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From Access to Inclusion: Reimagining E-Filing Adoption through Digital Financial Literacy in India

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Abstract:

E-filing systems are a crucial part of the modernization of tax administration and the advancement of digital governance in India. Depending upon the technological infrastructure and the taxpayer's ability to interact with the system, the law's effectiveness may vary. This study examines the importance of digital financial literacy for the rising use of e-filing systems and the digital divide, and e-filing systems in particular. Based on the theory, the study proposes the use of digital financial literacy for the improvement of tax compliance, administration, and quality of service, as well as for the empowerment of the taxpayer. The study also addresses the negative effects of digital financial literacy. The author suggests that the adoption of e-filing systems should be considered and analyzed from the technological as well as the social and economic development perspective, where the digital financial literacy of the taxpayer plays a critical role. This study proposes several ideas for tax administrators and public policy designers related to the integration of digital financial literacy, the simplification of the system, and the establishment of the trust of users. The author acknowledges the limitations of the theory and proposes future research to validate the theory and conduct comparative research. This study attempts to reframe e-filing systems to seek financial inclusion as a part of the sustainable governance and development efforts that emerging economies have.

Keywords: *E-filing, Digital Financial Literacy, Digitalization, Financial Inclusion.*

1. Introduction:

Over the past two decades, governments worldwide have increasingly adopted digital technologies to modernize their taxation systems, aiming to enhance efficiency, transparency, and citizen participation (Balaji, 2025). In India, this transformation has been particularly visible in the realm of income tax administration, where the government has promoted electronic filing (e-filing) of tax returns as part of the broader *Digital India* initiative (Singh et al., 2018). E-filing platforms have significantly reduced paperwork, streamlined processes, and created opportunities for wider participation in the formal economy (Kotsogiannis et al., 2024). Despite these advances, adoption rates of self-filing remain uneven, with a considerable proportion of taxpayers still dependent on intermediaries or reluctant to transition fully to digital channels.

One of the critical barriers to the widespread adoption of e-filing in India lies in the persistence of the **digital divide** the disparity in access, skills, and confidence in using digital technologies across different sections of society (Singh, 2025). While urban, educated taxpayers may find online platforms convenient, individuals in rural areas, older taxpayers, and those with limited exposure to technology often struggle with the requirements of digital compliance (Gyau et al., 2025). This divide not only restricts participation in the e-tax system but also undermines the larger goals of inclusive governance and financial transparency.

In the last 20 years, governments around the world have made it a priority to modernize their taxation systems through the use of digital technologies, with the goal of improving their efficiency, transparency and citizen participation (Balaji, 2025). This change has been apparent in the field of income tax in India, as the government has encouraged the electronic filing (e-filing) of income tax returns as part of the Digital India initiative (Singh et al., 2018). E-filing platforms have substantially decreased paperwork, streamlined processes, and paved the way for more involvement in the formal economy (Kotsogiannis et al., 2024). In spite of these developments, rates of self-filing are still far from uniform, and there is still a significant number of taxpayers who are still not fully confident of self-filing or who rely on intermediaries to a high degree.

The digital divide—the gap in access, skills, and confidence with digital technology among various groups in society (Singh, 2025)—is one of the major challenges hindering the adoption of e-filing in India. Online platforms offer convenience to some urban, educated taxpayers, but people in rural areas, older taxpayers and those less familiar with technology face challenges with digital compliance (Gyau et al., 2025). This polarization prevents inclusion in the e-tax system, and it hampers the broader aspiration for inclusiveness in governance and transparency in financial systems.

The theme of digital financial literacy is tightly coupled with this division. In addition to digital competencies, taxpayers need the knowledge and confidence to navigate the financial landscape, understand tax-related instructions and conduct secure online transactions (Pratama, 2026). Therefore, the concept of digital financial literacy becomes a significant element in facilitating people to access e-filing platforms. Lack of literacy can make the system seem complicated, complicated to navigate, and risky, thus limiting taxpayers' ability to access it independently and fostering dependence on agents (van den et al., 2022).

This is a matter of more than just personal interest. Improving DFL carries a wider reach to better financial inclusion, increased trust in governance, and sustainable development. Governments can not only increase compliance, but also empower citizens in order to lower administrative costs and encourage a transparent culture, by providing them with appropriate skills to file their taxes independently. In a policy context, it is clear that literacy gaps must be addressed to enable equitable distribution of the benefits of digital taxation, and not for privileged sections of society. In this context, this paper aims at conceptualising the digital financial literacy for improving adoption of e-filing in India, especially as a way to overcome the digital divide. Instead of providing an empirical model, the study reflects on the significance of literacy, the advantages of its enhancement, and the remains to be tackled in the universalization of e-taxation. Insights are intended to be helpful to the continuing discussion on digital governance and financial inclusion as well as to guide policymakers and future research.

2. Importance of Digital Literacy in E-Filing:

The basic definition provided by Reddy et al. (2020) of digital literacy is the ability to access, understand, and use digital technologies for everyday purposes. Digital financial literacy, when expanded to the financial sphere, is defined as the knowledge, skills, and confidence needed to use digital platforms to manage finances, keep financial records, and make financial decisions. The e-filing of taxes places a particular demand on such literacy – more than a supportive skill, it is an enabling one (Bong et al., 2025).

Digital literacy in the context of e-filing starts with improving accessibility and usability. India has put a lot of effort into making online tax collection platforms user-friendly, but individuals with lower levels of digital literacy often find it difficult to complete even simple tasks like registering, uploading documents or resolving errors. For them, digital literacy serves as a stepping stone to make a process less daunting. When not achieved this literacy, the advantages of technological progress are unattainable for many people which may lead to having to rely on intermediaries and deter voluntary use.

Building taxpayers' confidence and independence is another important aspect. Paper filing or hiring a tax preparer can make it hard for people to manage their tax information. Unlike digital literacy, taxpayers can directly interact with e-filing systems, thereby decreasing the need for third parties and allowing them to better understand their obligations (Sulkiah, 2026). It is not only about compliance, it is also about citizens' perceptions of having control and responsibility in the relationship between citizens and the state, which are key for building a greater social contract.

In addition, digital literacy is an important aspect of tackling risk and trust perceptions. Data privacy, errors and financial losses are some of the common problems encountered with e-filing of adoption (Rabbi & Roy, 2026). People who don't read well, or who are not literate at all, might overestimate these risks and not participate in the system. Literacy helps to increase awareness of digital processes and protection, lower perceived risk and boost trust in government digital infrastructure. Digital financial literacy, in this context, is not just a skill, but also a psychological facilitator for the adoption of digital financial tools.

The importance of literacy also reaches the overall objective of social equity and financial inclusion (Hidalgo-Mayorga et al., 2025). E-filing systems are not simply about compliance; they're an integral component of the broader digital governance agenda, aimed at enhancing financial systems to be more inclusive and transparent. Governments can use digital literacy to empower the marginalised, including rural communities, gender equality and those who are less well-off, to create a more equal distribution of the advantages of digital taxation. This helps in minimizing structural inequalities and for the Digital India agenda as well as Sustainable Development Goals (SDG) especially SDG 9 (innovation and infrastructure) and SDG 16 (strengthen institutions) (Sharma et al., 2026).

To sum up, the digital literacy is central to success campaigns of e-filing. It renders the system accessible, enhances user confidence and decreases the feeling of risk and makes sure that the benefits of digital taxation are not limited to certain privileged groups. This is because, even if the most sophisticated e-filing systems are available, without a solid digital financial literacy, they can be excluded, under-used and trusted by the public.

3. Benefits of Enhancing Digital Literacy for E-Filing:

Strengthening digital financial literacy among taxpayers offers far-reaching benefits that extend well beyond the technical act of filing taxes. It creates value at multiple levels—individual, institutional, and societal—by improving efficiency, transparency, and inclusiveness in the taxation process.

- **Improved Tax Compliance and Revenue Collection:**

When taxpayers understand how to navigate digital platforms, they are more likely to file their returns on time and with fewer errors. This reduces instances of non-compliance, whether intentional or unintentional, and leads to higher levels of voluntary participation in the tax system. For the government, this translates into improved revenue collection without relying excessively on penalties or enforcement measures. Enhanced compliance also broadens the tax base, which is critical for funding public services and development programs (Hidalgo-Mayorga et al., 2025).

- **Reduced Administrative Burden and Costs:**

A digitally literate taxpayer base requires less handholding from intermediaries, call centers, or tax authorities. By reducing the need for manual processing and error correction, e-filing supported by strong literacy lowers the administrative burden on government agencies. This efficiency not only saves costs but also enables resources to be redirected toward improving digital infrastructure, expanding outreach, and strengthening monitoring mechanisms (Wassermann & Bornman, 2020).

- **Enhanced Transparency and Trust in Governance:**

Digital platforms, when widely adopted, promote transparency by minimizing face-to-face interactions and reducing opportunities for corruption or discretionary decision-making. Digital literacy further strengthens this transparency, as informed taxpayers can directly monitor their transactions, verify acknowledgments, and track refunds. As more citizens gain confidence in the system, the perception of fairness and trust in government institutions grows, reinforcing the legitimacy of digital governance initiatives (Younus et al., 2025).

- **Empowerment of Marginalized Taxpayers:**

Digital financial literacy plays a transformative role in empowering groups that have historically been excluded from formal financial systems. Rural residents, women, and small business owners often face barriers in accessing traditional tax advisory services. By equipping these groups with the skills to independently use e-filing platforms, digital literacy reduces dependency, enhances financial autonomy, and enables broader participation in the economy. This empowerment contributes to narrowing socio-economic inequalities and advancing inclusive growth (Tavares & Almeida, 2025).

- **Contribution to Sustainable Development Goals:**

The benefits of digital literacy in taxation also align with global development priorities. By promoting accountability and strengthening institutions, e-filing adoption contributes to SDG 16 (Peace, Justice, and Strong Institutions). Simultaneously, the expansion of digital infrastructure and the promotion of innovation in tax systems support SDG 9 (Industry, Innovation, and Infrastructure). Thus, investments in digital literacy create not only immediate benefits for the taxation system but also long-term contributions to sustainable governance and development (Sharma et al., 2026).

In essence, enhancing digital financial literacy transforms e-filing from a technical tool into a broader mechanism for promoting compliance, efficiency, trust, empowerment, and sustainable governance. These benefits underscore why literacy must be viewed as a central pillar of any strategy to strengthen e-filing adoption in India.

3. Challenges and Barriers to Digital Literacy in E-Filing:

While the benefits of digital financial literacy for e-filing adoption are substantial, several challenges continue to hinder its effectiveness in the Indian context. These barriers are multidimensional, spanning infrastructural gaps, socio-economic inequalities, cultural factors, and systemic issues in the design and delivery of digital services.

- **Persistent Digital Divide:**

Despite rapid expansion of internet connectivity, significant disparities remain in access to reliable digital infrastructure across India. Rural areas often face poor connectivity, limited availability of devices, and inadequate technical support. For many households, especially in low-income segments, the cost of smartphones, data plans, or computers is prohibitive. This structural divide means that large sections of the population remain excluded from the benefits of e-filing, regardless of the government's digital initiatives (Singh et al., 2018).

- **Low Levels of Digital and Financial Literacy:**

Even when access to digital devices and internet is available, many taxpayers lack the knowledge and skills to use them effectively. Digital financial literacy—interpreting online instructions, filling digital forms, and making secure online payments—remains low, particularly among older citizens, women in rural areas, and individuals with limited formal education. Without targeted interventions, these groups are unlikely to independently engage with e-filing platforms (Tavares & Almeida, 2025).

- **Complexity of Taxation Rules:**

The challenge is not limited to digital skills alone. India's taxation system, though increasingly digitized, is often perceived as complex, involving multiple forms, legal terminology, and procedural requirements. Even with improved literacy, taxpayers may still find the system intimidating. Complexity reinforces reliance on intermediaries such as chartered accountants or tax return preparers, weakening the incentive to learn and adopt digital filing systems independently (Methei, 2024).

- **Trust and Perceptions of Risk:**

Concerns about data security, system reliability, and the potential for errors discourage many taxpayers from embracing e-filing. News of technical glitches, system downtimes, or cybersecurity breaches contributes to skepticism. For individuals with low digital literacy, these risks appear amplified, making them hesitant to entrust sensitive financial data to online platforms. Without visible safeguards and confidence-building measures, trust remains a significant barrier to adoption.

- **Language and Inclusivity Barriers:**

Although the e-filing portals are available in English and select regional languages, linguistic diversity and literacy challenges limit accessibility for many users. Tax terminology is often highly technical and not easily understood by the average taxpayer. This creates an inclusivity gap where only those proficient in English or with access to professional guidance can comfortably use the system, further marginalizing vulnerable groups.

- **Resistance to Change and Cultural Factors:**

Beyond technical issues, there are also behavioral and cultural barriers. Many taxpayers are accustomed to traditional, paper-based filing or relying on trusted intermediaries. Shifting to digital systems requires a change in habits and mindsets, which can be slow and met with resistance. In such cases, even adequate literacy may not automatically translate into adoption (Awasthi & Engelschalk, 2018).

In summary, while digital financial literacy has the potential to enhance e-filing adoption, its effectiveness is constrained by broader challenges related to infrastructure, education, trust, and inclusivity. Addressing these barriers requires a coordinated effort that goes beyond individual skill-building, involving systemic reforms, policy innovation, and sustained public outreach.

4. Discussion:

Digital financial literacy for e-filing benefits and challenges analysis shows that digital platforms provide equal access to tax systems, but can also create or aggravate inequalities if there are gaps in financial literacy. It is not just about India, but is a global phenomenon and impacts places and economies around the world, particularly in developing markets where digital transformation is moving at a fast pace. In developed countries, e-filing systems have been seen to be successful when digital literacy is high, infrastructure is robust and tax filing is simplified. Estonia, Singapore and the Nordic countries are often quoted as examples that have an e-filing rate above 90%. The successes indicate that digital literacy programs have little chance of success without the presence of system elements like ease of use, multilingual access and high institutional trust.

The Indian model, however, has been more ambitious and not so consistent. The efforts made towards making the country Digital India, Pradhan Mantri Gramin Digital Saksharta Abhiyan (PMGDISHA), and the current reforms of the income tax e-filing portal are commendable. But the difficulties highlighted – the digital divide, lack of literacy, difficulty with taxation and mistrust issues – indicate that adoption is more than a technological issue, it is a socio-economic and cultural issue. The concept used in this discussion would be linked with the Capability Approach (Sen, 1999) which is the concept showing that empowerment doesn't only require access to resources, but also the ability to use them appropriately and effectively. Digital financial literacy should therefore be viewed as a tool that enables capabilities to be developed, not merely a technical ability. In this regard, e-filing promoting policies should go beyond training initiatives to foster confidence, streamline practices and establish inclusive systems.

In addition, innovation diffusion theory can offer an understanding of the reasons for intergroup differences in adoption. E-filing is readily accepted by innovators and early adopters in urban and educated proportions, but late adopters and laggards, typically the rural and digitally excluded, are not accepting this new filing method. Knowing this adoption curve is important, as it makes it clear that there should be specific literacy interventions and easy-to-use platforms designed for various user groups. Last but not least, India's experience highlights the need for the shift to digital taxation not just to ensure compliance with tax laws, but to foster financial inclusion and sustainable governance as well. A literate taxpayer base in the digital era of taxation will increase transparency, lower transaction costs, and enhance people's trust in institutions. However, if systemic barriers aren't solved, the benefits of e-filing could go unrealized for those the program is trying to help.

5. Conclusion:

India's implementation of e-filing systems signifies a crucial advancement in the direction of modernization of tax administration and fostering digital governance. But it is not so much the technological systems as the ability of taxpayers to participate in them in a meaningful way that determines the success. In this paper, digital financial literacy is highlighted as the cornerstone of overcoming the digital divide, of empowering citizens and of making the tax system more inclusive. The advantages were underscored, including better compliance, efficiency, transparency and empowerment, as well as the disadvantages, such as the digital divide, the complexity of tax procedures and the lack of trust. In conclusion, improving digital literacy goes beyond just e-filing and it's a step toward creating a more transparent, participative, and sustainable tax ecosystem in India.

6. Implications:

The findings shared highlight the importance of an integrated approach that takes literacy, accessibility, and trust-building into account. One way to integrate digital financial education into tax reforms is by putting a greater emphasis on rural communities, women and small businesses. A user-friendly design, responsive support, multilingual options to simplify e-filing platforms can facilitate the adoption. Proper data protection, timely refunds and clear communication are also crucial in building institutional trust. In addition to taxation, better access to education and information promotes financial inclusion and voluntary compliance, which support financial equity and inclusion. The Indian experience also provides guidance to other developing countries: Digital governance is not only about having access to technology but also about having the ability to engage in the process effectively.

7.1 Limitations:

This paper is conceptual, meaning that it is based on secondary sources and theoretical arguments rather than empirical data. It defines digital financial literacy as one of the major factors for e-filing, but doesn't test the arguments. The findings can be extended in future research to be used for surveys, interviews, or experiments to determine the direct impact of literacy levels on taxpayers' acceptance of e-filing. Demographic-specific comparative studies would offer more detailed and sensitive information on adoption barriers, including, for example, analyzing urban taxpayers versus rural taxpayers, and income and education differences.

The examples could be extended through cross-country analyses, with lessons from other developing and developed countries that have successfully linked digital literacy to tax reform. Furthermore, future research could explore other factors that have been found to be related, such as trust in digital platforms, technology self-efficacy, or perceived risk, to understand adoption differences. These gaps can be filled with further research to advance the understanding of the role of digital literacies in financial inclusion and sustainable good governance, as well as increased compliance.

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