PART II - REVENUE SYSTEM
CHAPTER III

Sources of Income

Sound fiscal administration forms a part of a well administered State. In India, economy is considered an important part of the State by the thinkers of all times. In ancient India, they considered treasury as the most important constituent part of a State because all activities in the State depended upon the financial resources. Income collected from various sources kept the treasury full with surplus amount. Kautilya advises that the treasury must always be full so as to cope up with difficult times such as famines etc., when there would be no income even for a long time. In a general way he advises that the king should always aim at Kōśa-vṛddhi or increase in the financial resources. He suggests that ample activity, obviously agricultural, commercial and industrial, reward for good work, capturing of thieves, controlling the employees, retrenchment of excess employees, increase in agricultural output, increase in trade and commercial activities, absence of calamities such as famine etc., reduction in the number of exemptions, accumulation of gold, lead to the increase in the wealth of the State.
In other words, these were the methods of sound financial management. On the other hand, Kauṭilya also enumerates certain avoidable deeds on the part of the State which would only drain away the wealth of the State (Kōśa-kṣaya). He describes them as pratibandha or obstacles in the way of financial soundness of the State. They are prayōga i.e., giving loans from the State treasury, vyavahāra i.e., investing State funds in transactions, avastāna fabrication or manipulation of accounts, parihāpana loss of revenue or income such as not collecting taxes properly etc., and upabhōga i.e., misuse and misappropriation of State funds. He warns that these steps should be discouraged and prescribes heavy punishment to those who indulge in such activities. No doubt that these norms were followed by the successive rulers till the late medieval days, in our history to whom Kauṭilya was an ideal administrator and the Arthasastra, a model "constitution." Needless to say that most of these principles are relevent even to the present day, though the outlook has changed. In the present chapter, we will consider the different sources of income to the State in the period of our study.

Sources of Revenue

Firstly we will consider modern classification of revenue under different heads. Broadly, the sources of income are divided into two parts viz, i) Direct Revenue
and ii) Indirect Revenue. Direct revenue mainly includes the revenue collected from taxes. Through the indirect sources of revenue, the government collects income from the economic related activities in which the government will have a share in the form of revenue to its exchequer. In other words, the two heads of revenue of the State can be called as 1) Tax revenue and 2) Non-Tax revenue.

Direct revenue or Tax revenue to a State includes income from taxes like Income tax, Profession tax, Sales tax, Customs duties and other related taxes. They fetch regular income to the State.

From Non-Tax revenue, the government earns income from its undertakings, interests on investments and income from the natural resources.

Apart from these two important sources of revenue, the State also generates income at the time of difficulties by raising loans from the public or issuing bonds. It borrows money from the external financial agencies and friendly nations. 6

It is obvious that the sources of revenue in ancient times could not be identical with the modern ones, though we can notice considerable similarities therein. Our early writers tell us that the king would acquire wealth from two sources, 1) Hereditary (Pitru paitāmaḥ) and
2) Earned by himself. The first denotes the ancestral property and wealth inherited by his fore fathers which was peculiar to early kingdoms, though in a way it can be equated with the reserved funds in the government which are used by the successive governments, in the modern times. In the second category are included the wealth earned by the king through conquests, tributes and presents offered by the subordinate rulers etc. This situation was peculiar to ancient kingdoms where there was a practice of subordinate or feudatory families governing a given area all by themselves but owing allegiance to the ruling monarch. As a mark of this allegiance, they offered profuse wealth periodically and also assisted by him lending their army. This category also included money accrued by levy of fines etc., on erring subjects. But indeed, though these formed a substantial portion of the State funds, such income could not be of a certain or regular nature in the sense that one could not bank upon the regularity of such income. Sometimes it would be more and some other times it would be less. Therefore, the regular source of income to the State was through taxes as in the modern times also.

Our literary sources as well as inscriptions give ample information about this source of revenue viz, the taxes. While they(source) deal with theoretical aspect of the subject, inscriptions provide the practical examples.
Kauṭilya gives seven broad heads of revenue through taxation such as Dūrga by which he means the cities or the urban areas, Rāṣṭra or the kingdom in general, Khani i.e. mines standing for industries in general, Sētu i.e. irrigation denoting land revenue including taxes and land, crops, irrigation facilities, etc., Vāna i.e. forests denoting taxes on forest wealth, Vṛṣja i.e. villages with herds of animals denoting taxes on different types of domestic animals and Vanik-patha meaning trade routes and standing broadly for commercial taxes of various kinds. The sources of study for our period which are mainly inscriptions broadly give names of all such taxes collected during the period. Thus it can be stated, that apart from the indefinite sources of income mentioned above such as hereditary property etc., taxes were the main and regular sources of income which could be anticipated and depended upon by all governments.

It is interesting to note in this connection as to how the concept of taxation originated in our administrative system and became an indispensable part of our life.

Origin of Taxation

There is reason to believe that originally when the statecraft had not taken a concrete shape, what came to be known as tax later, was a sort of voluntary offering
to the king in lieu of his providing protection to the people. This is indicated in the famous story of Prthu becoming the king at the request of Rṣis narrated in the Rajadharma-parva of the Mahābhārata. While narrating the origin of kingship, the Mahābhārata describes three stages of development. One was a stage when there was no king and there was no need for a king. The stage that followed was one of chaos and confusion wherein the law of jungle prevailed. There was no safety and security and might alone became the right. This was followed by the stage when the alarmed Rṣis prayed for a king, a protector and the god Brahmā commanded Manu to shoulder the responsibility. When Manu declined, the Rṣis promised him obedience and offered to pay him a share in their cattle and produce. Bereft of all embellishments, the narration indicates as to how people felt the need for a protector and chose one, for their purpose with a promise to obey him and volunteer to pay a share in their income. This voluntary offer was basically a sort of a remuneration for the king for providing protection. But it was also to be used for providing protection to the same people. Thus, in a stage when administration had not taken a concrete shape, people voluntarily paid the king and in course of time with the growth of administrative complexities it became compulsory in the form of tax and continues to be so till today.
This is also indicated by the term *Bali* which stood for tax in the very early days. *Bali* originally meant 'a voluntary offering to the god', but is used in the sense of a tax to be given to the king in the Vedic literature. In one of the edicts of Aśoka also the term *Bali* is used to denote a tax. Incourse of time with more and more elaboration of administrative system, more and more number of taxes came into existence. With the commencement of the Mauryan period, the tax-structure assumed a concrete shape with rules and regulations for collection and disbursement of taxes, in fact with the establishment of a revenue department itself. Almost the same system descended down the centuries. The sources of the period of our study give elaborate information about this tax-structure such as different types of taxes, collection and expenditure and also the hierarchy of tax-officials from the village level to the Centre.

**Principles of Taxation**

When tax-collection and tax-payment became compulsory, the process had to be governed by certain norms so that the collection and payment would be smooth and rational. Cordial relationship between the tax-collector and the tax-payer and the interests of the both were to be served without prejudice to the other. Therefore, very healthy principles were laid down to govern the collection of taxes
and also their payment. The modern economists also have laid down certain principles whereby the government would get the required resources without harming the interests of the people who were to provide such resources. For example, Adam Smith lays down four canons of taxation viz., 1) Canon of Ability and Equality 2) Canon of Certainty 3) Canon of Economy and 4) Canon of Convenience.

Firstly, Smith explains the first Canon in these words: "The subjects of the State ought to contribute towards the support of the government as nearly as possible in proportion to their respective abilities, that is in proportion to the revenue they respectively enjoy under the protection of the State".

Thus, the payment of taxes to the State depends on the ability of the tax-payer. Taxing the people too much is not a good sign of economy.

The second principle (Canon) of certainty is defined as follows: "The tax which each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the quantity to be paid, ought to be very clear and plain to the contributor and to every other person". This principle helps the State to fix the amount of tax which it has to collect from the tax-payer. This principle is proposed, to safeguard the interests of the State by securing a regular income to the State Exchequer.
The third Principle states: "Every tax ought to be so contrived as both take out and keep out of the pockets of the people are as little as possible over and above which it brings into the public treasury of the State". This Canon specifies that the State should collect the taxes from the people as little as possible and they should not be harassed to pay heavy taxes. The Canon further says that the State should take measure to maintain a healthy balance between the production of goods and its consumption.

The fourth Canon has been defined as follows: "Every tax ought to be levied at the time and in a manner in which it is most likely to be convenient for the contributors to pay it". Thus collection of tax should not become a burden on the people. They should be allowed to pay taxes in the mode and time which is convenient to them.

In addition to these principles, Prof. Seligman has given another principle known as 'Principle of Sufficiency'. According to this Principle (Canon), the State treasury always should have surplus amount in it and it should have a balanced budget or what is popularly known as a 'surplus budget'. The surplus budget helps a State to overcome its excess burden of expenditure.

These canons broadly correspond to the principles laid down by our early writers. One such important principle
is that all the persons able to pay i.e. engaged in profitable professions must pay their tax. The tax should commensurate to the production and depending upon particular time and circumstances. As a corollary those who are unable to pay should not be taxed, as for example, the learned brâhmana, women, children, students and the physically handicapped.

The second principle was that the tax levied should not be oppressive i.e. the people should not be harassed for payment of taxes beyond their ability. The Mahâbhârata gives the example of a bee which collects just as much honey as the flower gives without hurting it. Likewise the tax-collector should collect just as much as the people can willingly pay. He should be like a milkman who collects as much milk as a cow can give, but not squeeze the udders further. Kauṭilya also endorses this view when he says that just as a gardner collects only the ripe fruits from the tree without hurting it, the king also should collect taxes without enraging the people.

Yet another principle pertained to the increase in the taxes to be paid by the people. Mahâbhârata lays down that the rise should not be steep or sudden. The king should increase it gradually bit by bit and thus collect more. In case of emergencies however, the king had a right to collect more but our authorities have warned that this should be done by conciliatory methods by persuading
and requesting the people. Kautilya uses the word याचेता i.e. begging or requesting, in connection with the king collecting 1/3 or 1/4 of the produce (which was more than usual 1/6) in times of financial difficulties (प्रत्युत्पन्न-अर्थाक्रच्छह्रभ). All authors do agree that the treasury must be full, and practical administrators like Kautilya do prescribe some coercive methods but with extreme caution. Manu suggests that tax-collecting is a very delicate job and that one should maintain a balance in doing it. He advises that the king should not be too lenient in the matter of tax-collection which would affect the treasury and himself, nor should he be too greedy so as to affect the people.  

Interestingly our writers have advised that the financial resources should be increased more, by intense activity in the fields of agriculture, commerce and industry than by squeezing the people. This could be done by encouraging through concessions, rewards and honours such enterprising persons who would help in increasing the wealth of the kingdom and also by reducing the expenditure of the State.

The inscriptions pertaining to the period of our study do not contain the theoretical discussion on taxation, but illustrate all these points by providing examples of equitable taxation, tax exemptions in deserving cases and the like. These points are discussed in the appropriate sections below.
REFERENCES AND NOTES

1. For example, Kōśa-pūrvāḥ sarv-ārāmbāḥ I Tasmāt pūrvaṁ kōśam-avēkṣēta II (Arthasastra, II.8.1)

Kōśa mūlā-hī rājānaḥ I kōśō vṛddhi-karo bhavēt II
(Mahābhārata, Śantiparva, 119, v.16)

Nitivākyāmrta of Sōmadēvasūri has this to say: Kōśō hi bhūpatīnām jīvītaḥ i.e. 'Treasury is the lifeline of the rulers'. (v.203)

Sōmeśvara III is still more vehement when he says that the king with an empty Kōśa will be ruined (Kōśa-hīnas-tu sīdāti, Abhilaṣitārtha-chintāmaṇī, 2,4,540)

2. Arthasastra, VI.1.10

3. Ibid, II.8.3.

4. Ibid, II.8.4.

5. Ibid, II.8.5 ff.

6. For a detailed discussion see Gopal M.H, Mauryan Public Finance Ch.II ; also Sarkar K.R Public Finance in Ancient India, Ch.5

7. Arthasastra, II.6.1

8. Mahābhārata, Śantiparva Ch.67

9. Altekar A.S , State and Government in Ancient India, p.262

13. Mahābhārata, Śāntiparva, Ch.88, v.12
14. Āpastambha Dharma Sūtra II.10.26.1-17 as quoted in Altekar A.S *Op.Cit.* p.267,f.n.2. However, the Mahābhārata reiterates that a brāhmaṇa who is not learned (Aśrōtriya) should be taxed or subjected to free labour. (Mahābhārata, Śāntiparva Ch.76, v.5)
15. Mahābhārata, Śāntiparva Ch.88 v.4
17. Arthaśāstra V.2.70
18. Mahābhārata, Śāntiparva, Ch.88, v.7
19. Arthaśāstra V.2.1
20. Manusmṛti, No chhindyād-ātmano mūlam pareṣām ch-āti-ṛṣṭpayā (VII.139)
21. Mahābhārata, Śāntiparva Ch.88 v.29 ; Arthaśāstra III.9.33

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