

The Evolution of Taxation in India

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Introduction

Taxation has served as the financial backbone of governance in India since the earliest civilizations emerged on the subcontinent. The evolution of taxation reflects a complex interplay between political authority, economic structure, cultural norms, and administrative capability. From early agrarian levies recorded in ancient texts such as the Manusmriti and Kautilya's Arthashastra, to the systematic taxation frameworks of medieval empires, to the codified and bureaucratic systems introduced during British rule, and finally to the comprehensive modern tax regime governed by digital tools and central institutions, India's taxation system has undergone profound transformations.

In modern India, taxation plays a critical role in resource mobilization, economic stability, public welfare funding, and fiscal federalism. This report explores taxation across historical eras, institutional development, major reforms, and future trajectories in extensive detail.

1: TAXATION IN ANCIENT INDIA

Ancient India possessed one of the world's most sophisticated early taxation systems.

1.1 The Philosophical Basis of Taxation

Taxes were considered a moral necessity for the functioning of the state. The king was expected to collect taxes for public welfare, not personal enrichment. Texts emphasized fairness, ethical collection, and proportional contributions.

1.2 Taxation in the Vedic Period

Society relied on tributes, voluntary offerings, and agricultural levies. Revenue funded religious rituals, community welfare, and protection by early kings.

1.3 Manusmriti and its Tax Principles

The Manusmriti recommended proportional taxes based on productivity and capacity. It emphasized:

- Ethical tax collection
- Progressive systems
- Exemptions for vulnerable groups
- Limits on over-taxation to prevent exploitation

1.4 Kautilya's Arthashastra: A Comprehensive Fiscal Manual Kautilya detailed dozens of taxes, including:

- **Land revenue (Bhaga):** 1/6th of produce
- **Irrigation taxes** for water use
- **Professional & occupational taxes**
- **Customs duties, tolls & transit taxes**
- **Forest taxes, mine taxes, salt tax**
- **Inheritance & gift taxes**
- **Wealth and luxury taxes**

The Arthashastra also outlined:

- Anti-corruption protocols
- Record-keeping methods
- Penalties for evasion
- Local tax officers and auditors
- Use of revenue for defense, infrastructure, justice, and famine relief

2: TAXATION IN MEDIEVAL INDIA

Medieval taxation was heavily influenced by rulers such as the Delhi Sultans and Mughal emperors.

2.1 Delhi Sultanate Taxation Included:

- **Kharaj:** Land tax
- **Zakat:** 2.5% charity tax for Muslims
- **Jizya:** Tax on non-Muslims
- **Ushr:** Agricultural tax for Muslims (10% of produce)
- **Customs & trade taxes**

2.2 Reforms Under Sher Shah Suri

Sher Shah introduced measurement-based land assessment using standardized units. He emphasized fairness and accurate surveys.

2.3 Mughal Taxation: The Todar Mal System

During Akbar's reign, taxation became highly structured. The **Ain-i-Dahsala** system:

- Calculated average yields of 10 years
- Set fixed rates based on crop productivity
- Divided land into categories for assessment
- Standardized revenue collection

Other Mughal taxes:

- **Zakat, Jizya, Khums**
- **Octroi, customs, road taxes**
- **Taxes on markets, shops, artisans**

This era demonstrated strong central control, efficient bureaucracy, and reliance on local intermediaries.

3: TAXATION UNDER BRITISH RULE

The British introduced modern legal and administrative frameworks to serve colonial interests.

3.1 Land Revenue Systems

- **Permanent Settlement (1793):** Fixed land revenue, created Zamindars
- **Ryotwari System:** Direct settlement with farmers
- **Mahalwari System:** Village-level assessment

These systems heavily burdened farmers and contributed to poverty.

3.2 Introduction of Modern Taxes

- **Income Tax Act, 1860:** Introduced after 1857 Revolt to fund military costs
- **Salt Tax:** Symbol of colonial oppression
- **Excise duties on commodities**
- **Customs duties favoring British imports**

3.3 Administrative Reforms

- **Central Board of Revenue (1924):** formed to manage central taxes
- Establishment of professional auditors, inspectors, boards, and legal tribunals

4: POST-INDEPENDENCE TAX STRUCTURE

After 1947, India needed a strong fiscal system for development.

4.1 Constitutional Allocation of Tax Powers

- Union: income tax, customs, excise, corporation tax
- States: sales tax, excise on alcohol, property tax
- Local bodies: water tax, property tax, user charges

4.2 Major Legislation

- **Income Tax Act, 1961**
- **Wealth Tax Act, 1957**
- **Gift Tax Act, 1958**
- **Finance Act, 1994:** Introduced Service Tax
- **VAT Reforms (2005)**

4.3 Need for Modernization

Multiple taxes caused cascading effects, inefficiency, and compliance challenges.

5: THE GOODS AND SERVICES TAX (GST) REVOLUTION

GST, launched in 2017, is India's most transformative tax reform.

5.1 Why GST Was Needed Before

GST, India had:

- Excise duty
- Service tax
- VAT
- Octroi
- Entry tax
- Luxury tax
- Entertainment tax

This fragmented structure hindered trade and execution.

5.2 Features of GST

- **One nation, one tax**
- Destination-based consumption tax
- Dual model: CGST + SGST
- IGST for interstate transactions
- GST Council to coordinate policy
- E-way bills and e-invoicing

5.3 Benefits

- Reduced cascading taxes
- Increased compliance
- Transparent system
- Ease of doing business
- Higher revenues through digital monitoring

6: TAX ADMINISTRATION IN MODERN INDIA

Two apex bodies oversee taxation:

6.1 CBDT (Central Board of Direct Taxes)

Handles:

- Income tax administration
- Investigation of tax evasion
- International taxation
- TDS, refunds, assessments
- Policy formulation

6.2 CBIC (Central Board of Indirect Taxes & Customs)

Handles:

- GST
- Customs duties
- Anti-smuggling operations
- Frontier taxation
- Port and airport customs administration

7: DIGITAL TRANSFORMATION OF TAXATION

Technology has modernized tax processes significantly.

7.1 E-Filing and Online Compliance

- Online income tax portal
- AIS & Form 26AS
- Digital PAN-Aadhaar linking
- Online tax payment

7.2 GSTN and Digital Infrastructure

- Real-time invoice matching
- E-way bills
- E-invoicing
- Automated refunds
- Reduced corruption and human interference

7.3 AI, Big Data and Analytics

Used for:

- Detecting evasion
- Tracking suspicious transactions
- Auditing businesses
- Predicting revenue trends

8: CONTEMPORARY CHALLENGES

India still faces:

- A narrow tax base (few income taxpayers)
- High evasion rates
- Complex GST compliance for small firms
- Litigation backlog
- Frequent rule changes
- Need for taxpayer education

9: FUTURE DIRECTIONS

Likely developments:

- Direct Tax Code (DTC) reintroduction
- Simplified GST return systems
- 100% faceless administration
- Blockchain-based invoice verification
- Enhanced automation and AI
- Stronger dispute resolution mechanisms

Conclusion

The evolution of India's taxation system reflects deep historical roots, colonial restructuring, post-independence nation-building, and modern digital transformation. Today, India stands as a global leader in adopting digital tax administration. Continued reforms, technological innovations, and a focus on equity and efficiency will shape the future of taxation in India.