PART - A
CHAPTER I
INTRODUCTION

To trace the beginning of taxes in recorded history is an uphill task. An impost of this nature existed in ancient India as Manusmriti and Arthashastra testify.* We also have it on the authority of Tacitus. It has been levied in organized society right from the time immemorial.

The importance of Finance for the execution of state policies was well realised by the political thinkers of ancient India too. A thoughtful study of our old political institutions revealed the prevalence of taxes being imposed on the people in different fields of their income. In its heavy past, taxes were paid to the kings in the form of gifts and presents by the people out of their income from lands, pastimes and herds. Owing to the unstable nature of the states, the payment was voluntary and occasional. Hence, a regular and comprehensive tax structure was conspicuous by its absence.

This position was somewhat changed with the coming of the Vedic age. This period witnessed the regular payment of tax by the people. The information regarding existence of taxation in ancient India are available in "Kautilya's Arthasastra", "Dharma Sutra " 'the Smritis', the Epics' and contemporary state

* Sukraniti Chap IV Sec II Sl. 212-260 (pp. 147-149). Also H.D.S.(Kane) pp. 143-144.
documents preserved in stone inscriptions and copper plates".

According to the "Smritis" and 'Sukraniti' - The two great compendia on the Indian Statecraft in ancient India had identified the revenue and the army as the two main pillars. The principal means of filling the treasury is taxation. The first principle of taxation was that the king could not levy, according to the Smritis, tax at his pleasure or sweet will, that, the rates of taxes which the king was entitled to levy were fixed by the Smritis and varied only according as the times were normal or there was danger of imminent invasion or some other calamity or national danger impending. Another principle laid down was that taxation should be felt by those taxed as light and not heavy or excessive. Manu puts the matter thus" just as the leech, the calf and the bee take their sustenance little by little, so must the king draw from his kingdom annual taxes little by little. Let the king not cut up his own root (by levying no taxes) nor the root of others by excessive greed".* A third principle of taxation was that when increasing taxes, the rise should be gradual and a little at a time. Taxes were to be recovered at a proper time and proper place. When taxing traders, the king should make allowance for the price they had to pay for the chances of selling the commodity, the distance over which the merchandise was brought, what they must have spent for their food and condiments and

* Manusmiriti - VII. 129-140.
the cost of guarding the merchandise. In the case of artisans, before taxing them, the king has to pay regard to the labour and skill involved and to the necessaries of life required by them. Everyone, however poor, must contribute something to the finances of the realm.

From Manusmriti, it appears that the principal tax payers were agriculturists, traders, manual workers and artisans. Taxes should not be collected from learned Brahmanas, woman, minors, students, ascetics and sudras doing menial work for others; taxes also should not be levied on improved land till cost of improvement was recovered by cultivators. Rates of taxes were fixed by the smritis, ordinarily king was to take one-sixth of grain.

The Surkaniti advises the king when in financial difficulties to promise interest to the rich and take their wealth and to return it with interest when the difficulties are got over.

According to Sukra duties to be levied on goods only once. The regions of Sulka or Duty are the market places, streets and mines.

The "Manu Sanghita" enunciate the principle of taxation in the following 'Slokas' (127 to 139).

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These principles which were introduced by the political thinkers many centuries earlier are even today accepted and being followed by the Economic experts of modern times. The modern fiscal thinking for raising of State revenues, allocation of shares of such taxes between different executive units and the logic of continuity - all these groundrules are found to be well entrenched on these ancient texts.

Even Adam Smith, the father of free trade and laissez faire maintained that certain expenses of the society have to be defrayed by the general contribution of the whole society i.e. by taxation.

With the wane of the Nineteenth century, there has been a continuous erosion in the old economic concept of laissez faire. Even in traditionally capitalist countries like the U.S.A., income and inheritance taxation, social security and other techniques have been deployed casting aside the once venerated doctrine. After the second World War, the nation which newly won independence have all launched economic planning to make their economy self-sufficient. Pioneer among them, India has in a big way plumbed in for planning and socialism with the ultimate object of setting up a welfare State. So, in a welfare State like India, taxation has ceased to subserve the traditional role of only yielding revenues for the Governmental expenditure. It is now a potent weapon for the socio-economic transformation of our economy. The power to tax is not deployed by our Governments whether at the Centre or the
States as the power to destroy but to regenerate the dormant factors and forces through the process of democratic planning. In fact, the requirements of our national plans have exercised a profound influence on the tax structure.

There can be no doubt that both economic growth and social justice are equally important for nation-building. Economic growth is regulated by a set sequence of earning, saving, and investment. All three are the primary concern of those who determine taxation policies. Therefore, the pattern of taxation in a country has an important bearing on the pace of economic growth. Taxation is no doubt necessary for raising revenue to run the Government, but it becomes harmful if it is wielded as a weapon to attack the two invaluable attributes of industry viz. intellent and integrity. Civilisation and progress postulate the existence of a Government, which will be responsive to the needs of all people and which must, in the normal course, try to ensure a steady progress and improvement in the standard of living of all sections of the population.

Naturally, the where-withal for the expenditure to be incurred on these schemes has to be raised from such sections of the population, as are in a comparatively affluent position by reason of the income they derive from their activities. With the development of the ideas of the Governmental functioning to extend far beyond the old nations of maintenance of law and order and with the involvement of the Government in the improvement of the social conditions of the masses, the needs
of revenue have grown vastly.

In India, imposition of taxes had the Fundamental basis of welfare of the people since time immemorial. Codified enactments, unwritten conventions, written edicts of the ancient sages, recorded historical documents amply prove that the taxation policy was based on sound principles and ethical instincts. The entire scheme of taxation had clustered around 'public welfare' since the inception of Indian Civilisation. Kautilya's 'Arthashastra' is a well known treaties on administration and deals with the policy of Taxation comprehensively.

Taverneer, a French traveller had visited important and flourishing towns of India including Varanasi and Burhanpur in seventeenth century. In his lucid account he has described that tax was payable in India at that time on commodities manufactured and sold.

The most important factor of fiscal policy in general and of taxation policy in particular, in underdeveloped country like India, is with economic growth. However, policy makers in India must consider not only economic growth but also full employment, stable prices, efficient allocation of resources, increase of production, a satisfactory distribution of Income, a proper balance of payments. In developed countries it is generally felt that the best contribution a tax system can make to growth is to maintain as much neutrality as possible among
different incomes and expenditure. In India there is no concern with neutrality of economic effect and impact as an objective of a satisfactory tax system. While some importance is given to the equity of the tax system, over-riding importance is given to raising revenue.\textsuperscript{1} This combination of placing an over-riding importance on raising revenue and almost complete neglect of neutrality consideration has led to an ad-hoc growth of the tax system.

Taxation, being the most important branch of fiscal policy, is supposed to perform certain important functions\textsuperscript{2}
(i) raising substantial revenues for public consumption and investment
(ii) promoting saving and investment in the private sector
(iii) containing inflation and ensuring stability and
(iv) reducing economic inequalities among different sections of society.

It is widely accepted that the key to economic development is to increase the percentage of the gross national product that goes into savings and investment. It has been universally accepted that taxes should be thought of as additions of saving. Thus, domestic resource mobilisation has come to be centred on two major heads the share of savings and the share of tax revenue in gross national product. This

\begin{enumerate}
\item Sales and Excise Taxation in India - Walter. R.Mahler JR
\item Chelliah. Raja J. "Basis of Taxation in the context of developing Indian economy." 
\end{enumerate}
structuring of the development problem yields the proposition that increased taxation is necessary for economic development and that taxation should be used as a means of mobilising resources for development.

In order to increase the rate of economic growth, it is necessary to increase the proportion of savings and investment to gross national product. The main objective of taxation has been to increase the propensity to save and to reduce the propensity to consume.

However, for savings to lead to economic growth, productive investment must take place. Unfortunately, the inclination to engage productive investment is lacking to a desired extent. As Keynes stated.

"There has been a chronic tendency throughout human history for the propensity to save to be stronger than the inducement to invest. The weakness of the inducement to invest has been at all times the key to the economic problem. The desire of the individual to augment his personal wealth by abstaining from consumption has usually been stronger than the inducement to the entrepreneur to augment the national wealth by employing labour on the construction of durable assets".  

It is generally accepted among the economic experts that the tax efforts in under-developed countries has not been adequate to mobilise fully the available resources.

During the last forty years or so there has been a phenomenal rise in direct and indirect tax revenue in India. However, though there has been an increase in direct as well as indirect tax revenues, the significance of direct taxation has been diminishing while that of indirect taxation has been increasing. The relative importance of indirect taxes has increased considerably at the State level.