

A STUDY OF HISTORY AND DEVELOPMENT OF TAXATION SYSTEM IN INDIA

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Abstract:

Taxes are essential payments made to the government in exchange for the use of state services. This revenue is then utilized by the government to improve infrastructure and provide other necessary facilities for its citizens. A well-run taxation system is crucial to ensure top-quality services, promote economic growth, and drive GDP growth. Thus, it holds great significance for any country. The roots of taxation in India can be traced back to ancient times, long before independence. Ancient Indian texts such as the Manusmriti and Arthashastra, which are notable for their laws and economic principles, mention taxes and their imposition. These texts also emphasize the significance of a fair and just taxation system for the overall welfare of the state.

Keywords: Ancient India, Taxation system, Manusmriti, Arthashastra, Direct tax, Indirect tax.

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Introduction:

William Pitt the Younger made a monumental step in India's financial history by officially implementing a tax system. Being the finance minister of pre-Independent India, he delivered this ground breaking decision

In 1850, Sir James Wynn during the inaugural union budget session under British rule. This momentous event paved the way for a more organized approach to taxation through the Indian Income Tax Act of 1860. This act was the first of its kind to be centrally administered in India, and it marked a significant turning point in the country's taxation journey. Its primary objective was to recoup the losses incurred by the government during the 1857 military mutiny. As a result, the act was divided into four subgroups, focusing on land, professions, trade, securities, salaries, and pensions. The Indian Income Tax Act formed the foundation of taxation laws in India, although it underwent revisions and eventual replacement.

The word "Tax" has its roots in "Taxation", which can be defined as an estimation. Throughout history, India has had a longstanding system of direct taxation, adapted over time. Both the Manu Smriti and Arthashastra texts mention a range of tax policies. According to the wise sages, taxes should be proportionate to the individual's income and spending. However, they also warned against excessive taxation, advising kings to neither impose exorbitant rates nor exempt everyone from paying taxes.

Manu Smriti emphasizes the importance of a fair and considerate tax system, urging the king to prioritize the well-being of the taxpayers. He advises that merchants and craftsmen contribute 1/5th of their earnings in precious metals, while farmers should pay a varying portion (1/6th, 1/8th, or 1/10th) of their crops based on their individual circumstances.

The Arthashastra clearly outlines a strict and specific tax system, leaving no room for any kind of unfairness or discretion. Under this system, tax collectors established a set schedule for each payment, which included predetermined guidelines for when, how, and how much to pay. Land revenue, for example, was always set at 1/6 share of the produce, while import and export duties were calculated based on the value of the goods. In the case of foreign goods, the import duties were approximately 20% of their value. Additionally, other fees such as tolls, road cess, ferry charges, and other levies were also predetermined and non-negotiable.

According to Kautilya's teachings, in times of war or crisis such as famine or natural disasters, the collection of taxes should become more severe and the king could even resort to taking out loans to fund the war. Additionally, the rate of land revenue could be increased from 1/6th to 1/4th during these difficult times. Those involved in trade were also expected to make significant contributions to support the war effort.

Kautilya believed in the importance of fair and just taxation. This meant that the wealthy members of society were expected to contribute a larger share in taxes compared to those who were financially struggling.

Review of Literature:

According to Alagappan (2019), it is mandatory for every citizen of the country to pay taxes. This process of taxation is crucial in providing the government with the necessary resources to create policies and schemes for the overall growth of the economy. One such significant form of taxation is income tax, as it not only serves as a source of revenue but also helps in reducing economic disparity. However, the various objectives of taxation may conflict with each other, creating a dilemma for the state. It is, therefore, necessary for the government to develop a comprehensive and coherent tax system that can balance these objectives while meeting its own requirements and goals. With this in mind, the purpose of this paper is to analyse the current tax structure in India.

In a detailed analysis, Garg (2014)¹ investigated the effects of GST on the Indian tax landscape. His findings reveal that implementing GST is a crucial and rational move in the country's indirect tax reforms. Additionally, experts suggest that GST has the potential to enhance tax returns and drive overall economic progress in India.

In their 2016 article "Goods and Services Tax in India: A Positive Reform for Indirect Tax," Khurana and Sharma explore the objectives of GST and its potential to reform the country's indirect taxation system. The authors note that after the implementation of GST, manufacturers, wholesalers, and retailers will be able to easily recover input taxes in the form of tax credit. This highlights the significant impact of GST on the indirect taxation landscape in India.

According to S. Mahendra Dev's (2020) research, the state of the Indian economy was extensively examined both pre and post outbreak. The findings indicate that the implementation of measures such as lockdowns, restrictions on international trade and commerce, closure of non-essential services, and limited movements will have a detrimental impact on the economic well-being of the nation.

Objectives of the Study:

The major objectives of the study are:

- To study of taxation system in India.

- To study impact of taxation in ancient and modern period in India and its effects for economic development.
- To study the challenges of taxation system and find out solution.
- To understand over all Steps taken by Government in case of taxation system in India.

Hypothesis:

H0. Taxes doesn't play important role for the total revenue of India

H1. Taxes play an important role for the total revenue of India.

Research Methodology:

This research paper is based on secondary data. The data has been collected from journals, newspaper, websites and articles, social media, news channels, etc.

Scope of Study:

This study is conducted on the basis of secondary data. So the results are based on research study.

Limitations of the study:

- Only secondary data is used for study.
- Secondary data may not be accurate.

History of Taxation in India:

A Brief Look at Taxation in India Taxation has a long history in India, with the earliest evidence found in the Manusmriti and Arthashastra. These ancient texts, written around the 3rd century BCE, lay down the principles of fair taxation for the subjects of the king. According to the Manusmriti, traders and artisans were expected to pay 20% or 1/5th of their income as taxes. Agricultural tax varied based on the produce and circumstances, ranging from 1/6th to 1/10th of the crop. The Arthashastra, a comprehensive guide to state functioning, also discussed taxation in India. It emphasized the principle of progressive taxation, with the wealthy paying a higher percentage of taxes compared to the less privileged. Additionally, it set a uniform land tax of 1/6th for all agriculturists. These early sources demonstrate the importance of fair and just taxation in India, a concept that continues

The Income Tax Act of 1860 holds significant importance in the evolution of taxation in India. While ancient texts laid the foundation, it was during the British era that the modern income tax system took shape. In 1860, Sir James Wilson introduced this system, with the objective of compensating for the British government's loss during the 1857 military mutiny. The Act classified income into four categories - from land, trade and profession, salary and pension, and securities. Interestingly, even back then, certain investments, such as life insurance premiums, were exempt from taxation, making them attractive options for tax-saving.

The Indian Income Tax Act was enacted in 1886, and has since undergone numerous changes and updates. Initially, the act imposed taxes on four sources: salaries, pensions and gratuities, company net profits, and interest on securities. However, over the years, additional sources of income have been included under its purview.

In April of 1918, a ground-breaking new Income Tax Act was enacted, bringing forth significant changes from its predecessor. Among the notable amendments, the Act now factored in any occasional or non-recurring

deductions and profits from business and professional transactions when determining taxable income.

The passage of the Income Tax Act in 1922 marked a pivotal moment in the development of our current tax system and legislation. By allowing for greater flexibility in India's income tax structure, this Act also laid the foundation for a more effective tax administration system. Its impact was felt for several decades, until the year 1961.

One of the most extensively revised laws in Indian history, the Income Tax Act of 1961 was carefully crafted in consultation with the Ministry of Law. This legislation applies to all of India, including Sikkim and Jammu and Kashmir, and officially went into effect on April 1st, 1962. As a result of this act, the former Central Board of Revenue was restructured, leading to the creation of the Central Board of Direct Taxes (CBDT). Today, when calculating your taxable income, determining your tax bracket, paying your taxes, and selecting tax-saving investments, all of these factors are heavily influenced by the provisions outlined in the Income Tax Act of 1961. Under this Act, there are five distinct categories of income that are subject to taxation, including income from salary, business or profession, and other sources."

Each year, during the Union Budget session, changes are made to the tax implications for every group of individuals, with the aim of funding government operations and improving services for citizens. The latest revisions state that individuals, HUFs, and NRIs with an income below ₹2.5 lakh are exempt from paying taxes. Additionally, senior citizens over the age of 75 are waived from filing tax returns, a relief measure in the wake of the ongoing COVID-19 crisis. While you currently have the option to select between the old and new tax regimes, both offer various exemptions and deductions to help you save more money. These can include essential tax-saving investments such as life insurance premiums, specific maturity payouts, ULIPs, provident fund, and national pension schemes.

Need of Taxation in India: According to the law, every person is obligated to pay taxes, which are then directed to the government's treasury. The designated government officials have the authority to determine how these taxes are allocated and how the budget is managed. Tax payment is mandatory, and individuals must comply if their income falls under the income tax bracket. It is a civic responsibility for every citizen to fulfill their tax obligations, and a higher tax collection enables the government to implement more beneficial social programs.

"Ensuring the well-being of all citizens is a fundamental duty of the government. Through the collection of direct and indirect taxes, the government allocates its resources towards providing essential services to its people. These include vital necessities such as healthcare, electricity, roads, education, free housing for the underprivileged, water supply, emergency services like police and firefighters, a fair judiciary system, disaster relief efforts, and the maintenance of public structures like bridges. By prioritizing these services, the government plays a crucial role in promoting the welfare of its citizens."

In order to financially support multiple governments, such as village panchayats, block panchayats and municipal corporations within the state, the state finance commission allocates funds to each of them.

Enjoying the security and stability of life is a vital benefit for taxpayers, who entrust the government with their taxes in return for protection from external threats, armed revolts, and other potential crises.

Taxes classification in India:

The tax system of India consists of direct and indirect taxes, each with its own specific purpose and application. Direct taxes, such as income tax and corporation tax, are imposed on individuals and businesses based on their taxable income. The onus to pay these taxes lies on the assesses themselves. Conversely, indirect taxes, applied to the sale and provision of goods and services, place the responsibility of tax collection and deposit on the sellers, rather than the assessed directly. India's direct tax structure includes a variety of taxes, including income tax, corporation tax, dividend tax, and capital gains tax, among others. Additionally, there are indirect taxes such as wealth tax, gift tax, estate duty or inheritance tax, land revenue, agricultural income tax, and professional tax. These taxes contribute to the overall tax revenue of the country and play a crucial role in its economic system.

"India has various types of indirect taxes in place, including the Goods and Services Tax (GST) which was implemented on July 1st, 2017, replacing multiple existing indirect taxes. This comprehensive, multi-stage and destination-based tax was enacted through the Goods and Service Tax Act, passed in Parliament on March 29th, 2017. However, there are certain indirect taxes that are not included in GST, such as Basic Customs duty, Exports duty, Road and Passenger Tax, Property Tax, Stamp duty, and Electricity duty. These taxes continue to be levied separately in accordance with their respective laws and regulations."

Analysis of Indian Tax Structure:

Following table no.1 shows the details of the amount raised from direct taxes and indirect taxes by both central and state government.

REVENUE RECEIPTS IN Rs. crore

	2013-2014	2014-15	2015-16	2016-17
Revenue receipts-Direct Tax	648966	703508	763454	862077
Revenue receipts- Indirect Tax	1230177	1336518	1620967	1822307

Contribution of direct and Indirect tax in india:

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
DIRECT TAX	52.2%	54.6%	52.2%	46.6%	49.7%	51.5%
INDIRECT TAX	47.8%	45.4%	47.8%	53.4%	50.3%	48.5%

As per the above information it is cleared that hypothesis H1. Taxes play an important role for the total revenue of India.

Dissatisfaction of Taxation:

It is a common refrain that our country is plagued by numerous scams that drain our valuable public funds. This has understandably led to frustration among taxpayers, who bear the brunt of these illicit activities.

The tax rate is exorbitantly high. b. The current tax system is unjust, as it unfairly burdens individuals. Wealthy

individuals often pay less in taxes, while the less fortunate are subject to higher taxes. c. The inefficiencies in government spending result in a waste of taxpayer money. d. The government is directing funds towards misguided or unnecessary endeavours.

Conclusions:

Taxation is a method of direct revenue collection in which individuals pay taxes directly to the governing body. The word "tax" is derived from the Latin word taxare, meaning "to assess the value of something." Governments levy taxes to fund public services and programs. Some defining features of tax include its mandatory nature, its role in serving the common good, its position as a contribution from individuals, its collection from personal earnings, and its contribution to state revenue. Therefore, it is evident that tax not only benefits the government, but also, ultimately, serves the greater good of society.

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