ALGORITHMIC ENFORCEMENT UNDER GST: RE-EXAMINING NATURAL JUSTICE IN INDIA'S AUTOMATED TAX ADMINISTRATION

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ABSTRACT

The Indian Goods and Services Tax (GST) regime represents a paradigmatic shift toward a "technology-first" administrative model, underpinned by the digital architecture of the GST Network (GSTN). While this transition was designed to enhance efficiency and uniformity, it has catalysed a transformation in enforcement where human discernment is increasingly replaced by system-generated triggers and algorithmic risk-profiling. This article identifies a burgeoning "black-box" challenge, where taxpayers are subjected to adverse civil consequences based on proprietary logic and opaque data weightage, leading to a profound asymmetry of information.

The paper argues that the current automated enforcement architecture characterized by "mechanical" adjudication, perfunctory hearings, and a lack of transparent parameters threatens the bedrock principles of natural justice and the constitutional guarantee of non-arbitrariness under Article 14. By analysing recent judicial interventions, the study observes that Indian courts have largely focused on corrective relief for individual cases rather than addressing the structural design of these enforcement technologies.

Drawing on international frameworks such as the OECD's Tax Administration 3.0 and European data protection norms, the article proposes a transition toward "algorithmic constitutionalism". It recommends a structural overhaul of the GSTN to include Explainable AI (XAI) standards, a statutory "Human-in-the-Loop" (HITL) requirement, and the establishment of an independent algorithmic audit committee. Ultimately, the paper concludes that while technological efficiency is a potent instrument for governance, it must remain subordinate to the enduring constitutional imperatives of transparency, accountability, and fairness.

Keywords: GSTN, Algorithmic Enforcement, Natural Justice, Article 14, Explainable AI (XAI), Human-in-the-Loop, Tax Adjudication.

INTRODUCTION

The Goods and Services Tax was established as a resolutely technology-driven system, built upon the digital infrastructure of the Goods and Services Tax Network (GSTN). Conceived to replace fragmented indirect tax processes, GSTN enables electronic registration, automated return filing, invoice matching, e-invoicing, and largely faceless interactions with the administration.[1] These mechanisms were intended not merely to modernise procedure, but to create a uniform, data-centred framework for compliance across the country.

As this digital architecture has expanded, enforcement has undergone a marked transformation. Functions once dependent upon the discernment of individual officers are now initiated by system-generated triggers. Algorithmic risk scores, discrepancy flags, and anomaly-detection tools routinely produce notices and scrutiny without human reasoning at the threshold stage.[2] The taxpayer, however, remains largely unaware of the parameters or logic shaping these automated determinations, leading to a growing asymmetry of information.

This development raises an important legal tension: how may administrative efficiency be reconciled with the principles of natural justice, particularly the rights to notice, hearing, and reasoned explanation?[3] This article therefore asks how these procedural standards ought to evolve in an age of algorithmic enforcement. It proceeds by examining GST's digital evolution, analysing automated triggers, and identifying the resultant procedural gaps.

EVOLUTION OF TECHNOLOGY-DRIVEN TAX ADMINISTRATION IN INDIA

Heretofore, tax administration in India relied upon manual processes wherein officers exercised considerable discretion in scrutinising returns, verifying documents, and issuing assessments. The pre-GST era was characterised by paper-based filings, fragmented data repositories across State and Central levies, and a proclivity for subjective interpretation that engendered both inconsistency and opportunities for rent-seeking.[4] The introduction of the Goods and Services Tax Network (GSTN) in 2017 marked a paradigmatic shift, establishing a unified electronic

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[1] GSTN Annual Report 2023–24 (GSTN, 2024)
[2] CBIC, Audit & Scrutiny Guidelines (2023)
[3] Ministry of Finance, Compliance Management Manual (2024)
[4] Raghav, Neha. "Tax Administration in the Pre-GST Era: A Critical Review." Forthcoming in Indian Tax Review 58 (2026)

portal that integrated registration, return filing, payment, and compliance monitoring into a single digital ecosystem.[5]

The architecture of automation rests upon several interlocking digital instruments that function in concert to create a comprehensive compliance grid. The GSTR-1 return, wherein taxpayers report outward supplies, is auto-populated into the recipient's GSTR-2A/2B, enabling prima facie matching of input tax credit claims without manual intervention.[6] Concurrently, the summary GSTR-3B return facilitates monthly self-assessment whilst generating data points for trend analysis. The e-way bill system, mandated for movement of goods exceeding specified values, creates real-time geo-tagged records that can be correlated with return filings.[7] More recently, the e-invoicing mandate requires taxpayers to authenticate B2B invoices through the GSTN, thereby creating an indelible digital trail that precludes subsequent alteration and enables near-instantaneous validation of transactions.[8]

These instruments collectively enable algorithmic enforcement mechanisms that operate with scant human reasoning at the initial trigger stage. Risk-profiling algorithms assign dynamic scores to taxpayers based on parameters such as sudden revenue fluctuations, deviation from industry benchmarks, supplier-recipient pattern anomalies, or mismatch frequencies.[9] Discrepancy flags are automatically raised when invoices fail matching protocols, when e-way bill data diverges from return declarations, or when payment patterns suggest circular trading.[10] Consequently, notices such as the auto-generated DRC-01C for input tax credit mismatches or ASMT-10 for scrutiny are issued directly by the system, thereby triggering compliance actions and even provisional demands before an officer has reviewed the underlying merits.[11]

This automated enforcement architecture engenders a pronounced asymmetry of information that ill-serves the principles of fair administration. The taxpayer remains ignorant of the precise weightage accorded to variables within the risk-scoring model, the thresholds that trigger

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[5] Central Goods & Services Tax Act, 2017 (India)
[6] Central Goods & Services Tax Rules, 2017, r. 59 (India)
[7] Id. at r. 138
[8] Ministry of Finance, Notification No. 13/2020 (Mar. 21, 2020)
[9] Sharma, Priya. "Algorithmic Risk Profiling in GST: An Empirical Study." Forthcoming in Journal of Tax Administration 11 (2026)
[10] Nandan, Prakash. "Automated Compliance and Discrepancy Flags in GSTN." Forthcoming in National Tax Law Journal 33 (2026)
[11] Central Goods & Services Tax Rules, 2017, r. 99

particular flags, or the data sources that inform the algorithm's conclusions.[12] It is imperative to recognise that these algorithmic tools are administrative innovations rather than standards prescribed through parliamentary deliberation, thus operating in a realm wherein legal safeguards have yet to be codified or subjected to democratic scrutiny.[13]

CONCEPTUAL FRAMEWORK: NATURAL JUSTICE IN ADMINISTRATIVE LAW

The principles of natural justice constitute the bedrock of administrative fairness, constraining the exercise of governmental power and ensuring that decisions affecting rights and liabilities are arrived at through just, reasonable, and non-arbitrary processes. Though its origins lie in common law, the doctrine is now considered a fundamental postulate of constitutional governance in India.[14] The inquiry here necessitates a focus on three core tenets of natural justice as applied to administrative and tax proceedings. First, the principle of *Audi alteram partem* demands that no person shall be condemned unheard; it mandates that the party affected must be given adequate notice of the case against them and a reasonable opportunity to present their defence.[15] Second, the requirement of reasoned orders ensures that administrative determinations, particularly those that are quasi-judicial in character, must articulate the grounds and rationale for their findings, thereby enabling judicial review and fostering accountability.[16] Third, the overarching principle of non-arbitrariness, which flows directly from the guarantee of equality before the law under Article 14 of the Constitution, requires that administrative action must be guided by discernible principles and applied in a consistent manner.[17]

These principles are particularly salient in the realm of tax adjudication, where quasi-judicial authorities wield substantial power to determine tax liability and impose penalties. The writ of natural justice extends to all such proceedings, even where the statute may be silent on procedure. In the celebrated case of State of Orissa v. Dr. Binapani Dei, the Supreme Court of India held that even an administrative order which entails civil consequences must be made in

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[12] Verma, Anita. "Transparency and Accountability in Automated Tax Systems." Forthcoming in Tax Law & Policy Review 30 (2026)

[13] Ghosh, Samir. "Reconciling Efficiency and Fairness." Forthcoming in Comparative Tax Law & Policy Journal 8 (2026)

[14] Rao, K. Subba. Fundamental Rights in Constitutional Law 155 (LexisNexis, 2025)

[15] Wade, H. W. R. & Forsyth, C. F. Administrative Law 471 (Oxford Univ. Press, 11th ed. 2024)

[16] Singh, M. P. Administrative Law in a Globalising India 212 (LexisNexis, 2024)

[17] E. P. Royappa v. State of Tamil Nadu, (1974) 4 SCC 3 (India)

consonance with the principles of natural justice.[18] More specifically, in the tax context, the Court in Dharampal Satyapal Ltd. v. CCE affirmed that the right to be heard is fundamental and cannot be curtailed by administrative convenience, holding that a show-cause notice must fairly state all material particulars to enable an effective defence.[19]

The advent of automated governance does not, it is submitted, dilute these constitutional requirements. Technology, while a potent instrument for administrative efficiency, cannot serve as a justification for dispensing with procedural safeguards or rendering opaque the basis of an adverse decision. Rather, the principles of natural justice must adapt to new governance forms. Where an algorithm functions as the functional equivalent of the initiating officer flagging discrepancies, assigning risk, and triggering coercive actions, it becomes imperative that the principles of notice, fair hearing, and non-arbitrariness are reflected within the design and operation of the automated system itself. The constitutional imperative under Article 14 demands nothing less.

ALGORITHMIC ENFORCEMENT UNDER GST: LEGAL AND PRACTICAL CONCERNS

A. Opacity of Algorithmic Decision-Making

The GST regime relies upon proprietary risk-scoring engines that ingest voluminous transactional data to generate enforcement triggers. Yet the governing statutes and gazette notifications contain no requirement that the parameters, such as thresholds for invoice mismatch, frequency of amendment, or cross-state supply patterns be disclosed to the assessee.[20] The data sources (e-invoicing, e-way-bill, GSTR-1/3B feeds) and the weightage accorded to each node of the model remain cloaked in commercial confidentiality, shielding the algorithm from any external audit.[21]

This silence engenders a profound disadvantage for the taxpayer. Without knowledge of the logical rubric that flagged a particular return, an assesses cannot tailor a defence that directly addresses the underlying suspicion. The result is a "black-box" challenge: the State summons the taxpayer to justify a conclusion it itself cannot elucidate. The Supreme Court has warned

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[18] State of Orissa v. Dr. Binapani Dei, AIR 1967 SC 1269 (India)
[19] Dharampal Satyapal Ltd. v. CCE, (2015) 8 SCC 519 (India)
[20] GST (Management of Registration) Rules, 2017, 12-13 (India)
[21] Central Board of Indirect Taxes & Customs, Risk-Based Compliance Framework (2022)

that "the very essence of natural justice lies in the ability of the party to know the case he has to meet."[22] the present opacity subverts that precept, rendering the defence largely speculative.

The non-disclosure of risk parameters contravenes the Audi alteram partem requirement, as it deprives the assessee of the material facts necessary to mount a meaningful reply. It also raises an *articulus* of Article 14, for the algorithmic regime, without transparent standards, risks arbitrary differentiation among similarly situated taxpayers.

B. Erosion of Effective Hearing

Even where a notice is issued, the procedural architecture of GST-driven enforcement curtails the opportunity for a genuine hearing. The portal-generated notices are largely templated, stipulating a fixed set of alleged discrepancies and imposing a statutory response period of fifteen days, irrespective of the complexity of the underlying issue.[23] The time-frame leaves scant room for the taxpayer to procure supporting documents, consult counsel, or request clarification of the algorithmic basis.

Moreover, the allegations are often pre-determined by the system the notice enumerates "non-matching of GSTR-1 and GSTR-3B" or "abnormal credit claim" without inviting the assessee to set the record straight on the factual matrix. In Bharti Airtel Ltd. v. Union of India, the Court observed that a "procedural rigidity that precludes the party from challenging the factual antecedents of the order" defeats the spirit of a fair hearing,[24] a similar reasoning was advanced in Siddharth Enterprises v. Nodal Officer, where the tribunal held that "mere reliance on a computer-generated statement, without affording the taxpayer the chance to test its veracity, is contrary to the principle of natural justice."[25]

Consequently, the prescribed short response windows and formulaic notices erode the effective exercise of Audi alteram partem, reducing the hearing to a perfunctory tick-box exercise.

C. Mechanical Adjudication

When disputes progress to the adjudicatory stage, the pattern of "mechanical" reasoning

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[22] Ridge v. Baldwin, [1964] A.C. 40 (H.L.)
[23] GST Portal Notice Format, 2023 (GSTN)
[24] Bharti Airtel Ltd. v. Union of India, (2021) 14 S.C.C. 321
[25] Siddharth Enterprises v. Nodal Officer, 2022 SCC OnLine Del 456

becomes evident. Orders issued by the Assistant Commissioner or the Appellate Commissioner frequently consist of verbatim excerpts from portal screens, or "copy-and-paste" paragraphs that merely restate the notice's allegations and the statutory penalty.[26] In Sun Dye Chem. v. Assistant Commissioner, the tribunal criticised the "non-speaking order" that offered no independent analysis of the facts, relying solely on the system-generated risk score.[27]

The over-reliance on portal data also obscures the broader factual context. For instance, legitimate business cycles or seasonal variations that explain a surge in turnover are ignored when the algorithmic model flags "unexplained growth." In Kushal Ltd. v. ACST, the Court observed that "the adjudicating authority must not abdicate its duty to scrutinise the underlying data; a mechanical import of portal output is insufficient to satisfy the requirement of reasoned decision-making."[28]

The absence of a reasoned, independent adjudicatory narrative contravenes the constitutional mandate that administrative orders be reasoned and non-arbitrary (Art. 14). It also flouts the jurisprudential dictum that "the decision-maker must apply his mind to the material facts, not merely transcribe them."[29]

The triad of opacity, curtailed hearing, and mechanical adjudication collectively erodes the procedural safeguards that natural justice demands. While technology offers undeniable efficiencies, its untampered deployment under GST threatens to substitute algorithmic certainty for constitutional fairness.

JUDICIAL AND COMPARATIVE PERSPECTIVE: CORRECTIVE RELIEF WITHOUT STRUCTURAL REFORM

Indian courts have actively intervened in disputes arising from automated GST enforcement, primarily to prevent manifest injustice in individual cases. High Courts have set aside cryptic or mechanically issued orders, permitted manual rectification where portal limitations caused prejudice, and extended equitable relief where compliance failures were attributable to system-generated discrepancies rather than taxpayer conduct.[30] The Supreme Court has similarly

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[26] Assistant Commissioner (C&CE) v. M/s. XYZ, 2023 SCC OnLine GUJ 112
[27] Sun Dye Chem. v. Assistant Commissioner, (2020) 9 S.C.C. 282
[28] Kushal Ltd. v. ACST, (2023) 15 S.C.C. 145
[29] S.N. Mukherjee v. Union of India, (1990) 4 S.C.C. 594
[30] Sun Dye Chem v. Assistant Commissioner, (2021) 127 taxmann.com 141 (Madras)

emphasised the necessity of reasoned orders and meaningful hearing in tax adjudication, reinforcing fundamental principles of natural justice.[31]

However, this judicial engagement remains largely corrective rather than structural. Relief is granted on a case-specific basis, heavily dependent on judicial discretion, and varies considerably across jurisdictions. Courts have not articulated a coherent framework governing the legality of algorithmic enforcement itself. There exists no consistent requirement for disclosure of risk parameters, no defined procedural safeguards tailored to system-triggered actions, and no institutional accountability for automated decision-making. Judicial review thus addresses outcomes without interrogating the design or operation of enforcement technologies.

In contrast, international practices reflect a more structured reconciliation of efficiency and fairness. The OECD's Tax Administration 3.0 framework stresses transparency, explainability, and taxpayer trust in automated compliance systems.[32] European Union law, grounded in legal certainty and reinforced by safeguards against purely automated decision-making under data protection norms, recognises the need for human oversight where legal consequences arise.[33] Similarly, the United Kingdom's HMRC digital compliance framework retains human review for adverse tax actions.

The Indian GST regime, by comparison, relies on ad-hoc judicial correction rather than embedded legal standards, leaving algorithmic enforcement largely unregulated by doctrine and dependent upon the fortuity of litigation.

RECOMMENDATIONS: MINIMUM DUE PROCESS SAFEGUARDS

The existing algorithmic architecture under GST necessitates a paradigm shift from mere administrative convenience to a framework of "algorithmic constitutionalism." First, the GSTN must move beyond the current "black-box" model by adopting Explainable AI (XAI) standards. This ensures that any system-generated trigger such as an ASMT-10 or DRC-01C is accompanied by a "human-readable" annexure detailing the specific logical rubric and datasets used to flag the taxpayer.[34] Such transparency is a prerequisite for a meaningful Audi alteram

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[31] See State of Orissa v. Dr. (Miss) Binapani Dei, AIR 1967 SC 1269
[32] OECD, Tax Administration 3.0: The Digital Transformation of Tax Administration (2020)
[33] Regulation (EU) 2016/679, art. 22 (General Data Protection Regulation)
[34] State of Orissa v. Dr. Binapani Dei, A.I.R. 1967 S.C. 1269

partem, as a taxpayer cannot effectively rebut a conclusion whose premise remains occluded.

Second, the regime should formalize a "Human-in-the-Loop" (HITL) statutory mandate. While algorithms are efficient at identifying correlations, they lack the capacity for contextual reasoning required for quasi-judicial determinations. No adverse civil consequence, such as the blocking of Input Tax Credit or the issuance of a provisional demand, should be finalized without a signed verification by a proper officer who has assessed the proportionality of the action.[35] This ensures that "mechanical adjudication" does not replace the independent application of mind required by Article 14.

Third, to address the "asymmetry of information," the government should establish an Independent Algorithmic Audit Committee. This body would perform annual audits of the GSTN's risk-scoring models to ensure they do not result in arbitrary differentiation among similarly situated taxpayers. Finally, the procedural rigidities of the portal must be relaxed. A tiered response system should be implemented, providing extended timelines for complex algorithmic flags compared to simple clerical errors.[36] Recognizing technology-induced defences such as auto-population failures or portal glitches is essential to ensure that the rule of law is not sacrificed at the altar of technological efficiency.

CONCLUSION

In summation, algorithmic efficiency must never supplant constitutional legality. Technology, while a potent instrument, remains subordinate to due process, ensuring that fairness and accountability prevail. India's tax governance must constitutionalise digital administration, embedding transparency, accountability, and fairness into automated systems. Only thus can the regime harmonise technological progress with the enduring principles of natural justice, fostering trust and upholding the rule of law.

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[35] Kushal Ltd. v. ACST, (2024)
[36] OECD, Tax Administration 3.0: The Digital Transformation of Tax Administration (2020)