

# TAX SYSTEM IN INDIA FROM CHANAKYA TO ARUN JAITLEY

AMAN MISHRA

Research Scholar, Department of Economics, University of Allahabad, Allahabad, 211002

## **Abstract**

*Taxation is a general concept for devices used by every government from earlier monarchy to today's democracy to generate their own revenue from the peoples by using law of land and related to taxation. Although their name, nature, structure, scope and rate has been different since its evolution. Every society faces some inevitable problems like defense, social welfare, to develop infrastructure, unforeseen natural calamities etc through the ages which could be solved by competent authority. Present day societies of the world are more developed but face complex challenges than ancient, so nature and scope of tax system has been changed. Now government's role has increased dramatically to resolve these problems. Beyond *laissez faire*, the government intervention in economic activities are frequent to manage externalities to prevent severe economic failure; instead of maintain law and order, protection of the peoples from external aggression. A developing country like India faces vicious circle of socio-economic problems such as poverty, unemployment, illiteracy, availability of primary health services, income distribution; inequality which compelled it performs various other roles for upliftment of society. Therefore both direct and indirect taxes are essential to bring adequate revenue to the state for meeting the increasing public expenditure without compromising legal framework of the FRBM Act roadmap. Tax revenue facilitate to faster economic growth and economic stability. But still low tax to GDP ratio is matter of worry. It is continues to constant due to small number tax payers, tax avoidance, tax erosion and difficult tax administration. Direct taxes has limited scope to raise revenue for government; so indirect tax play big role but its structure and nature as cascading effects , simplicity to implement and general understanding of the public, convenience to collect, rates keeping view of inequality, and economy to compliance. In this line GST would reduce some our problems related to indirect tax system but still there are lots to do. This paper has been tried to understand basic tax system in different period of Indian history.*

## **Introduction**

*Taxes are defined as 'compulsory charges levied by a government for the purpose of financing services performed for the common benefit'. Taxation is "the condition of the existence of governments" as described*

by Mill. Tax is a basic foundation of government financial resources to perform necessary action in interest of the people throughout the ages. Therefore people's contribution in the form of taxes is important. This position is of the governments may be traced back to the evolution of mankind into political organization to modern day system. The ancient India witnessed to this. The Vedic texts, epics, smritis, puranas, Arthashastra, other literary texts and epigraphs of the time had given supreme importance of taxes to governments. There was a regular system of taxation has started in the Vedic period. The taxes were popular by various name such as 'bali', 'shulka', 'bhaga', 'udaja', and 'niraja. These taxes are frequently mentioned in the text of this period. Taxation had evolved in gradual way- from voluntary to compulsory and regular in nature which were continued further by Manu, Kautilya, Gupta rulers, Chola, Chera, Pandya, Mughal and Maratha rulers in various form with different rate. Primarily taxes on agricultural produces was main source of government revenue but its source on which taxation applied, were increase with respect to time. Now it levied on various commodities and services even agriculture sector hugely relieved from taxation. At the same time, functions of government also increases is wide and different. There are many responsibilities of modern welfare state to its fellow citizens. It becomes most difficult task to discharge their responsibilities a country like India which have huge population to provide all of them a sustained living standard with better human development indicators instead of to maintain law and order, peace and security. Government needs a required level of revenue to achieve desired level of economic growth, generation of jobs and their social welfare programme. So taxes are major source of revenue to increase general welfare standard of country through financing these policy and programme.

## A Brief History of Taxation in Ancient India

Tax is a compulsory payment to state by its citizens to increase general welfare level of people. Taxation is always an integrated part of every system of governance in India viz. monarchy, republic and modern democratic system. Taxation is found in ancient India as it described by *Manusmriti* and *Arthashastra*. Present Indian tax system is based on ancient tax system which was based on the theory of maximum social welfare. As *Kalidas* described in *Raghuvansham* eulogizing *king Dalip*-

"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 ancient scholar advised to king that taxes should be related to the income and expenditure of the subject. They also know the negative effect of excessive taxation that is why they suggested to a king that there should neither impose high rate of tax which effects we know today as *Laffer Curve*, nor exempt all from tax which is now a moot concern in modern tax system. There was a very general consensus in ancient India that tax should be in such manner as nobody feel to hurt. As *Mahabharata (XII 88, 7-8)* in *Shantiparva* reported-

“the king should gather the tax from the state in the manner as the bees collect honey without hurting the flower.” *Kautilya's* concept of taxation emphasized on two basic canons of taxation i.e. equity and justice. The affluent had to pay higher taxes as compared to the poor. The text also explained that taxes should be levied at the *proper time, place and form*, and realized in a pleasing manner as the calf suckles the udders of the mother.

The arrangement of the collection of taxes should be in such a manner that the tax payer did not feel pinch, as reported by *Manusmriti*, is very basic of current tax administration. A rule was laid down that traders and artisans should pay  $1/5^{\text{th}}$  (20%) of their produce in silver and gold, while the agriculturists were to pay  $1/6^{\text{th}}$  (~16.5%),  $1/8^{\text{th}}$  (~12.5%) and  $1/10^{\text{th}}$  (10%) of their produce depending upon their circumstances.

The great political economist of ancient India- Kautilya has also described in detail the system of tax administration in the Mauryan period. It is remarkable that the today's tax system in India is similar in some extent as it was third century BCE. *Arthashastra* mentioned that each tax was specific and there was no scope for arbitrariness. Tax collectors determined the schedule of each payment, and its time, manner and quantity being all pre-determined like modern sophisticated tax system. Taxes were fixed as-  $1/6^{\text{th}}$  (16.5%) share of total produce in the form of land revenue. Import and export duties were determined on ad-valorem basis. The import duties on foreign goods were roughly 20% of their value. Similarly, tolls, road cess, ferry charges and other levies were all fixed.

Taxation system was subject friendly- in the difficult situation there were many reliefs given by state in the affairs of general peoples. As *Kautilya* mentioned in *Arthashastra* that during any kind of disaster e.g. war or natural 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  $1/6^{\text{th}}$  to  $1/4^{\text{th}}$  during the emergencies. The people engaged in commerce were to pay big donations to war efforts.

Starting with the Vedic period, there existed a regular system of taxation. The technical fiscal terms like *kar, kalpita, bhog, prataya, bali, shulka, bhaga, udaja*, and *niraja* are frequently mentioned in the literature of this period which reasonably and legitimately lend support to the view that taxation had evolved from voluntary to compulsory and regular in nature that were almost common across ancient India in the era of *Maurya, Shak, Satvahan, Kushan, Gupta, Gurjara-Pratihara, Rashtrakuta, Pal, Pallava, and Chola, etc.*

## The Revenue System in the Medieval India

### *Sultanate Period*

The two major institutions were popular during the time of sultanate, one of them was- the *iqta* which was a transferable territorial tax- assignment and military charges. The other was a tax on land was major

source of revenue for state in sultanate period which called *kharaj*. It was levied at the rate of 1/5 th share of total produce during the reign of Ala-Ud-Din Khilzi which was further increased to 1/2 of the produce in the time of Muhammad Tughlak. The sultanate also demanded *fawazil*, which was any surplus revenue into royal treasury. Instead of this sultans had a *khalisa*- a certain areas which were under direct control of sultans.

One of the different kind of tax known as *Zazia* was imposed in medieval India which was paid by Non-Muslims. Its rate was varied according to tax payer's income.

### ***Mughal Period***

*Abu'l Fazl's Ain-I Akbari* is rich in statistical material and main source to tell us a lot about Indian economy at the time of Mughal. He justified the imposition of taxes by the state saying that these are the remuneration of sovereignty, paid in return for protection and justice. Taxation in Mughal period was systemized, but there was no universal tax system. Although even at that time the land tax was a central fact of Indian economy. It was 1/2 of the total produce. The magnitude of the taxes varied with the productivity and minimum cost of peasant subsistence in the different region of the empire. The land tax was known as *mal or kharaj* which was set as a portion of crop after harvest. *Ghalla-bakhshi*, *kankut* and *jabt* system was evolved for land revenue assessment.

*Ghalla-bakhshi* was a system of crop-sharing. In some areas it was called *bhaoli* and *batai*. And *Kankut* or *dambandi* was a system where the grain yield was estimated. In *Kankut*, at first instances the field was measured after that revenue demand was fixed accordingly the productivity of per bigha as estimated. *Sher Shah* established a standard crop yield system known as *Rai*. *Rai* was levied on per bigha yield for lands which were under continuous cultivation. This system of *Sher Shah* is followed by *Akbar* reign and termed as *Zabti* which was the most important method of assessment of grain production. The tax rate was fixed in money terms as per productivity of each unit of land known as *biha*. The schedules tax rate in different areas over the year is called *dasturs*.

### ***Maratha Period***

*Shivaji* abolished the *jagir* and *zamindari* system and established direct contact to the cultivators. The whole land measured and divided into different categories. During his rule the taxation was fixed at 40% of the total produce which could be given in kind or in cash. There was a system of subsidies and easy installment in the case of adverse situation. *Shivaji* introduced two new taxes namely- *Chauth* and *Sardeshmukhi* to enhance



revenue. The Chauth was equal to  $\frac{1}{4}$  (25%) and Sardeshmukhi was equal to  $\frac{1}{10}$  (10%) of the total produce which collected from entire area.

## Taxation System in British India

Zamindari, Ryotwari, and Mahalwari were major source of revenue collection existed in India.

### *Zamindari system*

Lord Cornwallis introduced Zamindari System in 1793 through Permanent Settlement Act that is it is called Permanent Settlement. It was introduced in provinces of Bengal, Bihar, Orissa and Varanasi. Zamindars, who were the owner of the lands, were given the rights to collect the rent from the peasants. The realized amount would be divided into 11 parts.  $\frac{1}{11}$  of the share belongs to Zamindars and  $\frac{10}{11}$  of the share belongs to East India Company.

### *Ryotwari System*

This System was introduced by *Thomas Munro* in 1820 in *Madras presidency, Bombay presidency, and parts of Assam and Coorgh* provinces of British India. In Ryotwari System the ownership rights were handed over to the peasants. Taxes to government were given by peasants, directly. The tax rates were  $\frac{1}{2}$ th where the lands were dry and  $\frac{3}{5}$ <sup>th</sup> in irrigated land of total produce.

### *Mahalwari system*

It was introduced in Central Province, North-West Frontier, Agra, Punjab, Gangetic Valley, etc of British India in 1833 during the period of William Bentinck. In this system, the land was divided into *Mahals*. Each Mahal comprises one or more villages. Ownership rights were vested with the peasants. The village committee was held responsible for collection of the taxes.

### *Salt tax*

Salt taxation was in practice in India since ancient time but it had increased tremendously during the British rule in India. In 1835, special taxes were imposed on Indian salt to facilitate its import. This paid huge dividends for the traders of the *British East India Company*. The stringent salt taxes imposed by the British were vehemently condemned by the Indian public.

## Modern Tax system in India

Modern tax system in present time is more sophisticated than was prevailed in ancient and medieval India. Now it developed on well defined principle of taxation such as- *Canon of Equality, Certainty, Convenience, Economy, Productivity, Simplicity Diversity, Elasticity, and Flexibility*. It is well organised system, with clear tax rate and tax slab on different products although advancement is still continued. It has two broad category e.g. direct tax- without incident another is indirect tax has incident and impact. These are covers varieties of commodities and services. Now central and integrated authority and their accountability, transparency and area of jurisdictions are defined by legislation of the time which empowered tax system of the land from time to time.

### *The Establishment of Income Tax in Modern India*

The first Income Tax Act in India was introduced by **James Wilson** which came into force on 24<sup>th</sup> July 1860 with the approval of The Governor General. It was a tax selectively imposed on the rich royalty and Britishers. The act lapsed in 1865 and was reintroduced in 1867. Later, Governor General Lord Dufferin introduced a comprehensive Income Tax Act in 1886 with the purpose of collect more revenue to fight Anglo-Russian war. It was combination of License Tax and Income Tax. Taxes were collected in the same manner as land revenue. The most comprehensive Income Tax Law was the Income Tax Act of 1922. 1919 Chelmsford reforms made a distinction between the functions and resources of the state and the Central Govt. and Income Tax became a primary source of revenue for the central Government.

Income Tax Act of 1992 systematized income tax in India which regulated taxes rate to every year by a special Finance Act at the time of the Annual Budget. Tax deducted at source (T.D.S.) was made compulsory for private employers. Reopening of the assessment was permitted.

### *Constitutional provision*

Constitution of India has already been provided the provision of taxes, which could be levied by authority as article 265 states that no tax shall be levied or collected except by the authority of law. Therefore each kind of tax in India is backed by legislation. And there are also very clear provision of distribution of power to levy taxes between centre and states under the union list and state list in respect of both types of taxes e. g. direct and indirect.

- The 101<sup>st</sup> constitutional amendment act made important changes in constitution related to indirect taxation -
  - 1)Article 246 (A)
  - 2)Article 269A
  - 3)Article 279-A
  - 4)Changes in the 7th Schedule Union List &State List
  - 5)And Other Important amendments in existing articles.

**Article 246 (A)**- empowered both Union and States to make law with respect to goods & services. The intra-state trade now comes under the jurisdiction of both centre and state; while inter-state trade and commerce is “exclusively” under central government jurisdiction **Article 269A** says that in case of the inter-state trade, the tax will be levied and collected by the Government of India and shared between the Union and States as per recommendation of the GST Council. The article also makes it clear that the proceeds such collected tax will not be credited to the consolidated fund of India or state but respective share shall be assigned to that state or centre. **Article 279-A**: This Article has provision for constitution of a **GST council**. The GST council will constitute the following members: Union Finance Minister as chairman of the council Union Minister of State in charge of Revenue or Finance One nominated member from each state who is in charge of finance or taxation.

### ***Other Institutional provisions***

The *Wealth Tax Act, 1957*, the *Expenditure Tax Act, 1957* and the *Gift Tax Act, 1958* were introduced on the recommendations of *Prof. Nicholas Kaldor*. And various institutions were constituted viz. *central and All India Services at National Academy of Administration at Mussoorie*, *Law Commission Report on new Income Tax Act was submitted in 1958*; *Direct Taxes Administration Enquiry Committee* was setup in 1958. Later, *Income Tax Act, 1961* provide the provision of *Central Board of Revenue* with two different Boards viz. *Central Board of Direct Taxes (CBDT)* and *Central Board of Excise and Customs (CBEC)* for administering direct and indirect taxes respectively. Now CBDT & CBEC are responsible for essential policy inputs for policy formation and their planning. The GST council is newly constituted body responsible for all matters related to GST.

### ***Direct Tax system in India***

*Corporation Tax (CT)*: This is biggest source of revenue is levied on the incomes of registered national and multinational or foreign companies/corporations in the country.

*Taxes on Personal Income:* This is a tax on the income of individuals, firms, etc. under the IT Act, 1961 except Companies. Direct taxes also include other Taxes such as the '*Securities Transaction Tax*', which is levied on transaction in listed securities undertaken on stock exchanges and in units of mutual funds.

*Capital Gains Tax:* Profits generated from the sale of a physical and financial capital asset such as- any kind of property held by an assessee, paintings, jewellery and ornaments, business stocks, mutual funds, etc., are taxable as capital gains, either short-term or long-term. The capital gain or net profit which is taxable is basically the difference between the price at which the asset is sold and the price at which it was purchased. The tax is applicable in the year in which the sale of the capital asset takes place.

*Property Tax:* As per the Income Tax Act of India, incomes from properties are regarded as one of the heads of income. Therefore, tax is levied on the income from property. These usually include buildings, flats, shops and land etc.

*Wealth Tax is abolished in 2015-16 and replaced by additional surcharge on super- rich having annual income of Rs.*

### ***New Indirect tax regime in India***

Recently on 1<sup>st</sup> July 2017 a new indirect tax system- *GST* introduced in India in line of world's advanced economy. *GST* is one indirect tax for the whole nation, which will make India one unified common market. *GST* is a single tax on the supply of products, right from the producers to the final consumer which avoid *cascading effect*. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes *GST* essentially a tax only on value addition at each stage. The final consumer will thus bear only the *GST* charged by the last dealer in the supply chain, with set-off benefits at all the previous stages. It would formalized the economy and government could realize desired result with the availability of real time data through it.

All indirect taxes of centre viz. *central excise duty, additional excise duty, service tax, additional customs duty (countervailing duty), and special additional duty of customs*; as well as state level taxes- *State Value Added Tax/Sales Tax, Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States), Octroi and Entry tax, Purchase Tax, Luxury tax, and Taxes on lottery, betting and gambling* are being subsumed in *GST*.



There are two components of GST – *Central GST (CGST)* and *State GST (SGST)*. Both Centre and States would collect GST across the value chain simultaneously. Centre would levy and collect *CGST*, and States would levy and collect the *SGST* on all transactions *within their territory*. The input tax credit of *CGST* and *SGST* would be available for discharging the *CGST* and *SGST* liability on the output at each stage. No cross utilization of credit would be permitted.

The *GST council* is apex body to administer GST and responsible for all decision related to indirect tax system in country. It consist 29 states and Delhi and Puduchery along with centre which have 1/3<sup>rd</sup> voting rights, remaining for others. Decisions are taken on the basis of majority. Currently under the GST, goods and services are taxed at the following rates, 0%, 5%, 12%, 18% and 28%. There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold. In addition a cess of 15% or other rates on top of 28% GST applies on few items like aerated drinks, luxury cars and tobacco products.

There is a *Goods and Services Tax Network (GSTN)* which provide IT platform for the smooth functioning of the Goods & Services Tax regimen. It is a common and shared IT infrastructure and services to the Central and State Governments, Tax Payers and other stakeholders for implementation of the Goods & Services Tax (GST).

### **Evaluation of GST**

ONE NATION ONE TAX is the tagline of the GST implementation i.e. GST is a single, unified and transparent tax system that reduces number of indirect taxes, and service tax integrated with it. It is simple and easy to administer for both centre and states based on robust IT platform. It would reduce the inter- state tax variations. Economic survey 2016-17 vol. 2 has observed a revived optimism on structural reforms in the Indian economy in the form of GST. According to survey the key benefits of GST such as furthering cooperative federalism, reducing corruption and leakages, simplifying complex tax structure and unifying tax rate across the country, are creating a common market. Instead of this there some hidden benefits of GST, these are as follows-

#### **1. Textile sector inclusion**

The textile and clothing sector is now fully part of GST. Previously, some parts of the value chain, especially fabrics, were outside the tax net, leading to informalisation and evasion. Some anomalies favoring imports of fabrics over domestic production will need to be rectified but overall the tax base has expanded. GST would streamline the process of claiming input tax credit thus allowing the textile industry to be more competitive in the export market.

Export promotion capital goods scheme is available for all the cotton-based textile exporters. Under this scheme, exporters can claim the exemption for duty paid if they export six times the value of duty within a period of next six years. It is expected that this scheme would lose its significance under GST.

## 2. Work contracts

Next hidden benefit of GST is the inclusion of an important part of real estate sector—"work contracts", housing that is being built. This, in turn, would allow for greater transparency and formalization of cement, steel, and other sales, which tended to be outside the tax. The formalization will occur because builders will need documentation of these input purchases to claim tax credit.

## 3. Effective taxation of imports

Earlier, the countervailing duty to offset the excise tax and the special additional duty (SAD) to offset the state VAT was not adequate. "Under the GST, the full taxes on domestic sales levied by the Centre and the states (the IGST) will be levied when imported goods. The new tax will remove the earlier inadequacies and will lead to more transparent and more effective taxation of imports.

## 4. Expanding tax base

The survey finds early signs of expansion of tax base, all due to GST. On top of the over 71 lakh excise, service tax and VAT payers, who have migrated to the GST regime, there are over 15 lakh entities who have taken fresh registrations under the new indirect tax regime. The survey says the number is expected to rise consistently as more people would find the benefits of GST. GST has unified over 17 different taxes.

## 5. More data

GST will generate a lot of vital information on direct tax collections. Earlier, as the excise was imposed at the manufacturing stage, the Centre had little data on small manufacturers and consumption. The states had little data on the activities of local firms outside their borders. Under the GST, there will be seamless flow and availability of a common set of data to both the Centre and states, making direct tax collections more effective.

## 6. Financial inclusion

Since businesses have to keep detailed records under GST, these can be beneficial for them in the long run. Small businesses can build up a real-time track record of tax payments digitally, and this can be used by lending institutions for credit rating and lending purposes. Currently, small businesses are credit-constrained because they cannot credibly demonstrate their financial capability.

## 7. Smoother transport

The transport sector stands to benefit from the recently rolled out GST in several ways. Pre- GST, the complex tax structure and paper work forced the transport industry to spend a lot of resources on tax compliance and deposit of interstate sales tax. Monitoring and collection of sales tax at interstate check posts led to major traffic congestion at these points, resulting in slower movement of freight and passenger, and consequently higher costs and pollution. An average Indian truck covers only about 50,000-60,000 km a year as against 3 lakh km done by a truck in US.

GST has result in reducing the travel time of long-haul trucks and other cargo vehicles by at least one-fifth. This, coupled with the proposed E-way bill that requires online registration for movement of goods worth more than Rs 50,000, brought more transparency in the whole process. Efficient freight movement boosted the demand for high tonnage trucks and reduced the cost of transportation of freight.

GST has made transport a lot smoother. The inter-state check-posts were removed within days of GST coming into force. So far, 24 states have abolished these check-posts while others are in the process of eliminating them. If this trend continues, the reduction in transport costs, fuel use, and corruption could be significant. GST will also reduce logistics costs and boost inter-state trade.

### *Challenges*

There are some products excluded from GST such as Alcohol, petroleum and energy products, electricity, and some of land and real estate transactions. Health and education are outside the tax net altogether, exempted under the GST and not otherwise taxed by the Centre and states. Inclusion of these products would be made it competitive by lowering cost of manufacturers, if electricity included. For more transparency and reducing corruption it needs to bring land and real estate and alcohol in the GST. Keeping health and education completely out is inconsistent with equity because these are services consumed disproportionately by the rich. Moreover, gold and jewellery products are taxed at 3 percent which requires revision because these items are consumed by the very rich, disproportionately. The GST Council will need to take up these challenges and various others problems related to small traders and common business men as reported during in the last three months- ahead to take India at a better GST practices in the world.

## **Issues and the way forward**

A tax reform is non-discrete process help to tax collection and tax administration. Tax reforms include moderate tax rate, widened tax base, universal coverage, simple legislation, and unified tax system, making the

system easy understandable and accountable and progressive taxation. The government should ready to improve productivity and create business environment to deal with externality.

India still has considerable corporate tax near about 34 percent including cess and surcharge higher in the world. This creates scope to major tax evasion. Government in 2017-18 budget prioritized tax incentives for job-creating smaller companies with annual turnover up to Rs 50 crore. The Corporate tax rate for MSMEs reduced to 25% from 30% to make them competitive and shift to a company format, keeping untouched large corporate.

To promote its flagship programs such as 'Make in India', 'Start – up India', 'Digital India', government should continue incentivizing these initiatives through tax benefits with appropriate clauses making them competitive.

To tackle 'tax dispute regime' is another important clause. In December 2015, around 75000 direct tax disputes and 72000 indirect tax cases were pending in Supreme Court and various other forums including the Income Tax Appellate Tribunal and high courts. There is several dispute resolution mechanisms available under the tax law but these take too long and are not very so effective. In this response direct tax resolution scheme was announced by finance minister Arun Jaitely in the budget 2016-17 came into force since June 1,2016. But this is not effective still we need the amendment of the present tax legislation to incorporate internationally accepted best practices of alternate dispute resolution, conciliation, mediation, negotiation that could be utilized before tax demand is raise and will not be subject to any further appeal by any of parties.

Milka Casanegra's famous statement 'Tax administration is tax policy' is very true to reduce cost and increase organizational capacity of tax administration. A sophisticated and coordinated tax administration is still far away from clean, fast, and simpler and transparent system. Digitization is one of the effective tools to mitigate the problems of administration and it becomes more important in the era of GST. Central government is taking their right position in this ethos but problems lies with the state. To improve organization efficiency of states is necessary. The merger of, as recommendation of tax administration reforms commission (TAARC), the central board of direct taxes (CBDT) and central board of excise and customs (CBEC) for integrated and coordinated tax administration is pending. So a step like 'RAPID' i.e. revenue, accountability, probity, information, and digitization in this direction to achieve the goal of minimum government and maximum governance to transform tax system. The governments centre and state needs to addressed implementation challenges and set the international excellence.

Very small number of tax payer in India is another concerning point. Only 1.5 percent (1.9 crore) individuals out of 125 crore are paying income tax. And there are huge disparities among the few who do pay



income tax- top 0.1% pay 26%, next 1% pay 19%, next 2% pay 14%, and another 7% pay 18% remaining 89.9% pay 23% of tax revenue. A small fraction of Indians bear most of taxes because there is huge imbalance in distribution of national income. In fact, the number of income tax payers has fallen as tax revenue rises. In 2014-15 number of tax payers is 1.9 crore and tax revenue is Rs.2, 58,326 while in 2002-2003, the number of tax payers were 2.7 crore and tax revenue was 36, 85 because of as exemption limit went up many drop out from tax net. (income tax return statistics (assessment year 2014-15), NSSO 68<sup>th</sup> round). So there is no need to shrinking tax base as large number of Indians does not liable to pay income taxes, but we could include farmers who earn more than 2.5 lakh and to increase tax rate for non-salaried earners such as consultants, doctors, and lawyers pay a lower rate of income tax. Professionals and business class whose unaccounted income is not in purview of IT department surveillance so government needs to take some stringent action against them.

India has joined the club of 160 nation which have 'unified tax' system. Making tax business easier, GST subsumed the multiple central, state and local taxes and cesses levied on goods and services. It will attract investors worldwide as well as domestic and more revenues scope for the exchequer. It is not 'good and simple tax' as claimed by prime minister, currently it has a complex structure and multiple tax rate system ranging from 0% to 28%, and cesses on some products is additional. As the government has left petroleum out of GST, this will increase manufacturing cost of industries as input. It is required large number of professional for assistance for filing multiple returns. It is an important task to protect our digital based system from anti hacking spyware, malware etc. So the GST council must work to chart a road map to simplify the tax regime. It will proved be a game changer in long run only when it will eradicate its birth defects.

## Conclusion

Tax rate in ancient India was moderated but it increased rapidly in medieval and British India. Although in medieval time higher tax rate did not affects agricultural production much but higher tax rate in the time of English ruined Indian economy. During ancient, medieval and British rule in India agriculture was main source of revenue of the government paid by mainly farmers- productive class. Religious tax and irrigation taxes were levied during medieval India. They bearded huge burden of society. They did not enjoy equity in comparison of today. Brahmins were exempted from tax with exception. Widows were also exempted from taxes. These systems of taxation were changed as society advanced.

From ancient to present day India's tax system has made significant progress. Its nature and scope much widened as public finance as a discipline became most popular with respect time- from kingship to democracy. Various economic tools and concepts are developed to better understand of tax system in the interest of peoples

of the country. Now we have advance and sophisticated tax system. Which is a story of from limited taxes on agriculture and others produces in the form of *bali*, *shulka*, *bhaga*, *Ghalla-bakhshi*, *kankut* and *jabt* system to wide and broad taxation covering almost all taxable items produces in economy, collected in the form of *corporation tax*, *income tax*, *GST* system. These were possible through multiple tax reforms process which was intensified in last three decades. Tax reform is a continuous episode which included broadening the tax base, moderation of tax rate, revenue efficiency, and business friendly transparent administration, is still continued.

### References-

1. *Manu Smriti (Manu)*. VII.137-138; *Gautam Smriti (Gaut.)* X.31,34; *Vishnu Smriti (Vishnu)* III.32; *Shukra Smriti (Shukra)*. IV.2,121.
2. *Arthashastra (Arth.)*, Bk.II. ch.7.
3. *Shakuntalam* p.76; *Raghuvamsha* V. 8
4. *Lakshmidhara*, p55; pp91-92
5. *Mahabharata (Mbh.)*. XII. 71. 10
6. *Mittal, S N, Ancient Political Thought*.
7. *Habib, Irfan, 2017. Medieval History- The story of a civilization, 5<sup>th</sup> Edn, New Delhi: NBT.*
8. *Bipin Chandra et all. India's Struggle For Independence. Penguin Books India, 1989.*
9. *Musgrave, R.A. and P.B. Musgrave, 2004. Public finance in theory and practice. 5th Edn., New Delhi: Tata McGraw.*
10. *Guha, Ramchandra. India After Gandhi- The history of the world's largest democracy. The Picdor India, 2007.*
11. [https://en.wikipedia.org/wiki/History\\_of\\_the\\_British\\_salt\\_tax\\_in\\_India](https://en.wikipedia.org/wiki/History_of_the_British_salt_tax_in_India)
12. [www.thehindubusinessline.com/2000/02/14/stories/211464tn.htm](http://www.thehindubusinessline.com/2000/02/14/stories/211464tn.htm)
13. <https://www.incometaxindia.gov.in/Pages/about-us/history-of-direct-taxation.aspx>.
14. <https://www.imf.org/external/np/seminars/eng/2012/asiatax/pdf/dikshit.pdf> Feb 2, 2012
15. [mospi.nic.in/sites/default/india/DIRECT-INDIRECT%20TAX-WRITEUP.pdf](http://mospi.nic.in/sites/default/india/DIRECT-INDIRECT%20TAX-WRITEUP.pdf).
16. *Government of India (2000) Report of the Eleventh Finance Commission, Delhi: Government Publication Division.*
17. *Government of India, Ministry of Finance (2002) Final Report of the Task Force on Direct and Indirect Taxes.*
18. *Ministry of Finance, Government of India, Economic Survey 2016-17.*
19. [www.cbec.gov.in/htdocs-cbec/gst](http://www.cbec.gov.in/htdocs-cbec/gst)
20. [www.gstindia.com](http://www.gstindia.com).
21. [www.gstcouncil.gov.in/gst-rates](http://www.gstcouncil.gov.in/gst-rates).
22. <http://www.cbec.gov.in/resources//htdocs-cbec/gst/cea-rpt-rnr-new.pdf>