



# TAXATION SYSTEM IN INDIA: A JOURNEY THROUGH THE ROOTS

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**Abstract:** Taxation is a mark of civilization. Tax evolved and developed independently in the great ancient empires. The concepts that evolved were transported to other empires and cultures where tax ideas took root. This pattern continues through to today as nations are influenced by developments in tax from other countries. Taxes are traced from their roots on through mutations. This analysis traces the evolution of ideas about one of the most important policies facing any country: taxation. The article will demonstrate that elite ideas about tax policy have changed dramatically over the past century and that these ideas have had enormous consequences for the development of the modern income tax Act. You know the saying—nothing is certain except death and taxes. (Franklin, Benjamin Letter to Jean-Baptiste Le Roy, 13 November 1789). While that may be true, taxes tend to be more complicated and very inconsistent. And they didn't always exist as they do today. will look at history from the *manusmriti* to India's today through the prism of tax. We begin this entry by providing an overview of historical changes in taxation patterns, and then move on to discussing recent trends and patterns in taxation around India. The idea is not to enter into an exhaustive discussion of this theme but rather merely to give a chronology of the principal work in the light of the views of leading authorities. This paper is an attempt to give a brief look on the growth and evolution of taxes in India from the ancient times.

## 1. INTRODUCTION

*“It is shortage of resources, and not inadequate incentives, which limits the pace of economic development. Indeed the importance of public revenue from the point of*

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*view of accelerated economic development could hardly be exaggerated.*” Nicholas Kaldor, ‘Taxation for Economic Development,’ *Journal of Modern African Studies*, 1963, p. 7. From a historical perspective, the growth of governments and the extent to which they are able to collect revenues from their citizens, is a striking economic feature of the last two centuries. Taxation has always been a topic occasioning acrimonious debate and whenever a budget is passed there is a deep, bitter national resentment over taxes and government spending, people blame the government for burgeoning money problem, and the history and literature of all the nations and all ages contains references to ‘taxes’ and ‘tax laws’. Taxation is the crown jewel of public finance. The history of taxation dates back to time immemorial and it is not a recent development by any account. Emperors, kings and heads of states levied taxes or duties to pay for wars or the upkeep of castles and palaces or other public projects.

The word tax is derived from the Latin word ‘*taxare*’ meaning to estimate. “A tax is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority and is any contribution imposed by government whether under the name of toll, tribute, impost, duty, custom, excise, subsidy, aid, supply, or other name.”

## **2. INDIAN CONTEXT**

“Death, taxes and childbirth! There’s never any convenient time for any of them”. Tax is ever evolving and its inception is as old as civilization. The prevalent system of taxation in India today has its efficacy from ancient times. The system of collecting taxes can be notched back to be continuing from the period of pristine daintiness. Interestingly, the history of tax in India has deep roots that can be traced to ancient times. Memorials of tax indicate the evolutionary patterns which reflect the changing social and economic status and the enlarged pattern to which taxes are applied.

## **3. ANCIENT INDIA**

Taxation in India has its ground from the epoch of ‘Manu Smriti’ and ‘Arthashastra’, this archaic tax system was envisaged within the paradigms of social welfare, creation and perpetuation of prosperity, although colonial and some rulers used it to impregnate their treasure. Kalidasa in the *Raghuvansha* says thus of King Dileepa: “It was only for the good of his subjects that he collected taxes from them, just as the Sun draws moisture from the Earth to give it back a thousand fold” The verdicts imply the motive for the collection

of taxes was beneficiary and welfare. Once the saint deep-laided that “taxes should be related to the income and expenditure of the subject. He, however, cautioned the king against excessive taxation; a king should neither impose a high rate of tax nor exempt all from tax”. The comprehensive breakdown provided by Manu and Kautilya on the taxes dogmatically demonstrates the entity of a significant system of taxation from the pristine era.

Manu in ‘Manushamarti’ held that “in the case of cattle and gold the fiftieth part shall be taken by the King; and in the case of grains, the eighth, sixth or twelfth part”. Gautama directed that “Cultivators should pay to the king a tax amounting to one-tenth, one-eighth, or one-sixth of the produce. Some declare that there is a tax also on cattle and gold, viz., one-fifth of the stock”. Baudhāyana observed that “the king shall protect his subjects, receiving as his wage a sixth part of their incomes”. Vasiṣṭha said that “a king who rules according to the sacred law may take the sixth part of the wealth of his subjects”. Viṣṇu think that he should lake from his subjects as taxes a sixth part of every ear of the corn, and a sixth part of all other seeds;—two in the hundred, of cattle, gold and clothes.

Thus the verdicts of ancient scholars show enough evidence that taxes were levied in the variant manner even in antiquated and primitive communities and its substantive is not only confined to Manusmriti and Arthasastra. But still Manusmriti is regarded as ancient and prevalent source provisions of income tax. As per Manusmriti, the taxation should not be an aching experience for the public in general. The taxation should be reasonable time that it should make up a pertinent income as well as feels justified to the people. Kautilya’s Arthasastra, develops the taxation system in a veritable extended and planned genre. When the Mauryan Empire was as its hegemonic move, Kautilya’s prescribed resolutions and treaties which helped the king in administering the affairs of the state in most verseed manner and gives a reflection of taxation in the Mauryan state of circa 300 BCE and on one hand as the first fully fledged empire of India, we get an inkling of the earliest formulation and implementation of taxation by the state. On the other hand the ideas of society and polity get crystallised as normative rules in Manusmriti. Therefore, juxtaposing these two texts with the modern evolution of taxation opens new vistas of economic history. Kautilya’s theory was just not confined to tax on agricultural produce but also manifested water rates, octroi duties, tolls, customs duties, salt tax, taxes on forest produce, mining of metals and many more. Not just this, individuals were also classified and taxes were imposed on

their profession like actors, singers, dancing girls, musicians etc and collected in the form of gold coins, livestock, gray goods, cereals and individualistic services. Taxes like *vartanam* was levied on all imported over and beyond seas commodities, *Dvarodaya* levied on the businessman for the import of oversea goods, ferry fees, *yatravetana* was levied on pilgrims. Taxing people motive was not just to collect revenue rather creating a responsibility (*dharma*) relationship between citizens and the king. Taxes were never made compulsory and citizens can even demand refund of taxes paid if they think, king fails in fulfilling his duties of protecting them and creating wealth. However, revenues were collected from varied sources but the philosophy behind the idea was not to exploit people by collecting higher taxes; but to spend on well being and welfare of the people, building infrastructure, developing educational institutions and all other activities beneficial to the society thereby laying the foundation of current taxation system.

## 5. MEDIEVAL INDIA

In the medieval period, the Sultanats, the Mughals, the Marathas came up with the various forms of taxes like *khiraj*, *zakt*, *zabt*, *dastur-ul-amal*, *chauth* tax etc. Basically, during this period various amendments and experiments were done by different rulers like *Ajatashatru* was in support of various religions thereby he lowered or withdraw taxes for ascetics, *Chandragupta Maurya* (322 BCE) collected sales taxes, In *Ashoka* regime, Two types of taxes were assessable—amount of land cultivated and on the produce of the land, ‘*Raja Todar Mal*’, in the capacity of finance minister of King *Akbar*, introduced “*zabt*”, “*dahshala*” etc as a system of taxation and a new system of revenue. Further, Britishers and French were also empowered to collect taxes on the behalf of the king by the ‘*Treaty of Allahabad of 1765*’. After India’s first war of independence i.e. *Sepoy mutiny of 1857* the British government was left with the financial crisis and consequently in July 1860, with the words of *Manu*, “As the leech, the calf and the bee take their food little by little, even so must the King draw from his realm, moderate annual taxes”. *Wilson, James* introduced the income tax act in India. The period between 1860 and 1886 (two income tax acts were passed during this period 1860-1863 and 1869-1873 and in the meantime several license tax were dominant) saw a series of experiments in the field of direct taxation, alternating between income-tax proper, and a licence tax on trades and professions, akin to the indigenous *Mohturfa* and *Veesabuddy*. The final form of the tax was settled in 1886, the first systematic

legislation on income-tax. In 1886 the government compulsively; affected by financial crunch, reintroduced an income tax with certainly important provisions. Motive at the back of doing so called necessary amendments to the income tax act of 1886 is connected to the First World War; to earn revenues for the maintenance of leisure and comforts of British governments. The Indian Income Tax Act of 1918 introduced diverse significant amendments and revoked the Income Tax Act of 1886. The recency of the Indian income tax act of 1918 lies in the fact that tax rates which were earlier embodied in the version of the act is now to be fixed by annual finance Act. However the act of 1922 remained in force till 1961 but meanwhile separate agencies was created and its regime was progressively shifted from the revenue to the central board of revenue to govern the central taxes. This Act equipped the taxation system of India with the highly requisite pliancy and established a proper framework and organization of tax administration in India that sustained for the next 40 years. In the history of income tax in India this Act is the most remarkable landmark or a step pillar and represents the foremost organized, systematized and well planned tax structure in India. The notion of flexibility in tax rate harmonious with the budget demands of the state; operable in the current system of taxation was first incepted in this Act only. Acts and policies passed during the governance of Britishers specifically laws related to taxes laid a foundation for the ensuing statutory acts for income tax. Achievement of Independence comes with amenableness of managing funds in such a manner that accomplish both the objectives of earning funds for existence and providing people with basic amenities. Now its own welfare has become the priority instead of accomplishments of British interest and their advancements; hence the act has gone through several changes and amendments ever since it was framed and created. However the Income Tax Act of 1922 remained the leading book for income tax in India until 1962. A new Act was enacted by the Indian government called "Income tax Act 1961" looking into the perspective of the Indian environment; and still the governing act for charging and levying income tax in India. Extant Act of income tax was outlined in 1961 based on the recommendation of law commission and several enquiry committees and came into effect from 1 April, 1962; rectified or amended from time to time by various finance Acts keeping in mind the socio economic status of the country. After the attainment of freedom, three vernal tax related laws were fabricated: the wealth tax act, the expenditure act and the gift tax act around 1957 and 1958. By 1963, the I.T. department, overburdened with dispensation of all

these judicature and its diffusion; pondered of creating a new and separate board Consequently, the Central Board of Revenue Act, 1963 was passed and constituted. Since 1961 there have been anatomical changes in the Indian tax system. It has become vast, extensive and complicated over the years. It has successfully mobilized resources and funds for the development and socio economic benefit of the people. In the last 60 years or so, the structure of the tax has undergone a series of changes. While the principal factor responsible for changes has been the need for additional revenues, other factors such as changing economic conditions, judicial decisions, and the proposals made by a number of Enquiry Committees have also played their part in shaping the structure of income-tax. In particular, tax policy was the principal instrument for transferring private savings to public consumption and investment by India's Constitution It may be added that, in the process of its assimilation to Indian conditions, the tax acquired distinctive characteristics as evidenced by the treatment of agricultural income and of the income of the Hindu undivided family, and by developments in the sphere of taxation of corporate income, evolution of goods and service tax on July 1, 2017; subrogated the existing VAT and excise duty and service tax leviable at central and state level, new website of income tax department has been launched with exciting and enhanced new features; which provide ease in filing return of income, TRACES, banking cash transaction tax, integrated tax payer management system and many more like these. As it was in the ancient time, so is it today: taxes are the main source of income of the government but, the difference is earlier everybody was forced to pay taxes now only financially eligible have to pay taxes. Basically two types of taxes are there namely DIRECT and INDIRECT and revenue authorities' namely central board of direct taxes and other one is central board of excise and custom. Every year amendments are proposed through the finance bill; the bill to become a finance act needs to be passed by both the houses of parliament and the assent of the president of India.

For what was said at the Manu's period is still apt today: "*if you have a taxable income, you owe the government a TAX*".

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