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TAX COMPLEXITY AND INVESTMENT BEHAVIOUR: A COGNITIVE LOAD PERSPECTIVE ON INDIAN TAXPAYER'S CHOICES

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Abstract

This study explores the multifaceted impact of tax complexity on the underutilization of tax-saving investment avenues by individual taxpayers in India. Drawing on Cognitive Load Theory (CLT), the paper examines how structural, computational, procedural, record-keeping, linguistic, and legal complexities collectively impose significant cognitive and compliance burdens that hinder informed decision-making. Through an extensive review of academic literature, government reports, and expert analysis, this research highlights how the intricate and frequently changing tax environment leads to mental overload, confusion, and reliance on intermediaries, thereby discouraging engagement with higher-return but more complex instruments such as Equity Linked Savings Schemes (ELSS), National Pension System (NPS) etc. The findings underscore the need for simplified tax structures and clearer guidance to reduce cognitive strain and enhance taxpayer participation in diversified investment options. This study contributes to the understanding of tax behaviour in emerging economies by integrating cognitive theory with tax policy analysis, offering valuable insights for policymakers aiming to improve compliance and investment outcomes.

Keywords: Indian Tax System, Tax Complexity, tax-Saving Instruments, Taxpayer Decision-Making, Cognitive Overload

Introduction

The Indian tax system is often perceived as one of the most complex in the world, with its numerous deductions, exemptions, and complicated compliance procedures. While the system is designed to ensure fairness, efficiency and revenue generation, its structural interpretive complexity often confuses individual taxpayers making it difficult to plan effectively and choose suitable tax-saving options. Frequent changes to legislation, unclear rules, and the burdensome documentation process further intensify the cognitive load on taxpayers, leading to hesitation, poor financial planning and missed tax-saving benefits. As a result, reliance on tax consultants and financial advisors for selecting tax-saving investments has increased.

This phenomenon can be better understood through the lens of cognitive load theory. Sweller (1988) suggested that complex information often increases the mental load, thereby reducing the individual ability to process and comprehend it effectively. This cognitive strain can lead to missed opportunities, particularly in the context of potentially rewarding tax-saving investment avenues. This perspective is further supported by (Van Merrienboer & Sweller, 2005), who emphasized that excessive load caused by complex information, can hinder individuals from making informed and effective decisions and compromise their ability to evaluate alternatives effectively.

Recognizing the challenges posed by such complexity, global institutions such as the International Monetary Fund (IMF) and the Organization for Economic Co-operation and Development (OECD), have strongly emphasized the urgent need to simplify tax systems worldwide to enhance transparency, reduce tax avoidance, and foster economic growth (Abdel-Kader & A. De Mooij, 2020: OECD, 2017). In the Indian context, the prevailing complexity of the tax system has significantly contributed to the underutilization of beneficial tax-saving schemes such as the Public Provident Fund (PPF), National Saving Certificates (NSC), and Fixed Deposits (FDs), which otherwise offer secure and advantageous investment opportunities.

Despite the growing intricacy of the Indian tax system, there is a notable lack of empirical research specifically addressing how this complexity affects individual investment decisions - particularly in the context of tax-saving investments. This study aims to bridge this gap by investigating how the structure and procedural complexity within the tax system impose cognitive burdens on individual investors and hinder their ability to select optimal tax-saving

options. While previous studies have examined factors such as investor knowledge, risk appetite, and attitude towards tax-saving investment, they fail to recognize the role of tax system complexity in shaping investment decisions. This gap is particularly significant, as the lack of clarity and persistent confusion surrounding tax law contribute to the underutilization of beneficial investment options like Public Provident Fund (PPF), National Saving Certificate (NSC) and Fixed Deposit (FDs).

Building on this theoretical foundation, the present study aims to investigate how the complexity of the Indian tax system contributes to cognitive load and influences individual taxpayers' decision-making regarding tax-saving investments. By identifying the specific elements of the tax system that create confusion and mental burden, the study intends to guide policymakers and financial institutions with evidence-based recommendations to reduce complexity, develop a clearer and more user-friendly tax framework, and enhance tax literacy among taxpayers. Accordingly, the objectives of the study are:

Q1: To define and map the dimensions of tax-system complexity relevant to Indian taxpayers.

Q2: To assess how this complexity affects individual decision-making in selecting tax-saving investments.

Roadmap

This paper is structured to systematically address the research objectives and provide a comprehensive understanding of the complexity of the Indian tax system and its impact on tax-saving investment decisions.

Literature Review: Defines and maps key dimensions of tax-system complexity affecting Indian taxpayers.

Theoretical Framework: Introduces Cognitive Load Theory to explain how tax complexity creates a mental burden and impacts investment decisions.

Research Methodology: Describe the research design, data collection, and analysis methods used to study tax complexity and investment behaviour.

Descriptive Analysis: This section examines how different aspects of tax complexity discourage taxpayers from choosing higher returns tax saving investments.

Conclusion and Practical Insights: Summarizes findings and offers actionable recommendations to reduce complexity and improve tax-saving investment use.

Literature Review – Defines and maps key dimensions of tax-system complexity affecting Indian taxpayers.

Tax complexity is a multifaceted burden that significantly shapes how individuals perceive, navigate, and response to tax system – especially when making investment decisions and fulfilling compliance obligations. This review aims to define and synthesize the multinational aspects of tax complexity, with a focused lens on their impact on Indian individual taxpayer's investment choices and compliance behaviour.

1. The Nature and Impact of Tax Complexity

Kirchler and Braithwaite (2007) assert that higher levels of complexity reduce taxpayers' willingness to comply and increase their compliance cost. Earlier studies, such as Slemrod and Blumenthal (1996), primarily focused on compliance burden, especially the difficulty of filing returns. However, recent literature emphasizes the multidimensional nature of tax complexity (Hoppe et al., 2021; Tran-Nam & Evans, 2014). The American Institute of Certified Public Accountants et al. (1992) highlights that tax complexity stems from overlapping rules, ambiguous terminology, and burdensome administrative procedures. These collectively foster confusion, increase the likelihood of errors, and impair taxpayers' ability to make sound investment decisions- thus elevating the risk of non-compliance.

As tax systems evolve to align with economic growth and policy objectives, their inherent complexity has simultaneously intensified (Sawyer, 2016). This rising manifests in practical dimensions, such as computational difficulties, excessive documentation, complicated tax forms, frequent legal amendments, intricate compliance procedures, and poor readability of tax legislation (Walker, 2022; Musimenta, 2020; American Institute of Certified Public Accountants et al., 1992). These factors not only raise the administration burden but also impose cognitive strain on individual taxpayers, often leading to suboptimal investment decisions–such as avoiding or misusing tax-saving opportunities–and diminishing their motivation or capacity to comply .

Framework Categorizing Tax Complexity Dimensions

To conceptualize and assess the multidimensional nature of tax complexity, various scholars have proposed frameworks categorizing its core dimensions. One of the earliest contributions

came from Susan B. and Judyth A. (1987), who identified six critical dimensions: ambiguity, computational difficulty, frequent changes, excessive detail, record-keeping burdens, and complex tax forms. Subsequently, Evans et al. (2010) and Martinez and Da Silva (2019) distinguished between legal complexity (relating to the clarity and interpretation of tax laws) and compliance complexity (relating to the resources required to fulfil tax obligations). This distinction highlights the need to simplify legal provisions to improve taxpayer's understanding, thereby influencing compliance and investment behaviour positively.

Hoppe et al. (2018) further categorized tax complexity into tax code complexity (technical intricacy of written tax law) and tax framework complexity (relating to administrative enforcement). Hoppe et al. (2021) identify policy measures to close loopholes and use of tax incentives as two major drivers of increasing tax complexity, which can both promote investment but also confuse taxpayer if not designed clearly. Moreover, tax complexity often arises from balancing multiple policies goals such as efficiency, equity and social welfare (Gregory A. & Andrew D., 1996; Kaplow, 1988; Stantcheva, 2020), but frequently results in unintended negative consequences – confusion, information overload, uncertainty and taxpayer frustration (Abeler & Jäger, 2015; Feldman et al., 2015; Krause, 2000).

To synthesize the diverse conceptualization of tax complexity, Table 1 (provided) maps key tax complexity dimensions as identified across influential studies. The comparative mapping reveals both overlapping \and unique elements, providing a structural framework for understanding the multifaceted nature of tax complexity.

Authors' Detail	**Definitions of Tax Complexity**				
	Definition	**Location**	**Elements/ drivers/ dimensions**	**Targeted Group**	**Findings**
J. Slemrod (1989)	In the absence of a direct definition, it can be interpreted as difficulties faced by taxpayers due to the complicated nature of the tax code, including	United State	Complexity of tax laws and regulations, difficulties in understanding and applying tax laws, length and technicality of tax forms.	General Taxpayers (Specially filing ITR respondents)	The results indicate that tax complexity negatively affects taxpayer compliance behaviour.

	unclear rules and challenging calculations.				
AICPA et al. (1992)	In the absence of a formal definition in the report, tax complexity is described as the intricate nature of the tax system caused by confusing concepts, complex calculations, burdensome forms, and filing procedures, administrative hurdles, legal intricacies and frequent changes in tax regulations.	United State	The complexity of the tax system results from conceptual confusion, computational requirements, difficult forms and filing procedures, administrative processes and legal intricacies and frequent changes in laws.	Not specify	The tax system's complexity is shaped by general, specific and external forces.
Evans et al. (2010)	Although the article doesn't provide an explicit definition of tax complexity, it can be understood as difficulties arising from the technical intricacies of tax laws, the structural challenges with the tax system, and the burden associated with complying with tax procedures and documentation.	Australia	Tax complexity involves technical, structural and compliance complexity.	Not specify	The article underscores the need for simplification and identifies three key types of complexity.

Isa (2014)	Tax complexity as interpreted from the article, refers to the challenges taxpayers face in complying with tax obligations, primarily due to intricate computations, extensive record-keeping requirements, and ambiguity in legal provisions.	Malaysia	Tax complexity is shaped by factors such as computational complexity, extensive record-keeping, and legal ambiguity.	Tax Auditors & Corporate Taxpayers	The article indicates that computational tasks and record-keeping responsibilities are the main sources of difficulty for small businesses.
Saad (2014)	Based on the discussion in the article and related literature, tax Complexity refers to multifaceted difficulties and challenges that arise from the increased sophistication and intricacy of tax laws, regulations, procedures, and documentation.	New Zealand	It encompasses various dimensions such as computational demands, the complexity of tax forms, procedural burdens, unclear or ambiguous rules, frequent legislative changes, and low readability of tax forms.	Individuals including 11 salary employees, 12 retirees, 5 entrepreneurs, 1 student & 1 welfare beneficiary (30 Participants)	The findings highlight the importance of simplifying tax procedures and improving tax education to support better compliance.
Hoppe et al. (2018)	Tax complexity is a feature of the tax system that arises from the difficulty of reading, understanding, and complying with the tax code, as well as from various issues within	Germany	The tax code complexity encompasses elements such as ambiguity and interpretation, frequent changes, detailed requirements, record-keeping	MNCs Tax Consultants (221 Respondents)	The author conceptualizes tax complexity through a two-pillar framework that reflects its multidimensional nature, emphasizing the details and frequent changes are the most critical

	the tax framework.		burdens, and computational difficulties. Similarly tax compliance complexity includes procedural aspects such as enactment processes, audit procedures, appeals mechanisms, guidance availability, and filing and payment of taxes.		contributing factors.
Martinez and Da Silva (2019)	The article doesn't provide a formal definition of tax complexity. Based on the findings, tax complexity refers to the inherent difficulty in understanding and applying tax laws due to factors such as unclear language and complicated sentence structures.	Brazil	Low readability arises from complex language and long sentences in tax laws, making them hard for individuals to understand.	Corporate Taxpayers	The analysis reveals that Brazilian tax legislation exhibits low readability, highlighting an urgent need to simplify legal language to improve accessibility and ease compliance
Hoppe et al. (2021)	Tax complexity is a feature of the tax system that arises from the difficulty of reading, understanding, and complying with the tax code, as well as	Germany	Tax complexity is a composite outcome of tax code and framework complexity. Tax code complexities include	MNCs Tax Consultants (993 respondents)	The results reveal that India's tax code complexity is highly complex, whereas its tax framework exhibits a low level of complexity.

	from various issues within the tax framework.		inherent challenges within specific tax regulations that include ambiguous language, frequent amendments, complex computation rules, detail provisions and extensive record keeping. Similarly, tax framework complexity arises from the processes related to legislation and administrative processes that structure the tax system. It includes the development and enactment of tax laws, clarity and accessibility of tax guidance, procedures for tax filing, audits, and appeals.		
Owusu et al. (2021)	The article lacks an explicit definition of tax complexity; however, it implies multifaceted	West Africa	While the article does not directly outline the elements of tax complexity, the emphasis	Self-employed individuals (725 respondents)	The results indicate a negative correlation between tax complexity and intention to comply,

	challenges arising from intricate legal provisions, procedural requirements, and structural aspects of the tax system, which can hinder understanding, and increase compliance burden.		on simplifying laws and procedures suggests the presence of legal and procedural complexity.		suggesting that greater complexity discourages compliance.
Kumar et al. (2025)	Tax system complexity refers to the intricacy and difficulty in understanding and complying with tax laws, regulations and procedures.	India	The complexity of tax arises from intricate regulations, limited clarity, and extensive procedural burdens.	Individual Taxpayers (548 respondents)	Tax system complexities significantly influence behavioural intention.

Table 1 : Literature-Based Definitions and Drivers of Tax Complexity

Source: Author's own creation

The literature mapped in Table 1 highlights recurring themes and concerns in scholarly discourse around tax complexity, aligning closely with the six dimensions conceptualized in this study: Structural, Computational, Procedural, Record-Keeping, Linguistic and Interpretive, and Legal Complexity. Each cited work provides insights that collectively justify and support the multidimensional framework used in this research. By categorizing the literature according to these six dimensions, this study builds a comprehensive foundation for assessing how various aspects of complexity influence taxpayer's behaviour and decision-making in the Indian context.

This fulfils objective 1 by establishing a structured and literature-supported framework that defines and contextualizes the six core dimensions of tax complexity.

The concept of tax complexity has been widely discussed across different countries, yet scholars have rarely offered a direct or universally accepted definition, instead, the construct has predominantly been addressed by identifying and exploring its key elements. J. Slemrod

(1989) and American Institute of Certified Public Accountants (AICPA) et al. (1992) emphasize the multifaceted nature of tax complexity in the United States, pointing to ambiguous tax rules, burdensome and technical forms, complex computations, administrative hurdles, and frequent changes in tax regulations that collectively make compliance difficult for taxpayers. Evans et al. (2010) identify technical, structural, and compliance-related complexities, whereas Isa (2014) in Malaysia emphasizes computational demands, legal ambiguity, and record-keeping burdens faced by corporate taxpayers. Saad (2014) in New Zealand expands this by noting the procedural and interpretive challenges experienced by a diverse group of individuals, underscoring the role of tax education in mitigating these effects.

A notable contribution by (Hoppe et al., 2018; 2021) proposes a two-pillar framework distinguishing tax code complexity (related to legal provisions and rules) from tax framework complexity (concerning administrative and procedural aspects). This distinction corresponds closely with structure, legal and procedural complexities- particularly in the context of multinational corporations' tax system navigating the German tax system. Meanwhile, Martinez and Da Silva (2019) in Brazil focus on linguistic complexity and low readability in tax documents as significant deterrents to voluntary compliance, directly pointing out the legal language complexity construct. Owusu et al. (2021) in West Africa linked legal and procedural intricacies to reduced compliance intent among self-employed individuals. Recent findings by Kumar et al. (2025) shift the lens to India, showing that unclear tax language, frequent amendments, complex calculations, documentation burden, and administrative red tape significantly shape individual taxpayers' behaviour. Collectively these insights cover the six key aspects of tax complexity: structural, computational, procedural, record-keeping, language-related related and legal change.

Despite the extensive contributions highlighted above, a critical gap remains. Much of the existing literature either centres on corporate taxpayers or multinational taxpayers or is drawn from the experience of tax professionals within developed economies. This leaves a notable gap in understanding how individual taxpayers – particularly in developing countries like India – perceive and respond to tax complexity in everyday financial decisions. India's tax system, as noted by Hoppe et al. (2021), is among the most complex in the world due to unclear language, frequent legislative changes, intricate computation procedures, detailed legal provisions, and burdensome documentation requirements. Furthermore, the absence of a universally accepted definition of tax complexity, coupled with the diversity of interpretations across existing literature, underscores the need for greater conceptual clarity. To address this,

the present study systematically synthesizes existing definitions and key dimensions of tax complexity to develop a practical framework (Table 1).

Tax complexity refers to the multinational challenges individuals face in understanding, interpreting, and complying with tax laws. This complexity primarily stems from six interrelated dimensions: structural intricacies, computational difficulties, procedural burdens, record-keeping challenges, linguistic ambiguity, and legal uncertainty. These constructs capture the root cause of complexity, each contributing uniquely to the compliance burden experienced by taxpayers. Structure complexity forms the foundation of this burden, arising from the inherent intricacy and design of tax laws at any given time. This includes multiple tax slabs, overlapping exemptions, special provisions and differential treatment across income types or sectors, which reflect the static feature of tax legislative complexity without considering future amendments or interpretative changes (Saad, 2014; OECD, 2017). These complexities are made apparent when taxpayers struggle with numerous confusing tax slabs, overlapping exemptions, and special provisions that often overlap, leading to further confusion.

Another closely associated dimension is computational complexity, characterized by the struggles taxpayers encounter in performing tax calculations. Tasks such as complex calculations, identifying the correct eligibility and amount of deductions and rebates, computing surcharges, and consolidating income from multiple sources become challenging (OECD, 2017; James & Wallschutzky, 1997)These computational difficulties are compounded by procedural complexity, which relates to the operational challenges during tax compliance. Filing returns, undergoing audits and assessments, managing appeals, and completing verification steps often involve cumbersome processes that many taxpayers find confusing and overwhelming making compliance even more arduous (OECD, 2017; Baurer, 2005; Ruhl et al., 2015). The burden further extends with record-keeping complexity, where taxpayers experience the challenge of organizing, and maintaining financial records for extended periods, managing diverse income and expenses, and following complicated reporting standards. According to the Income Tax Act, of 1961, along with CBDT taxpayers must maintain detailed records of income, expenses, and investments to comply with tax laws. This dimension creates a sustained strain, as taxpayers must retain documents accurately and follow rigorous format, which may be burdensome and difficult to track effectively. Saptono et al. (2024) note that Complex and inefficient document filing requirements increase compliance costs and encourage non-compliance, linking tax complexity to higher risks of tax evasion. (Evans et al., 2005; Eichfelder & Vaillancourt, 2014; OECD, 2017). Adding to this, linguistic and

interpretive complexity arises from the use of technical jargon, ambiguous language, and a lack of clear, accessible explanations in tax laws and guidance. Taxpayers often encounter tax documents filled with complicated terminology, lengthy instructions, and insufficient plain language supports, which make understanding and interpreting tax requirements a significant challenge. Simply, it emphasizes the challenges involved in interpreting tax documents and instructions (Alm et al., 2003). Thorndike (2020), Alm et al. (2003) & James and Wallschutzky (1997) collectively highlight that unclear filing instructions further confuse taxpayers, particularly first-time filers, hindering their participation in the system. According to Gupta (2025) simplifying the language used in tax documentation can greatly improve taxpayer engagement and minimize confusion. Legal complexity further intensifies the challenges faced by taxpayers, frequent changes, internal conflicts, and contradictions in tax laws that make understanding and applying law difficult. It highlights how amendments and legal updates disrupt taxpayers' understanding and compliance efforts (OECD, 2017); James & Wallschutzky, 1997; J. B. Slemrod & Blumenthal, 1996; Bahl & Bird, 2008).

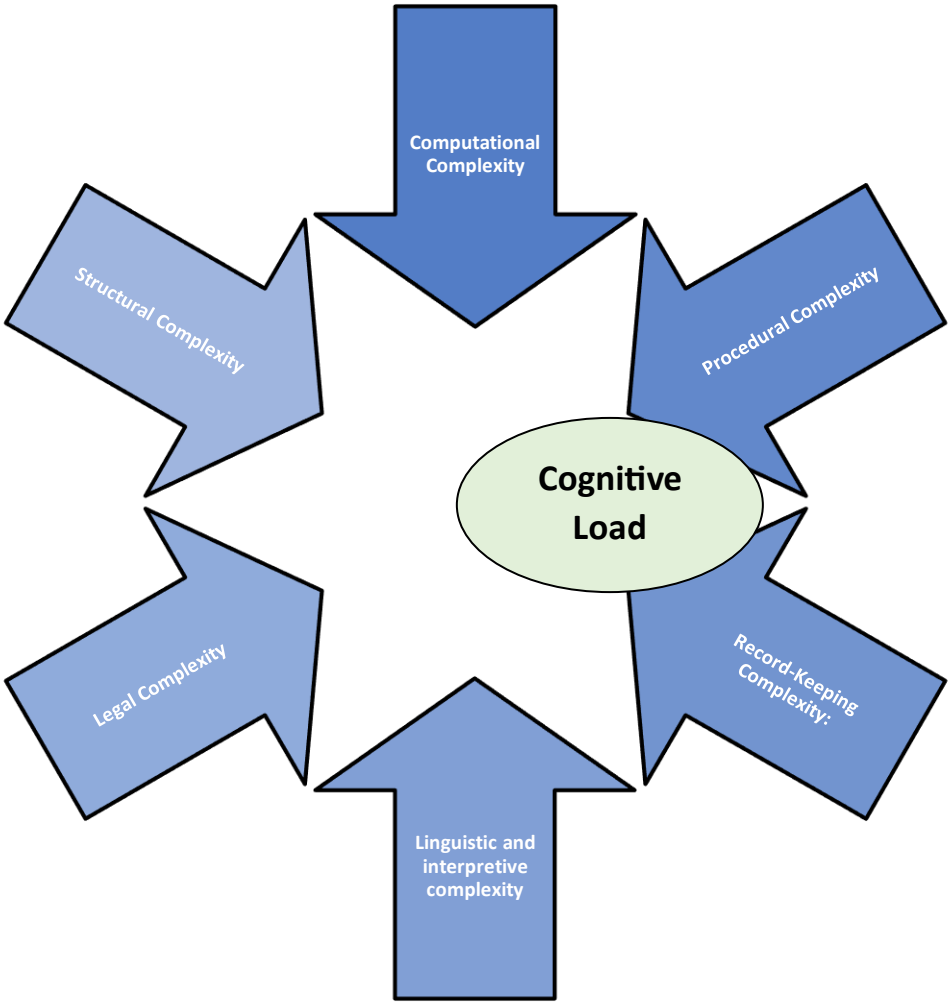

Figure 1: Tax System Complexity

Source: Self Generated

Theoretical Framework: Cognitive Load Theory

This section introduces Cognitive Load Theory (CLT) as a framework to understand how tax complexity creates a cognitive burden and influences investment decision-making. Originally developed by Sweller (1988), CLT explains how individuals process complex information and make decisions under mental strain. The theory posits that the human working memory has limited capacity, and when this capacity is exceeded, both learning and decision-making are compromised. Paas et al. (2003) expanded this theory by identifying three types of cognitive loads: intrinsic load, which stems from the inherent complexity of the material; extraneous load, caused by how information is presented; and germane load, related to cognitive effort devoted to learning and understanding. Together, these elements clarify why individuals often struggle in environments with high informational complexity, especially when information is disorganized or includes unnecessary detail.

In the context of taxation, CLT explains how vague or imprecise statutory language, frequent revisions, detail provisions, complex calculations and cumbersome procedural requirements (J. Slemrod, 1989; Evans et al., 2010; Hoppe et al., 2018) can overload cognitive capacity. Hoppe et al. (2018) & J. Slemrod (1989) further argue that unclear tax forms, technical jargon, and inconsistent guidance amplify both intrinsic and extraneous loads, often mentally overloading the taxpayers. This mental overload hinders their ability to comprehend tax-saving provisions, evaluate investment alternatives, and make informed financial decisions. As a result, many taxpayers experience mental fatigue and become increasingly reliant on intermediaries such as axe agents or consultants. Applying CLT, this study investigates how systemic tax complexity contributes to cognitive burden and shapes the decision-making process of individual taxpayers in India. These findings align with F. G. W. C. Paas and Van Merriënboer (1994), who note that poorly designed instructional environments – compliance environments intensify extraneous load and negatively affect problem-solving.

Research Methodology

This study employs a qualitative research approach to explore how various dimensions of tax complexity influence taxpayers' investment decisions in India. The research is entirely based on secondary data collected from academic literature, government reports, policy documents, industry analyses, and credible media articles. This methodology enables an in-depth understanding of the multifaceted challenges faced by taxpayers in navigating the Indian tax system and selecting tax-saving investment avenues.

The primary sources of data include peer-reviewed journal articles, authoritative reports from organizations such as the OECD, World Bank, United Nations Economic and Social Commission for Asia and the Pacific, and reports by reputed consulting firms including PwC India. In addition, reputable news outlets and specialized tax analysis platforms provide contextual and recent information about ongoing reforms, taxpayer experiences, and administrative challenges. These sources were carefully selected for their credibility, relevance, and comprehensive coverage of tax complexity issues

The study adopts a thematic analysis approach to synthesize findings across diverse data sets, identifying recurring patterns and themes related to structural, computational, procedural, record-keeping, linguistic, and legal complexities in the Indian tax environment. This approach facilitates a nuanced interpretation of how these complexities collectively contribute to the

cognitive and compliance burdens borne by taxpayers. The findings are further interpreted through the lens of Cognitive Load Theory (CLT) introduced in Section II, linking empirical insights with theoretical understanding.

Given the complexity and multi-dimensional nature of tax systems and taxpayer behaviour, qualitative analysis provides the flexibility to capture contextual subtleties and deeper insights that quantitative methods may overlook. It allows for the integration of diverse perspectives and sources, facilitating a holistic understanding of how tax complexity shapes investment choices.

While the reliance on secondary data offers broad coverage and rich insights, it may be limited by the availability and scope of existing literature and reports. The absence of primary data collection, such as surveys or interviews, restricts the ability to capture real-time individual taxpayer experiences and perceptions. Nevertheless, the comprehensive analysis of existing authoritative sources provides a robust foundation for understanding systemic tax complexity and its impact on investment behaviour.

Tax complexity and its influence on tax-saving investment decision in India

The underutilization of tax-saving investment avenues in India is strongly influenced by multiple dimensions of tax complexity within the system. These complexities – structural, computational, procedural, record-keeping, linguistic, and legal – create significant cognitive and compliance burdens for taxpayers, limiting their ability and willingness to engage with higher-return but more complex instruments like Equity Linked Savings Schemes (ELSS) and National Pension Schemes (NPS). This section applies the six-dimensional framework to analyze how each type of complexity deters the effective use of tax-saving investment options in Indian context.

Structural Complexity

India's capital gains tax framework illustrates structural complexity through its fragmented classifications, shifting policy rules, and layered exemptions mechanisms. According to Desk (2024), the 2024 Union Budget introduced uniform holding periods – 12 month for listed securities and 24 month for unlisted assets – to streamline the classification of gains into short-term and long-term. However, the removal of inflation indexation for long-term capital gains

on real estate and the increase in short-term capital gains tax on certain financial assets from 15% to 12% have compounded taxpayer confusion, highlighting persistent ambiguity in rate structures and assets-based differentiation

Further structural complexity arises from intricate and conditional exemption provisions. For instance, section 54 of the Income Tax Act allow relief on capital gains arising from the sale of residential property, but only if the gains are reinvested in up to two new residential properties within specified timeframes. The benefit is further capped at ₹2 crore and can be availed only once in a taxpayer's lifetime. These layered conditions, combined with asset-specific treatment, create a complicated decision-making environment for taxpayers seeking to optimize their capital gains.

Structural complexity also stems from overlapping tax slabs, multiple exemptions, and special provisions that create uncertainty and reduce transparency in the tax system (Klemm, 2009; Brown et al., 2017)). This uncertainty undermines taxpayers ability to plan and optimize their investments effectively, causing many to favor simpler, well-known tax-saving instruments such as Public Provident Fund (PPF) and National Saving Certificate (NSC) over potentially higher-yielding but more complex options like ELSS or NPS (OECD, 2017). The intricate interaction of provisions increases perceived compliance risk, pushing taxpayers away from more strategic financial planning.

Computational Complexity

Building on structural barriers, computational complexity further affects taxpayers decision-making. Calculating tax liabilities presents a significant challenge for many individuals, especially when identifying eligible deductions, computing surcharges, and aggregating income from multiple sources. (Blaufus & Ortlieb, 2009; Yetman, 2003). Blaufus and Ortlieb (2009) found that increased complexity diminishes the likelihood of employees making decision based on after-tax returns, highlighting the deterrent effect of complex tax systems on optimal financial planning. Futhermore, Kosonen (2015) demonstrated that providing clear tax rule information significantly reduces unintentional errors in reporting, underscoring the importance of transparency in compliance. Such burdens discourage engagement with instruments requiring deeper tax calculations, such as ELSS and NPS.

Administrative & Procedural Complexity

In addition to structural and computational concern, procedural hurdles further disincentivize taxpayers. Administrative challenges such as filing returns, managing verification processes, and navigating appeals or grievance mechanisms are often experienced as stressful McKerchar (2007). Instruments requiring multiple compliance steps, such as NPS and ELSS, are particularly affected, as they introduce additional procedural obligations compared to straightforward alternatives like PPF. Saptono et al. (2024) highlight that bureaucratic discourage participation in schemes requiring greater documentation and interaction with tax authorities, prompting individuals to favor less burdensome options regardless of financial advantages. According to Aggarwal (2024), increasing compliance and reporting obligations are making tax-related tasks more difficult for individuals. The Confederation noted that existing burdens deter individuals from engaging with more complex tax-saving schemes (The Economic Times, 2024). Similarly, TOI Business Experts (2024) emphasized the negative impact of administrative burdens on compliance, suggesting that a simplified tax administration would encourage broader participation.

Record-Keeping Complexity

Maintaining records for tax compliance – such as investment proofs, income details, and receipts – imposes a significant burden on individual taxpayers, especially those managing multiple income sources. Fear of making documentation errors or losing eligible deductions discourages individual from choosing tax-saving instruments with higher paperwork requirements. Tax2Win, (2025) and Saptono et al,. (2024) note that risk-averse taxpayers prefer low-documentation options like PPF. M. McKerchar (2007) found that extensive documentation requirements increase taxpayer stress and reduce compliance. Although reforms such as pre-filled returns aim to simply compliance, the need for long-term, accurate record-keeping continues to deter investment in more sophisticated avenues. (Murarka, 2025)

Linguistic and Interpretive Complexity

The language used in tax forms and official instructions often includes legal jargon and technical terms ta\hat are hard for the average taxpayer to comprehend (Martinez et al., 2021; M. A. McKerchar, 2008). This complexity is intensified by insufficient localized language support, especially for rural or low-literacy taxpayers (M. A. McKerchar, 2008; OECD, 2017). Such barriers reduce taxpayer confidence in understanding and managing complex schemes like ELSS and NPS. McKerchar (2008) emphasized that complex tax language discourages participation and increases non-compliance risks. OECD (2020) and World Bank

Group (2019) also report that interpretive complexity contributes to low voluntary compliance and reduced investment diversity.

Legal Complexity

Legal complexity in India's tax system primarily arises from frequent amendments, conflicting provisions, and unclear application of tax rules. Constant changes in tax laws and sudden policy shifts make it difficult for taxpayers to stay informed, creating confusion and reducing trust in the system (OECD, 2020; Klemm, 2009). For example, the 2024 Union Budge attempted simplification by standardizing holding periods for capital gains, but simultaneously removed indexation benefits and increased short-term taxes- adding to layers of confusion rather than clarity.

The application of Section 54 exemptions, with lifetime limits and asset-class-specific conditions, exemplifies how a legal rule continues to require intense scrutiny, discouraging taxpayer from utilizing them (Ray, 2024; Policy Bazar, 2025). Richardson (2006) & McKerchar (2008) found that legal unpredictability increases compliance cost and encourages conservative financial behaviour.

Together, these six dimensions of tax complexity – structural, computational, procedural, record-keeping, linguistic, and legal – form a web of cognitive and compliance challenges. This complexity deters taxpayers from engaging with investment avenues like ELSS and NPS that offer higher returns but demand greater understanding, effort and strategic planning. As a result, taxpayers often retreat to familiar, low-risk instruments despite potentially lower long-term financial gains.

Conclusion and Practical implication

This study reveals that the multifaceted complexity of India's tax system — spanning structural, computational, procedural, record-keeping, linguistic, and legal dimensions — imposes a substantial cognitive and compliance burden on individual taxpayers. Consistent with Cognitive Load Theory (CLT), these overlapping complexities exceed taxpayers' cognitive capacity, leading to mental overload, confusion, and ultimately suboptimal investment decisions.

The findings indicate that taxpayers often default to simpler, low-risk instruments such as Public Provident Fund (PPF) and National Savings Certificate (NSC), despite the availability of higher-return options like Equity Linked Savings Schemes (ELSS) and National Pension

System (NPS). This preference stems from difficulties in understanding ambiguous tax provisions, navigating complicated calculations, fulfilling burdensome procedural requirements, and coping with dense, technical language.

The cognitive strain generated by tax complexity not only hampers taxpayers' ability to fully comprehend tax-saving opportunities but also undermines their confidence in managing compliance independently. As a consequence, many rely heavily on intermediaries, which may introduce additional costs and reduce the overall efficiency of tax planning. The legal and administrative unpredictability further erodes trust in the system, discouraging proactive investment behaviour.

From a policy perspective, these insights highlight the urgent need to simplify tax laws and improve the clarity of communication with taxpayers. Measures such as reducing the number of exemptions, streamlining procedural requirements, enhancing the usability of tax forms, and providing localized, plain-language guidance could significantly lower cognitive and compliance burdens. Simplification efforts should be complemented by financial literacy initiatives tailored to diverse taxpayer groups to improve germane cognitive load — encouraging deeper understanding and better decision-making.

For tax administrators, adopting user-centred design principles in tax communication and digital interfaces can help minimize extraneous cognitive load. Enhanced digital tools, pre-filled tax returns, and intuitive calculators can assist taxpayers in managing computational and procedural complexities effectively.

In conclusion, addressing tax complexity through targeted simplification and taxpayer support is critical to unlocking broader participation in tax-saving investments. This will not only improve individual financial well-being but also contribute to more efficient tax compliance and a healthier investment ecosystem in India.

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