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STUDY ON HISTORY OF TAXATION IN INDIA

*Manu Nandal and ** Dr. Gulab Singh

**Research Scholar, Department of Commerce, SunRise University, Alwar, Rajasthan (India)
* Associate Professor, Department of Commerce, SunRise University, Alwar, Rajasthan (India)
Email: manu.nandal@gmail.com

Abstract: Direct tax is in the form of taxation in which tax is paid directly by people to the authority which imposes this tax. The word tax comes from the Latin word *taxare or taxo.* It means to assess the worth of something. Governments impose taxes to use the services provided by it. Some characteristics of tax are that it is compulsory, for the public good, it is a contribution, it is paid from one's income and it improves the revenue of the state. Some characteristics of tax are that it is compulsory, for the public good, it is a contribution, it is paid from one's income and it improves the revenue of the state.
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Introduction:

The word 'tax' is derived from the Latin word *taxare* or *taxo*. It means 'to assess the worth of something'. Taxes are imposed by government for the use and service of the State. They are levied and collected by the State for the purchase or sale of merchandise or a service. Taxes provide revenue to the state, and is therefore one of the most significant aspects of any system of administration by any form of government.

The strength of an economy depends upon how good the tax system is. A just tax system can propel the economic growth of a country and lead to its prosperity. This in turns makes its citizens happy and more productive. An efficient taxation policy leads to growth in GDP; it is considered sound if it performs allocative, distributional and stabilization function in the economy.

There are two types of taxes – direct and indirect. Direct taxes are those that an entity remits to the government directly, and include income tax, property tax, etc. indirect taxes are those that an entity remits through third parties. Service tax is an example of indirect tax imposed by the government of India.

Any tax imposed by the government (Central, state or local) has the following important characteristics:

- **It is mandatory:** since any form of tax is imposed by the government for the benefit of the country, it is required by law to pay taxes
- **It is a contribution:** tax is a contribution made by citizens for the betterment of their country. The government of India provides basic healthcare, infrastructure, defence, etc. with the money collected from taxes
- **It is for public benefit:** the purpose of collecting taxes is for the benefit and upliftment of the society in general. Taxes are not supposed to favour specific individuals. Disaster maintenance and rescue is an important aspect of the money collected in the form of taxes
- **It is paid out of income earned or wealth:** you pay tax only when you generate income. If an individual does not generate a minimum threshold income (defined and modified from time to time by the government), they need not pay some taxes like income tax.
- **It boosts economy:** this is one of the most important aspects of collecting taxes. Since the government provides for infrastructure in the form of roads, trains, power stations, damns, etc., it utilizes the tax revenue for economic growth of the nation

History of Taxation in India

Income is the money that an individual or business receives in exchange for providing a good or services. A formal tax system was in existence in India since the time of Maurya dynasty. The higher class of citizens contributed 1/6th of their income as tax. It is said that even before the Mauryas, tax was mentioned in Manu Smruti, one of the most ancient scriptures of India. The subsequent Mughal invaders brought with them their own taxation system. The infamous Jezia was a tax imposed on the non-Islamic people of the land. In India, it was abolished by Akbar.

The income tax as we know today was first introduced in India in 1860 by the British. It was introduced to compensate for the losses sustained by the government due to the rebellion of 1857. Income tax is defined as the annual charge levied on both earned income (wages, salaries or commission) and unearned income like dividends, interest or rent. In addition to financing a government's operations, progressive income taxation is designed to distribute wealth creation more evenly in a population and to serve as buffer in case of fluctuations in the economic cycle. There are two basic types of income tax: personal income tax and corporation income tax.

The Income Tax Act was passed in India in 1886, and there have been constant revisions and refinements in the Act since then. After the first World War, a new Income Tax Act was passed, in 1918, again to counter the residual effects of economic devastation caused by the war. This income tax Act was in place till 1922, when it was replaced by another Act. After 40 years, and 15 years after India gained freedom from the British, the income tax Act was modified again. The current Income Tax Act has been adopted in 1961, and bought into force with effect from April 1, 1962. It encompasses the whole of India, including Sikkim, Jammu and Kashmir. The Central Board of Revenue bifurcated and created a separate Board for Direct Taxes called as the Central Board of Direct Taxes under the aegis of Central Board of Revenue Act, 1963.

Currently, there are five broad heads under which income is taxed by the govt. of India:

- Income from salary
- Income from business or profession
- Income from capital gains
- Income from property
- Income from other sources

Each successive government amends the Act with an aim to finance government operations, and to try and distribute wealth more evenly. A noticeable feature of the Income Tax Act of India is that agricultural income in India is not taxable. Income tax in India (and all other countries) is assessed annually for the previous financial year.

India currently has a three tier setup for taxation. The central government and the state government can both impose tax. The State government in turn can delegate taxation to the local governing bodies like the municipal corporations and grampanchayats. It is said that that the Indian tax system is one of the most complex in the world, including the likes of income tax, wealth tax, property tax, gift tax, sales tax, VAT, custom duty, excise duty (now replaced by GST), corporate tax, income tax and a plethora or other taxes? Indeed, it is one of the reasons why there is a high demand in India for income tax consultants, GST consultants, auditors, and other professionals.

As a nation evolves, its needs change. India is no exception. No doubt as the nation progresses, the tax structure of India will undergo many refinements. For example, the Goods and Services Tax (GST), which has replaced the Central and State indirect taxes such as VAT, excise duty and service tax, was implemented in India on July 1, 2017. GST has been already introduced in more than 160 countries, starting from France where it was introduced way back in 1954. So, it can be safely said that GST is a tired and tested taxation solution; India need not worry unnecessarily about its effectiveness.

History of Taxation Pre – 1922

"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" –**-Kalidas in Raghuvansh eulogizing KING DALIP.**

It is a matter of general belief that taxes on income and wealth are of recent origin but there is enough evidence to show that taxes on income in some form or the other were levied even in primitive and ancient communities. The origin of the word "Tax" is from "Taxation" which means an estimate. These were levied either on the sale and purchase of merchandise or livestock and were collected in a haphazard manner from time to time. Nearly 2000 years ago, there went out a decree from Ceaser Augustus that all the world should be taxed. In Greece, Germany and Roman Empires, taxes were also levied sometime on the basis of turnover and sometimes on occupations. For many centuries, revenue from taxes went to the Monarch. In Northern England, taxes were levied on land and on moveable property such as the Saladin title in 1188. Later on, these were supplemented by introduction of poll taxes, and indirect taxes known as "Ancient Customs" which were duties on wool, leather and hides. These levies and taxes in various forms and on various commodities and professions were imposed to meet the needs of the Governments to meet their military and civil expenditure and not only to ensure safety to the subjects but also to meet the common needs of the citizens like maintenance of roads, administration of justice and such other functions of the State.

In India, the system of direct taxation as it is known today, has been in force in one form or another even from ancient times. There are references both in Manu Smriti and Arthasastra to a variety of tax measures. Manu, the ancient sage and law-giver stated that the king could levy taxes, according to Sastras. The wise sage advised that taxes should be related to the income and expenditure of the subject. He, however, cautioned the king against excessive taxation and stated that both extremes should be avoided namely either complete absence of taxes or exorbitant taxation. According to him, the king should arrange the collection of taxes in such a manner that the subjects did not feel the pinch of paying taxes. He laid down that traders and artisans should pay 1/5th of their profits in silver and gold, while the agriculturists were to pay 1/6th, 1/8th and 1/10th of their produce depending upon their circumstances. The detailed analysis given by Manu on the subject clearly shows the existence of a well-planned taxation system, even in ancient times. Not only this, taxes were also levied on various classes of people like actors, dancers, singers and even dancing girls. Taxes were paid in the shape of gold-coins, cattle, grains, raw-materials and also by rendering personal service.

The learned author K.B.Sarkar commends the system of taxation in ancient India in his book "Public Finance in Ancient India", (1978 Edition) as follows:-

"Most of the taxes of Ancient India were highly productive. The admixture of direct taxes with indirect Taxes secured elasticity in the tax system, although more emphasis was laid on direct tax. The tax-structure was a broad based one and covered most people within its fold. The taxes were varied and the large variety of taxes reflected the life of a large and composit population".

However, it is Kautilya's Arthasastra, which deals with the system of taxation in a real elaborate and planned manner. This well known treatise on state crafts written sometime in 300 B.C., when the Mauryan Empire was as its glorious upwards move, is truly amazing, for its deep study of the civilisation of that time and the suggestions given which should guide a king in running the State in a most efficient and fruitful manner. A major portion of Arthasastra is devoted by Kautilya to financial matters including financial administration. According to famous statesman, the Mauryan system, so far as it applied to agriculture, was a sort of state landlordism and the collection of land revenue formed an important source of revenue to the State. The State not only collected a part of the agricultural produce which was normally one sixth but also levied water rates, octroi duties, tolls and customs duties. Taxes were also collected on forest produce as well as from mining of metals etc. Salt tax was an important source of revenue and it was collected at the place of its extraction.

Kautilya described in detail, the trade and commerce carried on with foreign countries and the active interest of the Mauryan Empire to promote such trade. Goods were imported from China, Ceylon and other countries and levy known as a vartanam was collected on all foreign commodities imported in the country. There was another levy called Dvarodaya which was paid by the concerned businessman for the import of foreign goods. In addition, ferry fees of all kinds were levied to augment the tax collection.

Collection of Income-tax was well organised and it constituted a major part of the revenue of the State. A big portion was collected in the form of income-tax from dancers, musicians, actors and dancing girls, etc. This taxation was not progressive but proportional to the fluctuating income. An excess Profits Tax was also collected. General Sales-tax was also levied on sales and the sale and the purchase of buildings was also subject to tax. Even gambling operations were centralised and tax was collected on these operations. A tax called yatravetana was levied on pilgrims. Though revenues were collected from all possible sources, the underlying philosophy was not to exploit or over-tax people but to provide them as well as to the State and the King, immunity from external and internal danger. The revenues collected in this manner were spent on social services such as laying of roads, setting up of educational institutions, setting up of new villages and such other activities beneficial to the community.

The reason why Kautilya gave so much importance to public finance and the taxation system in the Arthasastra is not far to seek. According to him, the power of the government depended upon the strength of its treasury. He states – "From the treasury, comes the power of the government, and the Earth whose ornament is the treasury, is acquired by means of the Treasury and Army". However, he regarded revenue and taxes as the earning of the sovereign for the services which were to be rendered by him to the people and to afford them protection and to maintain law and order. Kautilya emphasised that the King was only a trustee of the land and his duty was to protect it and to make it more and more productive so that land revenue could be collected as a principal source of income for the State. According to him, tax was not a compulsory contribution to be made by the subject to the State but the relationship was based on Dharma and it was the King's sacred duty to protect its citizens in view of the tax collected and if the King failed in his duty, the subject had a right to stop paying taxes, and even to demand refund of the taxes paid.

Kautilya has also described in great detail the system of tax administration in the Mauryan Empire. It is remarkable that the present day tax system is in many ways similar to the system of taxation in vogue about 2300 years ago. According to the Arthasastra, each tax was specific and there was no scope for arbitratiness. Precision determined the schedule of each payment, and its time, manner and quantity being all pre-determined. The land revenue was fixed at 1/6 share of the produce and import and export duties were determined on advalorem basis. The import duties on foreign goods were roughly 20 per cent of their value. Similarly, tolls, road cess, ferry charges and other levies were all fixed. Kautilya's concept of taxation is more or less akin to the modern system of taxation. His over all emphasis was on equity and justice in taxation. The affluent had to pay higher taxes as compared to the not so fortunate. People who were suffering from diseases or were minor and students were exempted from tax or given suitable remissions. The revenue collectors maintained up-to-date records of collection and exemptions. The total revenue of the State was collected from a large number of sources as enumerated above. There were also other sources like profits from Stand land (Sita) religious taxes (Bali) and taxes paid in cash (Kara). Vanikpath was the income from roads and traffic paid as tolls.

He placed land revenues and taxes on commerce under the head of tax revenues. These were fixed taxes and included half yearly taxes like Bhadra, Padika, and Vasantika. Custom duties and duties on sales, taxes on trade and professions and direct taxes comprised the taxes on commerce. The non-tax revenues consisted of produce of sown lands, profits accuring from the manufacture of oil, sugarcane and beverage by the State, and other transactions carried on by the State. Commodities utilised on marriage occasions, the articles needed for sacrificial ceremonies and special kinds of gifts were exempted from taxation. All kinds of liquor were subject to a toll of 5 precent. Tax evaders and other offenders were fined to the tune of 600 panas.

Kautilya also laid down that during war or emergencies like famine or floods, etc. the taxation system should be made more stringent and the king could also raise war loans. The land revenue could be raised from 1/6th to 1/4th during the emergencies. The people engaged in commerce were to pay big donations to war efforts.

Taking an overall view, it can be said without fear of contradiction that Kautilya's Arthasastra was the first authoritative text on public finance, administration and the fiscal laws in this country. His concept of tax revenue and the on-tax revenue was a unique contribution in the field of tax administration. It was he, who gave the tax revenues its due importance in the running of the State and its far-reaching contribution to the prosperity and stability of the Empire. It is truly an unique treatise. It lays down in precise terms the art of state craft including economic and financialadministration.

History of Taxation Post 1922

1. Preliminary :

The rapid changes in administration of direct taxes, during the last decades, reflect the history of socio-economic thinking in India. From 1922 to the present day changes in direct tax laws have been so rapid that except in the bare outlines, the traces of the I.T. Act, 1922 can hardly be seen in the 1961 Act as it stands amended to date. It was but natural, in these circumstances, that the set up of the department should not only expand but undergo structural changes as well.

2. Changes in administrative set up since the inception of the department:

The organisational history of the Income-tax Department starts in the year 1922. The Income-tax Act, 1922, gave, for the first time, a specific nomenclature to various Income-tax authorities. The foundation of a proper system of administration was thus laid. In 1924, Central Board of Revenue Act constituted the Board as a statutory body with functional responsibilities for the administration of the Income-tax Act. Commissioners of Income- tax were appointed separately for each province and Assistant Commissioners and Income-tax Officers were provided under their control. The amendments to the Income tax Act, in 1939, made two vital structural changes: (i) appellate functions were separated from administrative functions; a class of officers, known as Appellate Assistant Commissioners, thus came into existence, and (ii) a central charge was created in Bombay. In 1940, with a view to exercising effective control over the progress and inspection of the work of Income-tax Department throughout India, the very first attached office of the Board, called Directorate of Inspection (Income Tax) - was created. As a result of separation of executive and judicial functions, in 1941, the Appellate Tribunal came into existence. In the same year, a central charge was created in Calcutta also.

2.1World War II brought unusual profits to businessmen. During 1940 to 1947, Excess Profits

Tax and Business Profits Tax were introduced and their administration handed over to the Department (These were later repealed in 1946 and 1949 respectively). In 1951, the 1st Voluntary Disclosure Scheme was brought in. It was during this period, in 1946, that a few Group 'A' officers were directly recruited. Later on in 1953, the Group 'A' Service was formally constituted as the 'Indian Revenue Service'.

2.2This era was characterised by considerable emphasis on development of investigation techniques. In 1947, Taxation on Income (Investigation) Commission was set up which was declared ultra vires by the Supreme Court in 1956 but the necessity of deep investigation had by then been realised. In 1952, the Directorate of Inspection (Investigation) was set up. It was in this year that a new cadre known as Inspectors of Income Tax was created. The increase in 'large income' cases necessitated checking of the work done by departmental officers. Thus in 1954, the Internal Audit Scheme was introduced in the Income-tax Department.

2.3As indicated earlier, in 1946, for the first time a few Group A officers were recruited in the department. Training them was important. The new recruits were sent to Bombay and Calcutta where they were trained, though not in an organised manner. In 1957, I.R.S. (Direct Taxes) Staff College started functioning in Nagpur. Today this attached office of the Board functions under a Director-General. It is called the National Academy of Direct Taxes. By 1963, the I.T. department, burdened with the administration of several other Acts like W.T., G.T., E.D., etc., had expanded to such an extent that it was considered necessary to put it under a separate Board. Consequently, the Central Board of Revenue Act, 1963 was passed. The Central Board of Direct Taxes was constituted, under this Act.

2.4The developing nature of the economy of the country brought with it both steep rates of taxes and black incomes. In 1965, the Voluntary Disclosure Scheme was brought in followed by the 1975 Disclosure Scheme. Finally, the need for a permanent settlement mechanism resulted in the creation of the Settlement Commission.

2.5A very important administrative change occurred during this period. The recovery of arrears of tax which till 1970 was the function of State authorities was passed on to the departmental officers. A whole new wing of Officers - Tax Recovery Officers was created and a new cadre of post of Tax Recovery Commissioners was introduced w.e.f. 1-1-1972.

2.6In order to improve the quality of work, in 1977, a new cadre known as IAC (Assessment) and in 1978 another cadre known as CIT (Appeals) were created. The Commissioners' cadre was further reorganised and five posts of Chief Commissioners (Administration) were created in 1981.

2.7Tax Reforms : Certain important policy and administrative reforms carried out over the past few years are as follows :-

(a). The policy reforms include :-

Lowering of rates;

Withdrawls/reduction of major incentives;

introduction of measures for presumptive taxation;

simplification of tax laws, particularly relating to capital gains; and

widening the tax base.

(b). The administrative reforms include :--

Computerisation involving allotment of a unique identification number to tax payers which is emerging as a unique business identification number; and

realignment of the available human resources with the changed business needs of the organisation.

2.8 Computerisation : Computerisation in the Income-tax Department started with the setting up of the Directorate of Income tax (Systems) in 1981. Initially computerisation of processing of challans was taken up. For this 3 computer centres were first set up in 1984-85 in metropolitan cities using SN-73 systems. This was later extended to 33 major cities by 1989. The computerized activities were subsequently extended to allotment of PAN under the old series, allotment of TAN, and pay roll accounting. These computer centres used batch process with dumb terminals for data entry.

In 1993 a Working Group was set up by the Government to recommend computerisation of the department. Based on the report of the Working Group a comprehensive computerisation plan was approved by the Government in October, 1993. In pursuance of this, Regional Computer Centres were set up in Delhi, Mumbai, and Chennai in 1994-95 with RS6000/59H Servers. PCs were first provided to officers in these cities in phases. The Plan involved networking of all users on LAN/WAN. Network with leased data circuits were accordingly set up in Delhi, Mumbai and Chennai in Phase-I during 1995-96. A National Computer Centre was set up at Delhi in 1996-97. Integrated application software were developed and deployed during 1997-99. Thereafter, RS6000 type mid range servers were provided in the other 33

Computer Centres in various major cities in 1996-97. These were connected to the National Computer Centre through leased lines. PCs were provided to officers of different level upto ITOs in stages between 1997 and 1999. In phase II offices in 57 cities were brought on the network and linked to RCCs and NCC.

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