholm Water Prize is an internationally acclaimed award recognizing outstanding contributions to water conservation, management, and sustainability,
- **often regarded as the Nobel Prize for Water.**

Origin:

- **Established by the Stockholm Water Foundation**
- **InspiredbyStockholm'sachievementinmaintaining clean and sustainable water systems**

- **First awarded in 1991.**
- **First recipient: David W. Schindler**
- **Presented annually during World Water Week in Stockholm by the Swedish King**

Aim:

- **To honour individuals/organizations contributing to water resource conservation and sustainability.**
  To promote scientific innovation and policy solutions for global water challenges.
- **To enhance awareness of water security and environmental protection.**

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Page No.12 , GS 3

New GDP series, charting the path ahead

G.C. Manna

is a professor at the Institute for Human Development, Senior Adviser at the National Council of Applied Economic Research (NCAER), and a Member of the Advisory Committee on National Accounts Statistics

A much-awaited new GDP series with the base year as 2022-23 is now available in the public domain. On February 27, 2026, the Ministry of Statistics and Programme Implementation came out with a press note on a new series of GDP estimates and related aggregates for the financial years 2022-23, 2023-24 and 2024-25. This addresses the long-standing demand for a more accurate and realistic picture of the size of the Indian economy by updating the base year. It overcomes the limitations of earlier estimates, which relied on the outdated 2011-12 base year.

The overall size of the Indian economy in terms of GDP as per the new series at current prices (in rupees lakh crore) is estimated to be 261.18 (financial year 2022-23), 289.84 (FY 2023-24) and 318.07 (2024-25), respectively (first revised estimate). These aggregates are marginally (between 3% and 4%) lower than what were released earlier based on the previous series. The relative shares of primary, secondary and tertiary sectors in total Gross Value Added (GVA) at current prices during 2024-25 remained at 21.4%, 25.8% and 52.9%, respectively. The manufacturing sector depicts a high growth rate (more than 9%) in real GVA for both the years: 12.7% in 2023-24 and 9.3% in 2024-25. As regards the expenditure side estimates, the share of private financial consumption expenditure in GDP is around 56%, both at current and constant prices during the years 2023-24 and 2024-25.

Major refinements in the new series

Some of the most significant refinements in the methodology adopted in the new series include: first, segregation of activities of multi-activity enterprises belonging to non-financial private corporate sector by apportioning the total GVA of the enterprise across its business activities using the corresponding revenue share information of the company available in the form of MGT 7/7A data (as against entire GVA being allocated to the major activity of the enterprise in 2011-12 series); second, use of a separate blown up factor at the industry x size class level, based on paid-up capital, for scaling up the GVA of the reported active companies to account for the contribution of the active companies which did not file returns; third, a comprehensive coverage of Limited Liability Partnerships (LLPs) using Ministry of Corporate Affairs (MCA) data; and fourth, the use of high-frequency (annual) data on GVA per worker (GVAPW) as per the Annual Survey of Unincorporated Sector Enterprises (ASUSE) in conjunction with the estimates of the number of workers utilising the information available through Periodic Labour Force Survey (PLFS) to estimate the GVA contribution of the Household Sector. In this context, it is worthwhile to mention that in the 2011-12 series, base year (2011-12) GVA estimates at the activity level for the Household Sector were extrapolated using suitable indicators to derive GVA for subsequent years.

Updating the ASI sampling frame and refining the ASUSE survey methodology can further enhance the accuracy and reliability of GDP and GSDP estimates

The new series also introduces significant improvements in the estimation of real GVA through the expanded application of 'double deflation' and 'volume extrapolation' methods, bringing the estimates more in line with international guidelines. In addition, the benchmark estimates for 2022-23 private final consumption expenditure (PFCE) are now derived more directly by utilising data from the Household Consumption Expenditure Survey (HCES 2022-23), especially for items that are widely consumed across household groups and tend to exhibit low income elasticity.

The challenges ahead

Among the four institutional sectors, namely, general government, public corporations, private corporations and households for which GVA estimates are separately computed and then aggregated, the database of the first two sectors is quite robust. Coming to the private corporate sector, particularly the private non-financial corporate segment, for which GVA is compiled using the MCA database – a critical issue lies in allocating the national-level total GVA of companies across States to derive the corresponding Gross State Value Added (GSVA), given that the primary data are available only at the enterprise level.

In the 2011-12 series, total manufacturing GVA at the national level was allocated proportionately over States by using their shares in GVA as per the Annual Survey of Industries (ASI). In the new series, apart from ASI data (confining to manufacturing sector), the GST data is also available for this purpose. A major limitation with the ASI data is the inadequacy of the ASI frame. To illustrate, the number of companies in 2011-12, as on December 15, 2014, as per the MCA database classified under 'Manufacturing' was 135,802 (source: Changes in Methodology and Data Sources in the New Series of National Accounts, Base Year 2011-12, Central Statistics Office, 2015) as against only 67,649 factories covered under the corporate sector in ASI, 2011-12 (Table 7, Principal Characteristics by Type of Organisation in ASI 2011-2012 (Revised)). Accordingly, the proportionate shares of different States in the total GVA derived from the ASI based on a truncated frame may not reflect the reality and hence affect the State GDP figure. Remedial measures to improve the sampling frame of ASI by utilising the MCA and GST databases can be a step in the right direction. In parallel, a properly designed sample survey of active companies could be worth exploring to derive the percentage shares of different States in total GVA by the companies.

Resolving fluctuations

As regards the Household Sector, its GVA at the activity, i.e., 'compilation category' level in the new series is derived as the product of GVAPW as per the ASUSE and number of workers based on the Periodic Labour Force Survey (PLFS). This necessitates that the corresponding estimates from the surveys are fairly reliable. However, available results from the ASUSE indicate a certain volatility in the estimates across the years for some industries and States.

For example, the all-India annual estimates of GVAPW (rural and urban combined) as per the ASUSE (covering both household sector and 'quasi-corporate' units) for the years 2021-22, 2022-23 and 2023-24 were found to be ₹163,078; ₹255,447; and ₹201,930, respectively, for the 'manufacture of rubber and plastic products' which is a distinct compilation category in GDP calculations.

Similarly, the annual estimates of GVAPW pertaining to the manufacturing industry in respect of Bihar were found to be ₹89,638; ₹117,021; and ₹100,101, respectively, for the three years. To address this problem, the methodology in the new series recommends the use of three years' moving average, wherever necessary, except for the base year. However, in resolving the issue of such fluctuations in the annual estimates of GVAPW, it may be worth exploring whether a rotating panel design in the ASUSE with a substantial overlap in the samples between any two consecutive years – similar to the procedure adopted in the PLFS – can yield better estimates.

Finally, to conclude, updating the ASI frame and refinements in the survey methodology of ASUSE can be effective in further improvement of the GDP and GSDP estimates.

The views expressed are personal

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  On February 27, 2026, the Ministry of Statistics and Programme Implementation
- **came out with a press note on a new series of GDP estimates and related aggregates for the financial years 2022-23, 2023-24 and 2024-25.**
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- These aggregates are marginally (between 3% and 4%) lower than what were released earlier based on the previous series.

Page No.12 , GS 2

Fire and fury

Donald Trump's miscalculation in Iran is hurting the whole world

Benjamin Netanyahu and Donald Trump have brought death and destruction to Asia and economic havoc on the whole world by launching an ill-conceived, illegal war on Iran on February 28. Twenty days on, Iran continues to fire missiles and drones at Israel and neighbouring Persian Gulf countries hosting U.S. bases. Iran's closure of the Strait of Hormuz, along with retaliatory strikes on oil and gas facilities in the Gulf countries, have driven up energy prices, threatening the global economy. The irony is stark: Mr. Trump, who won the presidency twice, campaigning on opposing America's "forever wars", has now led the U.S., at Israel's behest, into another disastrous conflict. After the initial window for regime change closed, Mr. Trump sent mixed signals. He said he had authorised talks; when Iran refused, he ordered a strike on Kharg Island, the country's main energy export terminal. Israel then escalated the conflict further by assassinating Ali Larijani, Iran's Security Council Secretary and a key link between the Revolutionary Guards, who are leading the war effort, and the political establishment, as well as Iran's Intelligence Minister and the commander of the Basij paramilitary force. On Wednesday, Israel crossed another red line by attacking Iran's South Pars gas field, triggering Iranian strikes on energy sites in Qatar, the UAE and Saudi Arabia.

Many had warned even before the war began that an all-out attack on Iran could trigger a regional crisis. Mr. Trump, who until recently sought the Nobel Peace Prize, went ahead regardless. With over a dozen American soldiers killed, more than a hundred wounded, U.S. bases under attack, and rising oil, gas, and fertilizer prices, he now faces growing political backlash at home. On March 17, Joe Kent resigned as Director of the National Counterterrorism Center, claiming that the U.S. entered the war "due to pressure from Israel and its powerful American lobby". It is now clear that Mr. Trump did not anticipate such a prolonged conflict. Even if Mr. Trump wants to declare victory and end the bombing, he faces two hurdles: Iran can continue attacking targets in the Gulf and Israel; and the Strait of Hormuz remains shut. If Mr. Trump prefers further escalation, he could end up sending ground troops to Iran, an extremely risky gamble, or expanding the war to the region's energy infrastructure, a move that could cripple the global economy. The only viable option is diplomacy. Mr. Trump should engage Iran through a mediator with access to all sides and pursue a mutually workable deal. Tehran should stop holding the global economy hostage and reopen the Hormuz Strait as part of a ceasefire. A deal could still be possible if the U.S. offers credible guarantees against future American or Israeli aggression.

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- Theonlyviableoptionisdiplomacy.Mr.Trumpshouldengageiranthrough a mediator with access to all sides and pursue a mutually workable deal.

Page No.12 , GS 3

Losing the way

ISRO must fix issues before launch of next second-generation satellites

ISRO's NavIC constellation, for which it has launched 11 satellites since 2013, is in operational distress. Only three satellites remain capable of providing position, navigation, and timing (PNT) services, leaving the constellation unable to fulfil its purpose of replacing the U.S.'s GPS system over the Indian subcontinent. A PNT constellation requires at least four PNT-capable satellites, and India had only four until ISRO said an atomic clock onboard the IRNSS-1F satellite failed on March 13. The constellation's first-generation satellites use rubidium atomic clocks made by Swiss company SpectraTime, and which have been dogged by failure. ISRO's latest attempt to launch a second-generation satellite, NVS-02, was abortive after the machine was left in the wrong orbit. IRNSS-1F, launched in March 2016, completed its 10-year design life just three days before its clock failed. Eight other satellites have either been decommissioned, have failed to reach orbit or have bad clocks. In 2018, ISRO transitioned to using indigenous rubidium atomic clocks, developed by the ISRO-Space Applications Centre. NVS-01, launched in May 2023, was the first to carry the device; all second-generation NVS series satellites will too.

Part of NavIC's genesis was the U.S.'s refusal to share GPS data over Kargil during the 1999 war, and it continues to function largely as a defence programme managed by ISRO. However, while the space sector reforms in 2020 vouchsafed ISRO for R&D and NewSpace India for commercialisation, the absence of a national space law leaves ISRO acting as both designer and operator of NavIC, overextending the agency. Equally, India lacks a counterpart to the GPS Directorate or EUSPA, which respectively manage the GPS and Galileo constellations. The new generation of rubidium clocks also faces procurement challenges and ISRO has proposed equipping each satellite with five atomic clocks instead of the previous three. The constellation has been degrading faster than it can be replenished, due to ISRO's poor launch rate. This problem stems from several factors, including issues with the PSLV, an insufficient budget that must maintain a PNT constellation, an upcoming human spaceflight programme, several earth-observation satellites, and R&D for new rockets. ISRO is also hand-holding start-ups that have yet to get a grip on launching rockets to low-earth orbit. Meanwhile, the Union government has encouraged electronics manufacturers to support the L1 band of the NVS series for better interoperability with GPS while expecting its use by the armed forces. For all these reasons, ISRO's plan to launch three more second-generation satellites in 2026 does little to inspire confidence.

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- ISRO’s latest attempt to launch a second-generation satellite, NVS-02, was abortive after the machine
- wasleftinthe wrong orbit.IRNSS-1F, launched in March 2016, completed its 10-year design life just three days before its clock failed.

- Eight other satellites have either been decommissioned, have failed to reach orbit or have bad clocks.
- In 2018, ISRO transitioned to using indigenous rubidium atomic clocks, developed by the ISRO-Space Applications Centre. NVS-01, launched in May 2023, was the first to carry the device; all second-generation NVS series satellites will too.
- Part of NavIC's genesis was the U.S.'s refusal to share GPS data over Kargil during the 1999 war, and it continues to function largely as a defence programme managed by ISRO.
- The constellation has been degrading faster than it can be replenished, due to ISRO's poor launch rate.

- GPS (United States): The Global Positioning System (GPS), operated by the U.S. Department of Defense, is the most widely used global GNSS. GLONASS (Russia):
- Global Navigation Satellite System (GLONASS) is a global constellation operated by the Russian Federation, providing comprehensive coverage. Galileo (European Union): Developed by the European Union Agency for the Space Programme, this
- civilian-controlled system offers high-precision positioning. BeiDou Navigation Satellite System (China): A global system completed in 2020, offering precise
- location services worldwide. NavIC / IRNSS (India): The Indian Regional Navigation Satellite System (IRNSS) provides regional coverage over India and neighboring
- areas. QZSS (Japan): The Quasi-Zenith Satellite System (QZSS) is a regional navigation
- system focused on the Asia-Oceania region, designed to complement GPS.

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AI-powered tax governance in India and its challenges

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Artificial Intelligence in India's tax administration is improving outcomes, but safeguards are needed

A key tax policy challenge facing India has been the low tax-Gross Domestic Product (GDP) ratio and high levels of tax evasion. On average, during 2001-22, India's tax-GDP ratio (16.36%) was the lowest among emerging and developing economies. India loses around 4.3% of tax revenues due to tax evasion annually. At the India AI Impact Summit (February 2026), global leaders and tech titans hailed India's progress in utilising the power of Artificial Intelligence (AI) to solve real-world problems.

One problem area where the application of AI is worth examining is tax revenue mobilisation and tax governance. In this context, India's Income Tax Department (ITD)'s Project Insight (PI) initiative – aimed at leveraging AI and data analytics to strengthen tax administration and revenue mobilisation – warrants critical examination.

The benefits

Launched in 2017 and fully operational in 2019, the PI aims to encourage voluntary tax compliance, reduce high-risk cases of potential tax evasion, make tax enforcement fairer and equitable, and reduce prejudice in tax enforcement.

The PI has three components. The Income Tax Transaction Analysis Centre (INTRAC) is the analytical engine that utilises AI and advanced data analytics to process financial data from multiple sources, including banking and financial institutions, property and securities transactions, credit card and GST payments, and high-value purchases, to generate a 360-degree taxpayer financial profile.

Such information helps the ITD detect inconsistencies between taxpayers' declared income and their actual financial activities. The Compliance Management Centralized Processing Centre ensures behavioural compliance using information from the INTRAC. It nudges taxpayers who have filed incorrect tax returns to file correct returns using the Non-intrusive Usage of Data to Guide and Enable (NUDGE) strategy, which involves sending SMS or email reminders to the person pay taxes that match their actual economic activities. Taxpayers can either submit a revised tax return or stand by the initial returns they filed. Deploying AI in tax administration has several benefits. First, it can assist tax agencies in accurately assessing taxpayers' risk profiles and identifying tax evasion. Second, it enables tax administrators to prioritise tax evasion cases based on the size and sophistication of evasion. Third, AI can automate routine tax administration tasks, freeing tax administrators to focus on those that require greater human judgment. Fourth, AI can enhance taxpayer services by assisting taxpayers with filing correct tax returns, answering queries through smart chatbots, and preventing tax scams.

Outcome of PI initiative, concerns and risks

The PI is beginning to show the results. After receiving nudges, many taxpayers utilised the ITD's updated-return feature to make voluntary changes to their original tax returns. Since 2020-21, over one crore revised returns have been filed, resulting in an additional ₹11,000 crore in taxes. Out of the 19,501 taxpayers contacted by the ITD as part of a targeted Foreign Income and Assets NUDGE campaign, 62% of them corrected the information originally reported in their tax returns. Also, 30,161 tax filers declared overseas assets totalling ₹29,208 crore and foreign income of ₹1,089 crore from cryptocurrencies or virtual digital assets.

The NUDGE campaign covering 6.25 lakh taxpayers resulted in corrections of false claims for income-tax deductions amounting to ₹963 crore for political donations, and the payment of additional taxes to the tune of ₹410 crore. The average time taken to process a tax refund has decreased from 93 to 17 days. Recently, using big data analysis and AI tools, the ITD discovered that restaurants across India had suppressed sales turnover of ₹70,000 crore since 2019-20 using sophisticated methods such as selective deletion of cash invoices, post-billing modifications, wiping of sales data, and manipulation of bill value.

Many advanced countries, such as Australia, Italy, the United Kingdom and the United States have successfully implemented AI-enabled platforms modelled on the PI and have generated additional revenue.

As India transitions to algorithmic tax governance, several operational, ethical, and legal issues require serious attention.

The first is about data provenance and quality. AI systems such as the PI are only as good as the data they are trained on. They could identify outliers, but cannot always distinguish evasion from legitimate complexity. Data on variable-income professionals using prior savings, clerical errors, or joint family financial structures can trigger false positives. Without accessible human review, taxpayers must prove the legitimacy of flagged patterns.

The second is on the algorithmic bias. AI models trained on historical enforcement data can unintentionally duplicate existing socio-economic or geographic biases, identifying tax fraud more often in some taxpayer or geographic areas than others, as demonstrated by the Dutch childcare benefits scandal.

The third is on the issue of explainability and due process. For an AI-based tax compliance system to be legitimate, taxpayers need to know why they were identified, how their information is used, how the system arrives at its decisions, and have a clear, easy way to challenge decisions. There must be a human-in-the-loop evaluation for any decision with serious consequences for taxpayers.

The fourth is about the concerns over data privacy and security. Accessing sensitive financial and personal information about taxpayers creates a big attack surface for potential exploitation.

There is no ombudsman

Finally, India lacks an AI ombudsperson to review contested decisions, a requirement for algorithmic impact assessments and public reporting of false-positive and appeal-success rates, and external audits of risk-scoring models.

Without such strong AI governance guardrails outlined above, the PI might turn into a hidden surveillance system that compromises accountability and tax system fairness, making taxpayers less trusting and more resistant. India must make a clear choice: to pursue a modern tax intelligence system that is both ethical and effective.

The views expressed are personal

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