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## **A Historical and Analytical Study of the Evolution of Taxation in India with Special Reference to the Post-Independence Era**

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### **Abstract:**

This paper presents a comprehensive historical and analytical study of the evolution of the Indian taxation system, with a particular focus on the post-independence period. It traces the journey of taxation from ancient and medieval India to British rule and then examines the reforms introduced after 1947. The study highlights the challenges of designing a fair, efficient and growth-oriented tax structure in a developing country, emphasizing key milestones such as the Income Tax Act of 1961, liberalization in 1991 and the introduction of the Goods and Services Tax (GST) in 2017. The research also explores constitutional provisions, types and characteristics of taxes, organizational frameworks like the CBDT and policy objectives aimed at equity, efficiency and economic development. The paper underscores the dynamic nature of taxation, reflecting social, political and economic priorities and offers insights into contemporary debates on tax reform, fiscal federalism and administrative efficiency.

**Keywords:** Taxation in India, Post-Independence Tax Reforms, Income Tax Act 1961, Goods and Services Tax (GST), Direct and Indirect Taxes, CBDT, Fiscal Policy, Progressive and Regressive Taxation, Public Finance, Economic Development

### **Introduction:**

India's post-independence era was a critical period in its history as it worked to define itself as an independent republic. The difficult task of creating the institutions and developing the policies that would pave the way for social and economic advancement fell to the builders of the new India. The reform of the tax code, a vital tool for raising capital to support the aspirational objectives of the recently independent country, was at the center of this undertaking. The historical analysis of Indian taxes after independence takes place in the context of a country attempting to move past the effects of colonialism and towards independence. The Indian government, led by individuals such as Jawaharlal Nehru, realized early on in the country's post-independence period that a comprehensive and just tax system was necessary. Progressive taxation policies were put into place throughout the first few decades with the intention of fostering social fairness and minimizing economic inequality. This strategy placed a strong emphasis on wealth redistribution and land reforms as a means of promoting equitable growth and reducing poverty. But changes in the world economy and worldwide conditions required regular modifications to the tax code, which created a dynamic interaction between fiscal policy and economic reality. India's economic history



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underwent a sea change in 1991 when the country opened its economy to the market and implemented market-oriented reforms. The post-independence era of India, which began in 1947 and continued till the present day, is an important period in the country's history. This period is characterized by the challenging challenge of establishing a unique identity as an independent nation. As the builders of this new India, they were faced with the tremendous job of constructing institutions and developing policies that would pave the way for social and economic advancement. The revision of the tax system, which was a fundamental mechanism for raising funds to realize the grandiose ambitions of the newly independent nation, was the central component of this gigantic effort.

The historical examination of Indian taxes after independence unfolds as a narrative of resiliency and adaptation and it takes place against the backdrop of a nation that is attempting to break away from the remnants of colonialism and proclaim its independence. The leadership, including prominent people such as Jawaharlal Nehru, began to recognize the importance of building a tax system that was both comprehensive and equitable at an early stage. Over the course of the first several decades, progressive taxation policies were put into place with the intention of promoting social fairness and reducing economic inequities. These policies, which reflected a dedication to the values of social justice, intended to foster inclusive growth and alleviate poverty by placing an emphasis on the transfer of wealth and the reform of land.

Nevertheless, the economic landscape was not one that remained unchanged and changes on a global scale required modifications to India's tax system. In the years following independence, one of the most distinguishing characteristics was the dynamic interplay that existed between budgetary policies and economic reality. During the key year of 1991, India opened its economy to the market and launched market-oriented reforms, which resulted in a seismic shift in the country's economic trajectory. As a result of this transformative time, the tax structure underwent a recalibration, which included a shift towards a higher dependence on indirect taxes and an expansion of the tax base.

India's tax system is continuously evolving and the introduction of the Goods and Services Tax (GST) in 2017 is a monument to this evolution. An important step towards economic unification was taken with the introduction of the Goods and Services Tax (GST), which was designed to simplify the taxation system and establish a unified market. The process of moving towards a tax system that is both more efficient and more equal has, however, not been without its share of obstacles. Concerns that have persisted over time, such as tax evasion, administrative efficiency and the delicate balance that must be maintained between the creation of revenue and the stimulation of the economy, have necessitated the ongoing modification and improvement of tax policy. This change resulted in a wider tax base and a reliance on indirect taxes, which had significant effects on the tax structure. A major move in this direction was the introduction of the



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Goods and Services Tax (GST) in 2017, which aims to promote a unified market and streamline the tax structure. Thus, the study of Indian taxes after independence includes not only the system's historical foundations but also its transformative phases, which aimed to adjust it to the fast-shifting demands of the economy. Every stage of tax reform in India since independence has been fraught with difficulties and complexity. Concerns about tax evasion, administrative effectiveness and striking a balance between economic stimulation and revenue production have persisted. Furthermore, the tax system has become increasingly complex due to the federal structure of Indian politics, necessitating sophisticated strategies to guarantee efficient execution and fair distribution of funds among the states.

India is a developing nation with enormous growth potential. The Economic Survey projects that the Indian economy would expand by 7.5-7.5% in 2016–17<sup>1</sup>. The economy has expanded by 7-8% over the past few years, making it the fastest-growing in the world. India's economy is regarded as one of the world's developing economies because of this. We shall use the resources wisely in order to maintain and enhance these qualities and growth pace. One definition of resources is a source, supplier, or asset that produces benefits<sup>2</sup>. Resources might be in the form of natural, technological, land, demographic, geographic, political, economic, cultural and financial aspects, among others. Plans and strategies cannot be implemented effectively without resources.

In the current context, the government is in charge of a number of duties, including resource utilization, security, economic and social reform and national image. They must carry out a number of tasks in order to fulfil their responsibilities. Significant public funding was needed for these initiatives. A significant amount of public revenue is needed to cover this expense. The primary source of public funding is taxes. It is a cutting-edge tool that fosters national cohesiveness and socioeconomic change. According to Dalton, taxes influence growth and development by causing a shift in the resources' supply. It is essential to the operation of the government.

Direct and indirect taxes are two possible categories for the taxes. To set them apart, J. S. Mills coined the phrase "incidence of taxation." According to him, direct taxation occurs when the individual who is subject to the tax also bears its consequences. Conversely, indirect taxation is the case when the tax burden is transferred to a different individual.

India is a democratic republic with 29 states, 7 union territories and a federal tax system that is divided into three tiers<sup>3</sup>. The federal concept states that the authority is allocated among the Union, State and Local Governments in a way that ensures their independence, coordination and presence within their respective domains. While the taxing powers of Local Bodies are delegated to them by the State, the taxing powers between the Union and the State are determined by the provisions of the Constitution. The Central Government designates it in the case of Union Territories. No tax may be imposed or collected except by authority of law, according to Article 265 of the Indian Constitution. As a result, each tax that is imposed or collected must be supported by a



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corresponding law that has been passed by the State Legislature or the Parliament. The Indian Constitution's Article 246 divides the legislative authority between the Central Government (the Parliament of India) and the State Governments (state legislatures). Number Five. The precise allocation of resources and functions is outlined in Schedule VII of the Constitution, which makes use of three lists. List I address regions where only the Central Government has the authority to enact laws, List II addresses areas where only the State Government has the authority to enact laws and List III addresses areas where the Central and State Governments may enact laws simultaneously.

The ability to impose taxes on income, corporations, wealth, custom charges, central excise, service tax and other things belongs to the Central Government. While state excise, agricultural income tax, stamp duty, commercial sales tax, land revenue, professional tax and other taxes are levied by the state government. The Local Bodies levy taxes on a variety of items, including property taxes, water taxes, sewage and drainage taxes and more. The Central Board of Direct Taxes (CBDT) is in charge of handling all matters pertaining to direct taxes in India at the central level. By virtue of the Central Board of Revenue Act of 1963, the CBDT is authorized.

Every nation's tax system is tightly knit into the fabric of its economic environment and this is true for every nation. It has been a fascinating journey for India to shape a tax structure that is independent from colonial restraints and consistent with its own rising objectives. This journey has been defined by substantial hurdles and key reforms and it has been a journey from beginning to end. This article is a historical study that digs into the subtle complexities of Indian taxation after independence, shedding light on the important eras of its evolution and critically assessing the rationale behind each significant adjustment. We shall follow the incremental refinement of the tax architecture from the immediate post-independence years, when the young government struggled with the legacy of a skewed and revenue-hungry colonial system, to the age of Nehruvian socialism, which placed a focus on resource mobilization for growth throughout the country. We are going to conduct an analysis of the circumstances that led to the implementation of major reforms such as the Income Tax Act in 1961 and the Goods and Services Tax (GST) in 2017. We will examine the impacts that were expected to be brought about by these reforms as well as the consequences that they actually brought about in terms of revenue generation and economic efficiency.

In addition to providing a chronological account of legislative shifts and statistical tendencies, this study will also include other aspects. The investigation will go into greater depth, focusing on the sociopolitical and economic causes that were responsible for shaping tax policy. We are going to investigate the impact that a variety of stakeholder groups, including the business sector, academic institutions and taxpayers themselves, have had on the development of the tax landscape. In



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addition to this, we will investigate the influence that the altering paradigms of development, technical breakthroughs and global economic trends have had on the Indian tax system.

Using this historical perspective, our objective is not only to comprehend the "how" and "why" of the Indian tax changes, but also to evaluate the influence that these reforms have had on the advancement of the nation. Has the structure of the tax system been successful in fostering economic growth? Is there a fair distribution of the burden of taxation that it successfully achieved? How successfully did it adapt to the ever-evolving requirements of a society that is constantly evolving? In addition to providing significant insights that may be used to understand the historical trajectory of Indian taxation, this study will also provide key insights that can be used to drive future policy decisions. These are some of the most important questions that this study will attempt to answer

The purpose of this study is to contribute to a more comprehensive understanding of the economic and social journey of India by charting the complex course that Indian taxes have taken since the country first gained its freedom. It is intended to serve as a helpful resource for academics, policymakers and anybody else who is interested in comprehending the dynamic interplay that exists between fiscal policy and national development in a democracy that is both expansive and constantly growing, such as India.

The purpose of this study goes beyond merely elucidating the "how" and "why" of the changes that have occurred in the Indian tax landscape. We will be using a historical perspective as our guide towards accomplishing this objective. As an alternative, it seeks to conduct an in-depth analysis of the influence that these reforms have had on the overall development of the nation. Essential questions will be discussed, including the effectiveness of the tax system in promoting economic growth, the degree to which it has accomplished a fair distribution of the tax burden and its capacity to adapt to the ever-changing requirements of a society that is in a state of perpetual change. The purpose of this study is to give not just historical insights but also a robust analytical framework that can be used to drive future policy decisions. This will be accomplished by looking into these questions.

The purpose of this study is to provide a contribution to a more thorough understanding of India's economic and social trajectory by methodically charting the convoluted history of India's tax evolution since the country gained its independence. It is the goal of this publication to serve as a helpful resource for academics, policymakers and anyone else who is interested in understanding the dynamic interplay that exists between fiscal policy and national development within the specific setting of India's broad and continuously increasing democracy. The research acknowledges that the tax system is not a fixed entity but rather a dynamic tool that both influences and is influenced by the complex nature of the advancement of a nation. The purpose of this study is to provide stakeholders with the knowledge they require to successfully navigate the intricate





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terrain of fiscal policy and make a significant contribution to the continued growth of the nation. This will be accomplished by casting light on the historical transformation of Indian taxes.

In each given nation, the capacity of the government to formulate and carry out policies is a critical factor in determining the level of economic development that can be achieved. It has been observed that over the course of several decades, the government of India has played an increasingly significant role in the accomplishment of developmental goals in general and socioeconomic goals in particular. As well as welfare and development activities like health, education, rural development, sanitation and water and environment protection, the traditional tasks of the government, which include defence and the maintenance of law and order, as well as welfare and development activities, require a significant amount of public financing. It is a well-known truth that public financing is essential throughout the entire process of economic planning and implementation in the country. Through the implementation of tax policy, the government is able to increase the amount of income necessary to accomplish a variety of socio-economic goals. Obtaining income can be accomplished through the use of taxation, whereas the expenditure of money is the result of a programme of public investment that is both appropriate and sustainable. According to Rajni Bedi's research from 2007, page 3, that spending money by the government rather than by the people typically results in an increase in social welfare to the greatest extent possible. Within the framework of this discussion, taxation is regarded as an indispensable instrument of public finance.

Taxes are a significant source of public finance that are administered by the government for the purpose of funding public expenditures. There are two types of taxes: direct taxes and indirect taxes. The income tax and the tax on the profits of businesses are both examples of direct taxes. In addition to being a significant component of direct taxes, income tax is also a significant source of revenue for the government. The elements of a tax structure that should be present include simplicity, feasibility, efficacy and antiinflationary. Additionally, the structure should have the traits of providing incentives for the production of essential goods and services. In addition, the structure of the tax should be less expensive, simple to comprehend, simple for the people to comply with and simple for the authorities to administer. Each and every one of the canons of taxation is satisfied by income tax and it also assists the government in accomplishing its socioeconomic goals. The income tax can be used as a strategy for limiting inflation, in addition to helping to bring about distributional fairness through the employment of various tax rates for persons who are wealthy and those who are not wealthy (Navjoth Dhingra, 2005, page 14). Due to the fact that it possesses all two of these characteristics, the income tax has become an increasingly important component of the structure of direct taxation in all politically developed nations around the world.



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The tax structure in developing countries is plagued by the significant disadvantage of having trouble defining and quantifying the tax base, as well as assessing and collecting taxes in situations where the population is dispersed, mainly illiterate and engaged in producing subsistence goods. For the use of direct taxation to be successful, certain conditions must be met. These conditions include the existence of a predominantly monetized economy, a higher level of literate tax payers, the maintenance of honest and reliable accounts, a significant degree of voluntary compliance by tax payers, healthy political conditions and tax administration that is both honest and efficient. In countries that are still in the process of developing, these conditions are not present to the necessary level. According to Goode (1981), developing countries are more likely to rely on indirect taxes because it is more difficult to reach tax payers personally through direct taxes. Similar to the tax structures of a great number of other emerging nations, India's tax system is plagued by significant deficiencies. As a result of the presence of high company tax rates, the plurality of taxes and the cascading of taxes, extensive exemptions and concessions on a variety of commodities as well as specific or group of manufacturers, the tax structure in developing countries is extremely complicated. Certain kinds of activity are the recipients of a significant number of tax exemptions and exemption grants. According to Lahiri, who was quoted in Aggarwal and Selvaraju (2002), exemptions and concessions that are not accompanied by a cost-benefit analysis may be unproductive. Radian (1980) made the following observation regarding the progressive system of taxation: "the poor are asked to pay very little, the rich are required to pay high rates of taxes, but they are allowed to escape out of the tax net through back door."

Everyone is content, with the exception of the national treasury, which remains devoid of funds. In light of this, it is essential that the system of taxation undergoes continuous revision of its structure.

In order to achieve the set goals in accordance with the altered socio-economic conditions, reforms are an essential approach that must be implemented in any field. Reforms in taxation are urgently required in order to make the system more efficient, less difficult to administer and more user-friendly for taxpayers. Because of this, reforms in taxation are of great importance in order to make the taxation system compatible with the globalised economy and to adapt it in accordance with the changing socio-economic circumstances of the country.

## **1.1 Meaning of Tax**

A financial levy that is imposed by a government on persons, businesses, or other entities that fall under its control is what we mean when we talk about taxes. The purpose of this contribution is to act as a mandatory payment that is meant to fund public expenditures, the development of infrastructure, social services and various duties of the government. A number of factors, such as income, wealth, consumption, property ownership, or particular transactions, are taken into consideration when determining the amount of this financial obligation. The collection of taxes is



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an essential component of public finance because it enables governments to acquire the resources they require to carry out their duties and satisfy the requirements of society. Taxes, in their most fundamental form, are a financial obligation that is imposed by a government on individuals, businesses, or institutions that fall under its authority. The fundamental objective of this forced contribution is to provide funds for various aspects of public expenditures and it serves as a crucial tool that compels people who are under its jurisdiction to make payments. These include the construction of infrastructure, the provision of social services and the fulfilment of the various responsibilities that are borne by the government. These are all extremely important topics. The determination of the financial responsibility is contingent upon a number of elements, such as the individual's income, wealth, consumption patterns, ownership of property and particular transactions. This multidimensional approach ensures that the burden of taxation is spread in a manner that is representative of the economic activities and capacities of individuals who contribute to the system. One of the most important aspects of the idea of taxes is its function as a cornerstone in public finance. They supply governments with the essential resources that are necessary for them to carry out their responsibilities in an efficient manner and to satisfy the ever-changing requirements of society. In this sense, taxes serve as an essential component of government, making it possible for the state to fulfil its commitments and maintain the well-being of the community that it serves.

The creation of money is one of the key goals of taxation strategies. Taxes are a significant contributor to the financial basis of a government, which enables it to carry out fundamental functions such as the upkeep of law and order, the provision of public goods and services and the investment in essential infrastructure. The funding of education, healthcare, defence and a variety of other programmes that contribute to the overall well-being and progress of a nation is made possible, in large part, by these revenues. Additionally, taxation is a weapon that may be utilized to accomplish both economic and social goals. Policies regarding taxes can be formulated by governments with the purpose of influencing behavior, encouraging or discouraging particular activities and addressing issues of income inequality. By way of example, progressive taxation is a form of taxation that aims to create social fairness by redistributing wealth. This type of taxation involves higher tax rates for persons who have greater incomes. On the other hand, regressive taxation can be utilized to boost economic activity by offering incentives for investment and entrepreneurial endeavors.

Taxation plans have a primary purpose that is inextricably tied to the creation of money. They play a crucial role in providing governments with the financial foundation that is necessary for them to carry out their core tasks. Taxes are a vital contributor to the economic resources of a government, which enables the government to undertake essential obligations such as the upkeep of law and order, the provision of public goods and services and the investment in essential infrastructure.





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The revenues that are earned by taxation serve as the vital source of funding that enables vital sectors such as education, healthcare, defence and a variety of other programmes that are needed for the overall well-being and advancement of a nation to continue operating.

Additionally, taxation is a versatile weapon that governments can use to accomplish both economic and social goals. This is because taxation serves several purposes. The formulation of tax policy is done with the intention of influencing behaviour, either encouraging or discouraging particular activities and addressing issues that are related to income disparity. One way that exemplifies this is progressive taxation, which is a strategy that aims to promote social fairness by redistributing wealth. In accordance with this strategy, persons who have greater incomes are subject to higher tax rates. This demonstrates a commitment to minimising economic disparities and fostering a fair distribution of resources. At the other end of the spectrum, regressive taxes is an additional component of this economic instrument. It is possible for governments to implement regressive tax policies in order to boost economic activity from the perspective of giving incentives for investment and entrepreneurial endeavours. Individuals with lesser earnings are often subject to lower tax rates under this style of taxation, which results in the creation of an environment that fosters spending, investment and economic growth. While the fundamental objective of progressive taxation is to promote social fairness, the primary objective of regressive taxes is to stimulate economic growth. This demonstrates the versatility of taxation as a policy instrument that can be adapted to meet a wide range of economic and social objectives. In its most fundamental form, the relationship between taxation and the larger economic and social landscape is one that is both complex and fluctuating. Not only do tax laws serve as a way of generating income, but they also act as a mechanism through which governments can shape the behaviour of society, address disparities and create both economic progress and stability. A comprehensive awareness of the diverse role that taxation plays in the governance and development of a nation is reflected in the strategic use of taxation, which reflects this understanding.

Economic theories, political considerations and societal norms all have an impact on the structure of taxation, which varies greatly from one jurisdiction to another and even within the same jurisdiction. Taxes that are imposed directly on individuals or organizations, such as income taxes, are referred to as direct taxes. On the other hand, indirect taxes, such as sales taxes, are collected on goods and services. Furthermore, in order to accomplish particular economic or social goals, governments may choose to impose special taxes, such as excise fees or property taxes. The imposition of taxes can be a contentious and contentious topic of discussion, despite the fact that taxes are necessary for the operation of a government and the supply of public goods. The most important aspects of discussions concerning taxation policy are frequently questions concerning the fairness of taxes, the efficiency of the economy and the impact on a variety of socioeconomic categories respectively. A significant challenge that governments have when they build and change



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their tax systems throughout time is finding a way to strike a balance between collecting income and ensuring that the tax burden is dispersed in an equitable manner. Generally speaking, taxation is a multidimensional and essential component of contemporary governance, with repercussions that go well beyond the simple act of collecting cash.

## 1.2 Type of Tax

Taxes that are placed directly on persons or corporations, such as income tax, corporate taxes and property taxes, are referred to as direct taxes. The burden of these taxes is proportional to the amount of wealth or income received by the taxpayer. These taxes are very progressive and their primary objective is to ensure that the financial burden is distributed fairly, with higher earnings contributing a greater proportion of the total revenue collected by the government. In contrast, indirect taxes, such as sales taxes and value-added taxes (VAT), are applied to goods and services, imposing a regressive structure by placing a proportionally higher burden on lower-income persons. The concepts of social fairness and wealth redistribution are aligned with progressive taxation, which involves increasing rates for higher incomes. On the other hand, regressive taxes, which involves lower rates for higher incomes, may encourage economic activity, but it is criticised for deepening income disparity. Specifically targeted taxes, such as sin taxes on harmful products or luxury taxes, provide governments with a nuanced instrument to affect behaviour and accomplish particular policy goals. Examples of sin taxes include taxes on hazardous products. Despite the fact that they offer flexibility, ad valorem taxes, which are computed as a proportion of the item's worth, make careful evaluation necessary. A government's strategy for striking a balance between the creation of income and the impact on society is reflected in the distinct roles that each sort of tax plays.

### 1.21 Direct Taxes:

Individuals or entities are subject to direct taxes, which are placed directly on them and are proportional to the amount of wealth or income they possess. Direct taxes are the most prevalent type of tax and the most popular type is income tax, which requires individuals and corporations to pay a percentage of their earnings to the government. There are many other examples, such as taxes on corporations and taxes on property. Because the burden of direct taxes increases in proportion to the taxpayer's ability to pay, this type of tax is referred to as progressive.

The direct tax system serves a variety of functions. In the first place, they make a considerable contribution to the revenue of the government, which is used to finance public services and infrastructure. When it comes to addressing issues of income inequality, they can be utilised to impose progressive tax rates, which is the second benefit. The fact that direct taxes are open to public scrutiny makes them an essential component of a taxation system that is both fair and equitable. Direct taxes, which are a category of levies that are placed directly on individuals or corporations, are an essential component of the financial architecture of a nation. The



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proportionality of direct taxes to the income or wealth of the taxpayer is the primary quality that distinguishes them from indirect taxes. Among the many types of direct taxes, income tax is one of the most popular sorts. It is a tax that requires individuals and businesses to pay a certain percentage of their earnings to the government. Additional instances that fall under this category include: corporate taxes, which are levied on the profits of enterprises; property taxes, which are calculated based on the assessed value of real estate holdings; and property taxes.

When it comes to direct taxes, one of the distinguishing characteristics is their progressive nature, which means that the burden increases in proportion to the taxpayer's ability to pay. The purpose of this principle is to ensure that individuals with higher earnings give a greater proportion of their resources to the public treasuries, which is in line with the overarching goal of creating social fairness. The income tax, in particular, is a good example of this development because tax rates normally increase in conjunction with the different income groups that are being raised.

When it comes to the economic landscape of a nation, direct taxes serve two distinct functions. To begin, they are a significant contributor to the revenue of the government, which serves as a financial support system that contributes to the maintenance of public services and the development of infrastructure. This revenue plays a significant role in sustaining critical functions such as education, healthcare and public utilities, which in turn contributes to the overall well-being and advancement of the society.

The second point is that direct taxes are a potent instrument that can be used to address issues of income inequality. Through the implementation of progressive tax rates, governments have the ability to actively contribute to the redistribution of wealth, so assuring a more equitable allocation of the tax burden across various economic strata. The transparency that is inherent in the process of assessing and collecting direct taxes serves to underline the role that these taxes play as an essential component of a taxation system that is balanced and equitable. Having this level of transparency not only helps to increase public trust, but it also makes it possible to conduct a more straightforward examination of the efficiency and fairness of the tax system.

Direct taxes, in their most fundamental sense, are not only instruments for producing income; rather, they are a manifestation of a commitment to social justice and economic equilibrium. Their progressive nature is a reflection of a conscious policy choice that was made in order to encourage a more fair distribution of resources while still providing the financial means for governments to achieve their societal duties. As a consequence of this, the function of direct taxes goes beyond merely monetary concerns; it encompasses a more extensive socio-economic dimension that helps figure out the boundaries of a taxation system that is both equitable and open to scrutiny.

## 1.2.2 Indirect Taxes

The consumption of goods and services is the target of indirect taxes, which are a category of levies that are not placed directly on persons or companies but rather on the general public. Indirect



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taxes, on the other hand, are based on the purchase or usage of particular things, as opposed to direct taxes, which are proportional to something like income or wealth. There are many different kinds of taxes that fall under this category. Some examples of these taxes include sales taxes, excise duties and value-added taxes (VAT). Each of these taxes has a unique impact on the behaviour of the economy and contributes to the revenue of the government.

When it comes to indirect taxes, one of the most prominent examples is sales tax, which is often added to the total price of the goods or services that are being purchased at the price point. Instead of taking into account the buyer's income, sales tax takes into account the transaction itself. This is in contrast to income tax. On the other hand, excise duties are levied on particular products, which are typically those that are regarded as being dangerous or luxury commodities. Some examples of these products include tobacco, alcohol and fuel. Taxes like this are typically incorporated into the cost of the items and their primary purpose is to either influence the behaviour of consumers or address the externalities that are connected with particular products.

The value-added tax, sometimes known as VAT, is an all-encompassing kind of indirect taxation that is implemented at every time point along the production and distribution chain. The value that is added to a product or service at each stage of its production or distribution is the subject of this tax. This ensures that tax is paid on the value that is created at each stage of the production or distribution process. The value-added tax (VAT) is widely employed across the globe and provides governments with a dependable and effective method of collecting income while simultaneously reducing instances of tax fraud.

When compared to direct taxes, indirect taxes are frequently regarded as being more burdensome on the poor. This is due to the fact that they increase the relative burden that is placed on persons with lower incomes. When it comes to the purchase of a certain item, individuals are subject to the same tax rate regardless of their level of income. Because those with lower incomes tend to spend a greater proportion of their wages on necessities, critics believe that this can have a disproportionate impact on those individuals who are already struggling to make ends meet.

On the other hand, governments deploy indirect taxes from a strategic standpoint for a number of reasons. First and foremost, they offer a large and consistent stream of revenue because they are linked to patterns of consumption rather than fluctuations in income. Secondly, indirect taxes are a tool that can be utilised to affect the behaviour of consumers. It is possible, for instance, that increasing tariffs on particular products could discourage their usage, so addressing concerns over health or the environment. Furthermore, indirect taxes are more likely to be easier to administer and collect, which is another factor that contributes to their desirability as a vehicle for obtaining income.

Rather than being levied directly on persons or enterprises, indirect taxes are levied on the goods and services that are provided. The amount of goods and services that a taxpayer consumes is what



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determines the amount of taxes that they are required to pay, not their income or wealth. Sales taxes, excise duties and value-added taxes (VAT) are some examples of taxes that are imposed. By their very nature, indirect taxes are sometimes regressive, which means that they place a greater proportional burden on persons with lower incomes. On the other hand, they can be utilised in a strategic manner to exert influence over the behaviour of consumers and to regulate the consumption of particular products, such as tobacco or alcohol. Additionally, indirect taxes provide the government with a large revenue source to draw from.

### **1.2.3 Progressive Taxation:**

A principle known as progressive taxation is one in which the tax rates grow in proportion to the increase in the taxpayer's wealth or income. In addition to fostering social fairness, the goal of this approach is to redistribute wealth. Direct taxes, such as income tax, are often the ones that are associated with progressive taxation. Through the imposition of higher tax rates on higher incomes, progressive taxation works towards the goal of reducing the wealth gap and ensuring that the tax burden is distributed fairly.

According to the notion that people with greater financial capacity should contribute a larger share of their income to support public services and programmes, progressive taxation is frequently regarded a strategy of promoting social justice. This is because it fits with the principle that progressive taxation does.

One of the fundamental principles that underpins fiscal policy is known as progressive taxation. This theory encapsulates the notion that tax rates need to increase in proportion to the growing income or wealth of their taxpayers. The goal of wealth redistribution and the promotion of social fairness within a society are the foundations upon which this strategy is built. One of the most prominent examples of progressive taxation may be found in the field of direct taxes, specifically the income tax. Due to the fact that this system is designed to impose higher tax rates on individuals or businesses that have higher profits, it helps to contribute to a more equitable allocation of the overall tax burden.

The dedication of progressive taxes to reducing the wealth gap is the primary tenet of this tax planning approach. Governments strive to alleviate economic gaps and build a feeling of social justice by introducing a tiered tax structure. This structure requires people with higher earnings to carry a proportionately greater tax burden than those with lower incomes. By taking this approach, the notion that people who have greater financial capacity should contribute more meaningfully to the common good by supporting public services and programmes that are beneficial to society as a whole is acknowledged.

From its most fundamental level, progressive taxation functions as a tool for the transfer of wealth. The reasoning behind this is based on the notion that when individuals or entities amass more incomes, they would be able to afford to pay a greater proportion of their resources to the funding





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of public goods and services. This not only guarantees that the burden of taxation is allocated in a manner that is reflective of economic capacities, but it also works towards the creation of a society that is more representative of its members and more equitable.

It is not without its complications and considerations that the implementation of progressive taxation is not without its challenges. Obtaining the appropriate equilibrium between the generation of adequate money for the duties of the government and the prevention of the discouragement of economic activities is of the utmost importance. To add insult to injury, the process of determining the income levels at which tax rates begin to rise requires precise calibration in order to prevent unforeseen consequences. Progressive taxation, on the other hand, comes into alignment with broader social principles of justice and shared responsibility when it is implemented in a prudent manner.

## **1.2.4 Regressive Taxation:**

This type of taxation is known as regressive taxation and it is distinguished by tax rates that are lower for higher incomes and higher for lower ones. A number of indirect taxes, such as sales taxes or consumption taxes with a flat rate, may be connected with this method. On the other hand, regressive taxes places a comparatively greater burden on persons with lower incomes, in contrast to progressive taxation.

However, despite the fact that regressive taxation is sometimes used to boost economic activity, it is frequently criticised for the fact that it exacerbates income disparity. As a result of lower tax rates on consumption, spending and investment may be encouraged, which might potentially lead to increased economic growth.

In striking contrast to progressive taxation, regressive taxation is characterised by lower tax rates for higher incomes and higher tax rates for lower incomes. Regressive taxes is known as "regressive taxation." When it comes to taxes, this kind of taxation is typically associated with indirect taxes, such as consumption taxes or sales taxes that have a universal rate. Regressive taxes, on the other hand, place a comparatively higher burden on persons with lower earnings. This is in contrast to progressive taxation, which aims to divide the tax burden in a manner that is proportional to levels of income. One of the consequences of this structure is that individuals with higher salaries contribute a smaller percentage of their earnings to the tax pool in comparison to individuals with lower incomes.

One of the most prominent examples of regressive taxation in action is demonstrated by indirect taxes, such as sales taxes. Individuals, regardless of their level of income, are subject to the same tax rate on the acquisition of goods or services under these particular taxation regimes. Concerns have been raised over the impact that this strategy will have on income inequality, despite the fact that it may appear to encourage spending and investment by providing favourable tax rates on consumption.



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There are those who are opposed to the use of regressive taxation. This kind of taxation is frequently criticised for its tendency to exacerbate income disparities within a society, despite the fact that it is occasionally used to boost economic activity. People who are opposed to regressive taxation believe that it undermines the values of social justice and equitable wealth distribution because it places a substantially larger tax burden on people who have lower earnings. The core of this strategy is that it seems to have a disproportionate impact on individuals or households that have fewer financial means. This could potentially result in a more pronounced division between the wealthy and the less wealthy parts of the society.

The premise that lower tax rates on consumption may encourage spending and investment, so stimulating economic growth, is the foundation of the potential economic gains that are linked with regressive taxation. The proponents of regressive taxes say that it can help to overall economic expansion and job creation by providing incentives for consumer activity and investment. The potential benefits of such measures in terms of economic stimulation must be evaluated against the societal costs of greater income inequality. However, the long-term repercussions of such policies are dependent on a delicate balance.

## 1.2.5 Specific Taxes:

Certain items, services, or activities are subject to unique taxes of varying degrees. It is common practice to impose these tariffs in order to achieve particular policy goals, such as reducing the use of dangerous products or addressing the issue of externalities. As an illustration, there are taxes on sins such as alcohol and tobacco, taxes on the environment and taxes on luxury goods.

Governments have the ability to achieve certain economic or social goals through the use of specific taxes, which can be a strong instrument. The purpose of these projects is to generate income for particular policy objectives while simultaneously influencing behaviour. The effectiveness of these systems, on the other hand, is frequently contingent upon rigorous calibration and the evaluation of any collateral effects.

In order to accomplish certain policy goals, governments frequently resort to the imposition of particular taxes on particular goods, services, or activities. For the purpose of influencing behaviour, addressing externalities and generating cash for certain policy projects, several tailored taxes have been designed. Given that these taxes are designed to have an effect on particular areas of the economy or parts of human behaviour, they are a powerful instrument that may be used to shape the outcomes of both the economy and society.

One category of particular taxes is frequently referred to in a colloquial manner as "sin taxes." Products or activities that are judged to have detrimental impacts on society, such as alcohol and tobacco, are subject to these levies so that they can be collected. Through the imposition of increased taxes on these commodities, governments hope to discourage the consumption of these items and reduce the associated costs to society and health and health care. Therefore, sin taxes



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have a dual purpose, namely to generate income while simultaneously promoting public health and welfare.

Another type of particular taxation is the imposition of taxes on the environment, which are often commonly referred to as environmental taxes or green taxes. The acts that contribute to the damage of the environment, such as pollution or excessive resource consumption, are the focus of these taxes. It is the goal of governments to encourage businesses and individuals to adopt more sustainable behaviours and contribute to environmental conservation efforts by imposing a financial cost on actions that are destructive to the environment.

Taxes on luxury goods and services are an additional category of particular taxes that are aimed at high-end products and services that are regarded as being either non-essential or hedonistic. Taxes on luxury automobiles, high-end designer items and exclusive services are some examples of some types of taxes. A policy option to address issues of conspicuous consumerism and economic inequality is reflected in these taxes, which not only produce revenue but also reflect a strategic choice.

A subtle instrument that can be utilised by governments to accomplish their economic or social objectives is the smart application of particular taxes. By focusing on certain industries or behaviours, authorities have the ability to affect consumption patterns, encourage responsible practices and provide funding for initiatives that are specifically targeted. On the other hand, the effectiveness of these tax schemes is strongly dependent on thorough calibration and the consideration of potential repercussions that were not anticipated.

Finding the optimal equilibrium of tax rates is essential to achieving effectiveness. There is a possibility that illegal markets could emerge or that tax evasion would be encouraged if taxes are elevated to an excessive level. On the other hand, if the rates are too low, the impact that is supposed to be had on behaviour might be negligible. In addition, policymakers are required to provide an evaluation of the potential collateral impacts, which may include alterations in consumer behaviour, modifications in market dynamics, or unanticipated economic distortions. This is done to guarantee that the targeted policy goals are accomplished without causing any unwarranted adverse consequences.

## 1.3 Characteristic of Tax

The following is a list of the prominent qualities of tax:

- 1) Compulsory Contribution: Taxes are a mandatory contribution that individuals are required to provide to the government in accordance with the conditions that are outlined in the applicable laws. When a tax is due, no one has the right to refuse to pay it over.
- 2) Personal duty: The tax payer is subject to a personal duty associated with the tax. It indicates that the one who is liable to pay taxes is the one who is personally responsible for paying such taxes. He is not allowed to avoid paying taxes under any circumstances.



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3) Public Welfare: In other words, the money collected from taxes is supposed to be used for public welfare. It is not prudent for the government to spend the money collected from taxes for the advantage of a single person but rather for the benefit of the entire society.

4) No Quid Pro Quo: Another characteristic of taxes is there is no commensurate return, sometimes known as "no quid pro quo." It is not possible for the taxpayer to receive any direct benefit from the government in proportion to the amount of tax that they have paid.

5) The Payment of Taxes to the Government The people are the ones who pay taxes to the government in order to accomplish the goal that they have set for themselves. If this is the case, then taxes are payments made by individuals to the government. Another characteristic of taxes is that they are paid out of the people's income. This is one of the characteristics of taxes. All individuals who have a total income that is greater than the minimal exemption limit are required to pay income tax. This is the case with regard to income tax.

No tax shall be imposed or collected unless it is authorised by law, as stated in the seventh provision of the regulations. Because of this, taxes need to be supported by laws. Therefore, taxes are going to be enforced in a lawful manner.

8) Sacrifice On top of the legal obligation to pay a tax, there is also an element of sacrifice involved in the process of contributing to the government.

9) Taxes are not the cost of the benefit: Taxes are not the cost of the advantage that the government bestows upon the general public or the general population. Neither taxes nor benefits are dependent on one another in any way.

The term "taxes" can be broken down into a variety of categories, including but not limited to: income tax, sales tax, wealth tax, custom duty, service tax, excise duty, property tax, water tax, housing tax and so on.

## 1.4 Objectives of Taxation

The following are the primary goals that taxes seeks to achieve:

- Increasing Public Revenue: In developing countries like India, the government is tasked with the obligation of carrying out all of the actions that contribute to the general growth of the country and society. A significant amount of public funds were required for these initiatives. In order to cover these costs, a significant amount of public revenue is necessary. The majority of the money that the government receives comes from taxes. Therefore, the primary purpose of taxation is to increase the amount of money collected by the government.
- Another goal of taxation is to redistribute income and wealth in such a way as to ensure a more just and equitable allocation of wealth and income. This is accomplished by reducing income inequality. The wealthy can be subjected to a significant amount of taxation, while others in lower socioeconomic brackets can receive benefits. Therefore, taxes help to lessen the disparities in income.



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- Taxation has a number of purposes, one of which is to distribute resources across different groups. It is possible for the government to shift resources from areas that are unproductive or undesirable to those that are productive or desired with the assistance of taxation.
- The Acceleration of Economic Development: The rate of economic development is accelerated by taxation.
- It is possible to use the revenue from taxes to enhance production capacity and development, which ultimately results in a higher rating of economic development.
- Another purpose of taxes is to govern and control the economy in accordance with the requirements of the nation. This is accomplished through the use of taxation. For the purpose of maintaining a healthy state of society, the government sets restrictions on the use of particular products and services through the use of taxation in a manner that is both desirable and respectable.
- Capital Formation: In order to achieve long-term economic growth, we need to have a significant amount of capital. It is possible to establish a capital with the assistance of an appropriate taxation policy. Taxes are a dynamic that encourages saving, which in turn promotes the building of capital.
- Increase National Income: Another purpose of taxes is to increase national income and per capita income by raising output and general economic development. This is accomplished by the growing of the national income.
- Business Stability and Increasing job prospects: Another purpose of taxes is to bring about business stability and to improve job prospects. This is accomplished by imposing a low rate during times of economic depression and a high rate during times of economic growth.
- Political Objectives: In democratic nations like as India, taxation is being utilised as a weapon for the purpose of achieving political objectives.
- Tenth, Restrict Unnecessary use: Taxation serves as a mechanism to restrict the use of dangerous commodities that are not required, such as wine, cigarettes, bidis, tobacco, bhang and so on, by imposing substantial taxes on these commodities.

## 1.5 Canons of Taxation

For the purpose of accomplishing its goals, a tax system ought to select and continue to adhere to a set of principles, sometimes known as canons. Adam Smith is credited with articulating the first set of such ideas by himself. When it comes to taxes, Adam Smith, in his well-known book "The Wealth of Nation," advocates for the four maxims that are listed below. The canon of taxes is just a collection of these maxims. His articulation of taxation canons has been almost entirely ignored by the majority of people. In accordance with Adam Smith's recommendations, the following are the four canons of taxation:





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The phrase "the subjects of every 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 which they respectively enjoy under the protection of the state" was uttered by Adam Smith in the context of the Canon of Equality concept. When it comes to taxes, equality does not mean that all taxpayers should pay the same amount; rather, it means that everyone should pay according to their personal financial capabilities.

Specifically, they called for a progressive tax system. It stipulates that those with greater wealth should contribute to the public expenses not only in proportion to the amount of money they bring in, but also in accordance with something that is greater than proportion. There is an ethical component as well as an economic component to this principle.

In reference to this canon, Smith made the following statement: "the tax that each individual is obligated to pay ought to be certain and at the same time, it should not be arbitrary." It is incumbent upon the 12 contributor, as well as every other individual, to have a clear and unambiguous understanding of the time of payment, the method of payment and the amount that is to be paid. The unpredictability of taxation is the root cause of both insolence and financial corruption. For this reason, it is important for taxpayers to be aware of the amount of tax they are required to pay and the day on which they must do so in advance. In order to safeguard taxpayers from being harassed by tax officials in a manner that is not necessary, this idea was made.

A further significant canon of taxes is known as the Canon of Convenience. According to Adam Smith, "every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it." This canon was established in reference to the maxim. Taxes ought to be imposed in such a way that they cause the least amount of hardship to the individuals who are paying them.

Keeping in mind the central idea of this canon, the manner in which taxes are paid and the times at which they are paid should be as convenient as possible for the taxpayer and avoid causing the taxpayer any extra inconvenience.

"Every tax ought to be so contrived, as both to take out and to keep out of the pockets of the people as little as possible, over and above what it brings into the public treasury of the state," Adam Smith wrote in his next canon of economy. This is a statement that he made in his next canon.

It indicates that the expenses incurred in the process of tax collecting ought to be kept to a minimum. The government's treasury receives the greatest portion of the revenue that is received, which is not used for the purpose of collecting taxes.

## ❖ Other Canon of Taxation

There is a solid philosophy that behind these canons of taxes and they demonstrate an understanding of the practical realities of tax administration and the impacts that it has. Furthermore, in light of the changes that have taken place in economic theory and the challenges



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that are faced by modern states, a few additional principles have also been proposed by other individuals. The following are some additional concepts, along with brief definitions of each:

- **Canon of Scarifies with the Least Amount of Aggregate:** The tax burden that is placed on taxpayers ought to be kept to a minimal, in accordance with this idea. In the context of income tax, this is the reason why a person who has a minimum limit (exemption limit) of income to meet their essential necessities is not subject to any tax assessment.
- **The Canon of Productivity:** This concept is often referred to as the idea of fiscal sufficiency or adequacy on occasion. According to this idea, the tax system ought to be able to generate sufficient money for the Treasury to be able to cover its expenditures. It should not be necessary for the government to be forced to resort to deficit financing.
- The third principle is known as the canon of elasticity and it is closely connected to the productivity principle.
- It is important that the tax system be flexible. Specifically, it indicates that the system ought to be able to be modified in accordance with the requirements of the income.
- **The Canon of Buoyancy:** The tax revenue should have an intrinsic propensity to increase along with an increase in national income, even if the rates and coverage of taxes are not updated. This is because the tax revenue should be able to follow the national income.
- The principle of flexibility and the principle of elasticity are two distinct principles. This is the fifth canon of flexibility doctrine. The ability to be flexible is a necessary condition for elasticity. According to the flexibility concept, it should be possible for the authorities to adjust the tax structure, both in terms of its coverage and rates, without unnecessary delay. This would be done in order to accommodate the ever-changing requirements of the economy and the treasury.
- **Canon of Uniformity:** This principle suggests that there should be uniformity with regard to tax rates, exemptions and provisions in order to eliminate complexity and ensure that everyone is treated with equal justice.
- The seventh principle is the canon of simplicity, which states that the tax system should not be overly complicated. This would make it difficult to comprehend and manage, which would lead to issues of interpretation and legal disputes. The structure ought to be straightforward, unambiguous and logical.
- **The Canon of Diversity:** This principle states that the government should not rely on a small number of sources of public money because doing so creates a great deal of uncertainty for the Treasury.

It is necessary for them to generate a variety of sources of public revenue in order to ensure that every individual in a county is able to contribute to the revenue in accordance with their



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capabilities. On the other hand, an excessive amount of tax diversity should be avoided as well because it results in an unnecessary number of costs associated with collection and goes against the principles of economics.

## 1.6 Feature of Good Taxation System

To be considered optimal, a taxation system must to possess the following characteristics:

- **Ease of comprehension:** A taxation system is considered to be of high quality if it is straightforward and easy to comprehend for the average taxpayer. There need to be no confusion regarding the procedures.
- **Flexibility:** A successful taxation system should have a degree of flexibility built into its functioning and scope throughout its entirety. The system ought to be able to accommodate the addition or removal of any taxes without causing any disruptions.
- **A fair taxation system should be equitable,** as this is the third and final point. The burden of taxation needs to be spread in accordance with the income level of the individuals.
- **Maximum Social gain:** A competent taxation system should ensure that the maximum social gain is achieved. The system is designed to serve the requirements of society rather than those of an individual.
- **Based on the Canons of Taxation:** In order for a taxation system to be effective, it is necessary for it to adhere to the majority of the canons of taxation.
- **One of the criteria that determines whether or not a taxation system is considered to be good is whether or not it interferes heavily with the financial choices that individuals make.**
- **The seventh quality of a healthy taxation system is that it should be balanced in every way.** This is an essential component of fair taxation. Various taxes ought to be distributed in an appropriate manner.
- **Economics:** A competent taxation system should be able to keep its spending under control. In order to accomplish the goal of taxation, there ought to be a means of achieving economic efficiency in their operations.
- **Universal:** A taxation system is considered to be good if the taxes under it are applicable to all people everywhere.

When it comes to the collection of taxes, there should be no discrimination whatsoever. **Economic Stability:** A good taxation system should ensure economic stability by minimizing the influence of economic fluctuation. This is necessary in order to ensure economic stability. It ought to be compatible with the policies governing the economy.

## 1.7 Origin and Development of Taxation in India

When attempting to investigate the history of taxes in India, it is possible to essentially categories the entire history of India into the following sequence of time periods.



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## **A. Ancient Period (Indus Civilization) [Around 3300 BC to 1500 BC]**

According to the findings of excavations and the findings of anthropologists, the civilization that formed in the Indus Valley approximately 3300 BC<sup>21</sup> is considered to be one of the world's first civilizations. As a result of the excavation, it was discovered that this civilization flourished in three great towns: Mohenjodaro, Harappa and Dholovira. These cities were connected to one another by the river valleys of the Indus, Ravi and Sutlej, which were situated just below the Himalayan Range. We have a very limited amount of knowledge regarding the culture of the Indus valley. The reason for this is that the written language and sign of the Indus civilization have not yet been deciphered and there is no other civilization or culture language that has been informed about this civilization.

Archaeologists have discovered a gate in Harappa that is large enough to allow an oxcart to pass through it effortlessly, either within or outside of a city. This gate was discovered by the excavation. They believe that this gate might be utilised as a site of duty (tax) on items that are brought into or taken out of a city. In addition, the archaeologist asserts that there was a practice of organised trade that was based on the barter system of exchange. They engaged in the trading of a variety of goods, including but not limited to decorative beads, jewellery, metal tools, pottery, cotton, timber, grain, animals and food items, among other things. Various modes of conveyance, such as riverboats, bullock carts, animals and Terracotta carts, were utilised for the purpose of conducting business.

The evidence that was uncovered during the archaeological dig demonstrates that the people who lived during the Indus civilization were able to establish standardised weights of varying sizes as well as a scale for the purpose of trade and commerce. Two different types of weights were available: smaller and larger. It is possible that the smaller weights were utilised for the purpose of measuring precious stones, fragrances and metals and the bigger weights were utilised for the purpose of figuring the taxes for larger quantities of grain, groceries and other goods throughout the time period in question. The cubical weights, which are 24 pounds, could be utilised for the purpose of measuring a particular kind of goods. In light of this, the existence of a weight and scale system that is standardised is indicative of the existence of a trading system that is well-structured and organised.

There is a possibility that the monarch implemented these weights in order to levy taxes on the trading of commodities. Standardised weights were discovered in every city in the Indus valley, which demonstrates that the rulers and merchants of the region place a strong emphasis on fair trade procedures. A number of weights were found next to a big building that was situated on the fort. This building was known as Granary and it was situated just south and west of the Great Bath. In addition to serving as a place for the merchants to store grains, these granaries were also utilised for commercial purposes<sup>23</sup>. In order to get public granaries, the farmer was required to deposit a



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significant amount of the produce yield. At this point, the taxes that were owed on these grains had been collected and placed in granaries.

As a result of the information gathered from excavations, which was presented before, we are able to draw the conclusion that the trade and commerce systems of the Indus Valley Civilization were well developed and that the taxation system was completely organized.

## **B) Vedic Period [1500 BC to 1000 BC]**

During the Vedic period, people accorded a great deal of importance to both philosophy and religion. To a large extent, the Vedas, Varta and Manusmriti were the primary sources of various religions, philosophical systems, or knowledge. Upavedas, itihasa, purana and other texts are included in the Vedas. The Rigveda, Yajurveda, Samaveda and Atharvaveda were the four ancient texts known as Vedas. Ayurveda is the upaveda of Rigveda, while Dhanurveda is the upaveda of Yajurveda, Samaveda is the upaveda of Gandharvaveda and Arthashastra is the upaveda of Atharvaveda.

Within the context of a particular occupation (profession), the term "Varta" refers to the idiosyncrasies of that occupation.

It was Manu, the renowned sage and law giver, who was responsible for writing the Manusmriti. A description of purusharthas may be found in the Veda. These purusharthas have been categorised as Dharma, Artha, Kama and Moksha, which are respectively referred to as righteousness, riches, pleasure and spirituality<sup>24</sup>. Each of the Artha purusharthas is connected to the budgets for revenue, taxation and expenditures, among other things. When the Vedic period was in effect, agriculture and herding were the primary sources of revenue for the ruler. Within the framework of Artharvaveda, it was anticipated that the king would obtain the 'Bhag' from the farmer regarding their products and heard of cows. During the Vedic period, the obligation to pay taxes was voluntary and only on occasion.

During the ceremony of the king's coronation, a petition was presented to God Indra<sup>25</sup> on behalf of the monarch. The prayer was intended to secure their favour as rain, which would result in a strong harvest of crop. This would ensure that sufficient taxation would flow from the people to the king, or that the subjects would be compelled to pay their dues and taxes.

According to Altekar, the people of that time were not required to make the regular payment of taxes to the king even if it was a requirement. In the Rigveda, the term "balitta" was used to refer to the ordinary people and the tax that was levied on these people was referred to as "Bali." In most cases, the term "Bali" was used to refer to the voluntary gift that was made to God in order to earn favourable treatment from them.

In a similar manner, the subjects presented the king with the bali, which is a form of tax, in order to win his favour. It is the responsibility of the monarch to protect his subjects from dangers and he fulfils this responsibility by obtaining the bali from them.





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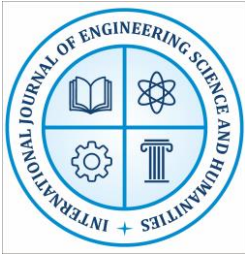
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By reading the available literature, we have learned that there was a well-organized system of trade and commerce that existed in the past. The head of Merchant was a man named Brhu. The word "Paniy" was supplied in the Rig Veda to indicate that a person had travelled to a faraway state for the purpose of conducting business. The cattle standard that was offered for commerce in Brahmana was called Soma. Soma is a cow that is one year old and neat and tidy. When they are sold, they receive the best price. For the purpose of referring to the barter system of trade, the term "Pratipana" or "prapana" was utilised to signify the exchange of goods for goods. In the course of the growth of society and commerce, the barter system encountered a number of challenges, which ultimately resulted in the introduction of coins in the year 21. The phrase Niskagriva has been used in the Rigveda and the Atharvaveda in conjunction with the hymn to Agni. Sayanacharya characterised it as being garlanded with Niska, which is a type of gold. As a result, it is possible to assert that gold and silver were utilised as the medium of exchange. Avratya Noska was a term that was used in the Panchavimsa Brahmana to refer to a man who was adorned with a garland made of gold or silver. The Niska, according to Vishnu and Manu, consisted of four suvarnas. In the Manusmriti, Manu explains this in the following manner:

## **C)Post Vedic Period [1000 BC to 600 BC]**

It was during the Post Vedic Period that sutras and Smritis were used to describe taxation. It was discovered in Smirities<sup>33</sup> that the title "Sangrahita" (treasurer) and Bhagduth (tax officers) were both being used. Sutras were the containers in which the thoughts were written in traditional religion. There was a description of the community's traditions, customs, practices, laws and rules of behaviour that was included in the Dharmasutras. Such a description was acknowledged by the community. It encompasses the four texts that are currently in existence. Apastamba Gautama, Bondhyana and the Vasishtha Dharmasutra are the three texts under question. Although the Dharmasutra of Apastamba is the oldest of the three, the Dharmasutra of Vasishtha is the earliest of the three. After some time had passed, the Dharmasutras known as Kasyapa, Brhaspati and Ushanas Dharmasutras came into being. The names of Manu, Vishnu and Yagvalkyia were considered to be the most important Smritis in ancient literature. Katyar, Vrihaspat and Narad Smirities came into existence one after the other after that. The Dharmasutras included a description of the ruler that labelled him as the "eater of his subjects"<sup>34</sup>.

The term "Bali" was used to refer to the fellowship of the king in both the Dharmasutras and the Smirities. For the purpose of shielding his countrymen from dangers from the outside world, the king has the authority to levy a Rajkar tax equal to one sixth of the production of agricultural goods. According to Narada, in order to ensure the well-being and protection of the state, the subject was required to provide a gift to the king equal to one sixth of the yield or revenue from the crops.<sup>a 35</sup>



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In the Bodhayana Dharmasutras, it is stated that the king received one sixth of the money contributed by his subjects, which was referred to as tax in the legal discourse. As an alternative to this payment, the king is obligated to provide protection for his subjects.

## **1.8 Evolution of Income-Tax in India**

### **1.8.1 Taxes in ancient India**

It has been demonstrated through various evidences that income tax was also imposed throughout the ancient times.

When the Vedas were in effect, paying taxes was regarded as a religious obligation. Both the Manusmriti and the Arthashastra book written by Kautilya contain references to this. In his writings, Manu discusses the procedures and procedures that are used by the king to levy and collect taxes. There is a widespread consensus that the Arthashastra, written by Kautilya, is the earliest authoritative treatise on public finance, administration and fiscal policy. According to the text known as Raghuvansa, which was written by Kalidasa, the most renowned Sanskrit scholar of ancient India, the requirement of taxation was documented.

### **1.8.2 Taxes during Mughal Period**

The contemporary court chronicles, in particular the Ain-i-Akbari, which was composed by Abul Fazl, one of Akbar's courtiers, contain information about the various tax systems that were in place throughout the Mughal empire. Despite the fact that Babur was the creator of the Mughal rule in India, the Mughal government did not have a tax policy. Plundering was the primary source of income for the group. One of the ways the Mughal rulers managed to bring in money was through the sale of land. The Jizya, which was imposed on non-Muslims and had been repealed by Akbar, was reinstated by Aurangzeb in the year 1679 in the form of a tax on income that was more progressive. In order to facilitate the collection of Jizya, a specialised service that includes new tax collectors was established. It is important to note that the discriminatory tax policy based on religion that was implemented by some of the Mughal emperors was a factor that contributed to the decline of the Mughal Empire following the death of Aurangzeb in the year 1707. titled "K.D. Prasad, 1987"

Vijayanagar's Kannada Emperor Krishnadevaraya is credited with being the one who first implemented the progressive taxation system. The Mughal emperors provided a Munsabdar with land revenue rights in exchange for the Munsabdar's services by sending men during times of war. The contract that was signed in 1765 and conferred upon the British people the authority to collect taxes on behalf of the emperor is documented in historical records. An example of the administration of income tax by the British before to the breakup of the Mughal Empire in 1857 is the system of District Collectors of land revenue that was in place in the United Kingdom.



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## 1.8.3 Taxes during British Rule

The typical agricultural economy of the three countries prior to the partition was represented in the tax structure of British India. The majority of the central government's revenue came from the collection of customs duties. Excise duty was yet another significant source of money for the government. A significant amount of revenue was generated by the income tax, which was one of the direct taxes.

The present type of income tax was first implemented by Sir James Wilson in the year 1860 in order to alleviate the financial crisis that was caused by the Sipoy Mutiny of 1857. The Income Tax Act of 1922, which provided the groundwork for the expansion of the Income Tax Department, was responsible for bringing forth the most complete legal framework pertaining to income taxation.

## 1.8.4 Taxes after Independence

One of the several Acts in India is responsible for regulating the current income tax law in India. In 1961, the Income Tax Act was passed and it became effective on April 1, 1962. This act has been revised. based on the yearly Finance Acts and other legislations that deal to the subject matter from time to time Direct Taxes. This Income Tax Act 1961 has replaced the pre-independence Indian Income Tax Act 1922 and had been in existence for approximately 52 years. Because it is a comprehensive piece of legislation, the income tax consists of 23 chapters and 298 sections. various sub parts and 14 schedules. Since 1962 Income Tax Act has been subjected Following several revisions by the Finance Act to comply with the dynamic economic what is going on in India. The authority to make changes lies with the Central Board of Direct Taxes (CBDT). regulations and clarify instructions as the necessity arise The Income Tax Act of 1961 is the primary document that serves as the foundation for the regulatory framework that governs income tax in India. This legislation, which was initially enacted on April 1, 1962, has been subjected to a number of amendments in order to bring it into conformity with the ever-evolving economic landscape and the shifting financial dynamics in the country. For more than half a century, the Act has been an essential component in the formation of India's fiscal policies. It is a comprehensive legal framework that governs direct taxes and has been essential in this regard.

In 1961, the Indian Income Tax Act of 1922, which had been in effect prior to independence, was superseded by the Income Tax Act of 1961, which marked a fundamental shift in the landscape of taxes. A comprehensive and complex structure for the assessment and collection of income tax is provided by the Act, which is comprised of 23 chapters, 298 sections, a variety of sub-parts and 14 schedules. The extensive coverage it provides is a reflection of the complexity and variety of economic activities that are taking place in the country.

The act does not remain unchanged; rather, it is subject to continual amendments in order to keep up with the ever-evolving economic conditions and the ever-evolving financial requirements of



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the nation. The annual Finance Acts and other pieces of legislation that deal with the topic of direct taxes serve as the primary vehicles via which these adjustments are routinely implemented. The purpose of the Finance Act is to provide a process for the introduction of additions, adjustments and clarifications to the Income Tax Act, which helps to ensure that the Act remains relevant and effective.

It is the responsibility of the Central Board of Direct Taxes (CBDT) to exercise the authority that is entrusted with the power to make modifications to the Income Tax Act. The Central Board of Direct Taxes (CBDT), which is the highest authority in India dealing with direct tax concerns, plays an essential part in the formulation of policies, the interpretation of the law and the consideration of the practical implications of taxation. The capability of the Board to modify the Income Tax Act demonstrates a proactive attitude to the changes that occur in the economy. This capacity also ensures that tax regulations continue to be responsive to the requirements of both the government and investors.

They are not merely administrative changes; rather, they are frequently answers to evolving economic trends, budgetary issues and global developments. The amendments that are made under the Finance Act are not only administrative adjustments. In order to meet the challenges of a dynamic and ever-changing financial ecosystem, the objective is to develop a tax structure that can support economic growth, efficiency and fairness while also resolving these issues.

## 1.9 Scheme of Income Tax in India

One tier of government is located at the central level and the other is located at the state level, as stipulated by the Constitution of India. A comprehensive description of the legislative powers and functions of the two levels of government may be found in the Constitution. Regarding the provisions of the Constitution One level of government is located at the central level and the other level is located at the state level. The Constitution of India defines a federal system that is composed of two of these levels of government. This definition of authorities and functions is a core part of India's governance architecture, with the goal of distributing authority and responsibilities between the national government and the state governments.

According to the Constitution, the Union Government is the central government that possesses the legislative powers and functions that are outlined in details. The Lok Sabha, also known as the House of the People and the Rajya Sabha, also known as the Council of States, make up the Parliament, which is the highest legislative body at the national level. The Union List, which includes areas of national importance like as defence, foreign affairs and atomic energy, gives it the authority to adopt legislation on subjects that are listed in the list. During the legislative process, the President, in his capacity as the ceremonial head of state, plays a significant role by giving his approval to laws that have been voted by Parliament before they are enacted into law.



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On the other hand, every state in India has its own administration and the State Legislature is the body that is responsible for making legislative recommendations. Both the Legislative Assembly and the Legislative Council (if appropriate) are the two houses that make up the State Legislature. The Constitution includes a list called the State List that outlines the areas of power that are delegated to the state government in terms of legislative authority. These areas include agriculture, public health, local governance and law enforcement.

There is also something called a Concurrent List, which is a list of topics that both the federal government and the state governments have the ability to propose legislation on simultaneously. Because of this, the two levels of government are able to coordinate their efforts and share the duties that they have. When it comes to subjects that are included on the Concurrent List, the central legislation takes precedence over the state law in the event that there is a dispute between the two.

To ensure that the federal government remains in a condition of equilibrium and to facilitate the resolution of disagreements between the central government and the states, the Constitution creates the institution of the Supreme Court, which is vested with the jurisdiction to interpret and decide on constitutional issues. The purpose of the division of powers between the central government and the state governments is to encourage cooperative federalism, which is a form of federalism in which both levels of government work together to advance the advancement of the nation while also recognising the importance of regional variety.

The taxation of income in India can be broken down into two primary categories. the taxation of income from sources other than agriculture, which is a central subject and the taxation of income from agricultural sources, which is a state matter. A significant contribution was made by the income tax not only to the finances of the central government but also to the budgets of the state governments. A person is required to pay income tax based on the entire amount of money they earned in the previous year. Each and every fiscal year, the Finance Act is the document that establishes the rates of income tax. The personal income tax and the tax on the income of companies are both included in the terms of income tax. Those who are subject to income tax include individuals, Hindu Undivided Families, businesses, Association of Persons (AOPs), Body of Individuals (BOIs), municipal authorities and Artificial Juridical Persons. The term "Corporate Tax" refers to the income tax that is levied on the income of corporations. The location of the taxpayer's place of residence and the place of origin of their income both play a role in determining whether or not they are accountable for paying income tax. There are three distinctions that can be made regarding a person's residential status: resident, resident but not ordinary resident and nonresident. In order to ascertain an assessee's residential status, the prior year's data is processed. Taxes must be paid by a non-resident who is 5 years old or older on any income that is received or deemed to be received in India, as well as any income that is accrued or deemed to be accrued





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in India. A resident of India is required to pay taxes on income that is received, deemed to be received, accrued, or deemed to be accrued in India as well as income that is earned outside of India. When determining a person's tax liability, income of Indian origin and business income from other countries are both taken into consideration. This is the case for residents who are not normally resident.

The formula for calculating total income involves adding together all of the sources that are categorised under five distinct headings. According to the Income Tax Act, the following categories of income are considered to be sources of income: income from salary, income from house property, income from business and profession, revenue from capital gains and income from other sources. Following the clubbing of income and the set off and carry forward of losses, the incomes that are attributed to each head are computed in accordance with the provisions that are associated with that particular head. The amount of income that is computed in this manner is referred to as Gross Total Income (GTI) and deductions that are permitted under chapter VI-A are allowed. The remaining amount is referred to as Total income and it is on this amount that the income tax slab rates that are stipulated in the Finance Act are applied in order to determine the amount of tax payable. Tax rebates under section 89(1) and rebates under section 87(A) are permitted to be subtracted from the amount of tax that is owed for the relevant assessment year. In the event of individuals whose total income does not exceed five lakh rupees, Section 87-A became applicable beginning with the Assessment Year 2013-14. However, beginning with the Financial Year 2017-18, the threshold for this section has been raised to three lakh fifty thousand rupees.

If an individual's gross total income is greater than the maximum amount that is exempt from taxation, then the individual and the Hindu undivided family firm involved are required to file their income returns. A number of different tax incentives are offered by the Indian income tax system in order to encourage savings, the intensive growth of specific industries and regions and the expansion of exports. In the case of corporations, partnership firms and individuals, the rate of income taxation is uniformly applied to all of these entities. Individuals and HUFs are subject to income tax based on a slab rate structure under the taxation system.

As a result of India's adoption of a progressive tax system, the applicable tax rates increase by up to thirty percent for each additional dollar of income.

## **1.10 Organization Structure of Income-Tax Department**

The Central Board of Direct Taxes (CBDT) and the Central Board of Excise and Customs (CBEC) are the two statutory boards that under the Department of Revenue, which is part of the Ministry of Finance in the Government of India, are responsible for collecting taxes. Each Board is led by a chairperson and there are six members who carry the rank of special secretary. Additionally, the officers who serve in the CBDT and CBEC are ex-officio officers of the Department of Revenue,



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having equivalent positions. Figure 1.4 gives an overview of the composition of each Board. Under each Board, there are a number of Directorate Generals (DGs) 6 who are responsible for performing specialised functions and performing their duties as attached offices of the Boards. Directors General are responsible for a variety of tasks, including but not limited to publication, public relations, inspections, audits, systems, infrastructure development, vigilance and training. Inspection, Audit, Organisation and Management, Vigilance and Recovery are some of the Directorates that are responsible for carrying out the function of supervision and compilation of reports, among other things, on the activities that are carried out by field offices. Additionally, these Directorates report to the Board and provide assistance in evaluating and monitoring the performance of field formations. Some of the other directorates, such as those dealing with systems, printing, publication and public relations, examination and infrastructure, among others, are responsible for providing support functions to the full field departments, including a) the income tax department or b) the customs, central excise and service tax departments.

From time to time, a number of committees have voiced their disapproval of the administrative structure that the two Boards have both adopted. In contrast to statutory bodies such as the Postal Board and the Railway Board, the CBDT and CBEC have not been designated as a separate department.

In accordance with the Government of India (Allocation of Business) Rules, 1961, the department of Revenue is only permitted to deal with issues that pertain to the Central Board of Excise and Customs (CBEC) or the Central Board of Taxation (CBTC). With regard to the functions of CBDT or CBEC, as well as any of their affiliated offices, the Department of Revenue does not possess the authority to exercise any oversight, control, or administration over these functions. On the other hand, the Department of Revenue has been given the responsibility of solely responding to queries that have been brought up in meetings of parliament. Over the course of time, the administrative structure of the Central Board of Direct Taxes (CBDT) and the Central Board of Excise and Customs (CBEC) has been the target of criticism from a number of different committees. In contrast to statutory authorities like the Postal Board or the Railway Board, the CBDT and the CBEC have not been recognised as independent departments. This has led to issues over the effectiveness and clarity of the administrative responsibilities that they perform.

In accordance with the Government of India (Allocation of Business) Rules, 1961, the Department of Revenue is tasked with the responsibility of addressing matters that are solely associated with either the Central Board of Excise and Customs (CBEC) or the Central Board of Taxation (CBTC). Because of this particular distinction, the Department of Revenue is not permitted to assume any kind of monitoring, control, or administrative authority over the work of the CBDT or CBEC, including the offices that are linked with neither of these organisations. Due to the fact that these



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tax boards operate within a system that does not allow them separate departmental status, this structural limitation raises doubts regarding the autonomy and independence of these tax boards. Both the CBDT and the CBEC are now operating under the jurisdiction of the Department of Revenue, which is in contrast to the independent status that organisations such as the Postal Board or the Railway Board possess due to their respective roles. Due to the fact that their activities are tightly related to a larger departmental structure, this arrangement has ramifications for their operational flexibility. It has the ability to influence their agility and reactivity to evolving tax concerns.

The Department of Revenue, on the other hand, in spite of the fact that it does not have jurisdiction over the duties of the CBDT or CBEC, is responsible for a specific task. According to the laws that have been created, it is responsible with replying exclusively to questions that are raised during meetings of the parliament. As a result, this highlights a functional disparity in which the Department of Revenue acts in a capacity that is more responsive and information-sharing, rather than actively controlling or influencing the day-to-day functioning of the tax boards.

In short, the administrative structure that is now in place presents obstacles to the CBDT and CBEC in terms of their autonomy and levels of efficiency. Given that these key tax boards are aligned under the Department of Revenue and do not have a separate departmental standing, it is imperative that a thorough investigation be conducted to determine the consequences for their operational independence and their capacity to respond to changing tax realities. In order to address these problems, it may be necessary to reevaluate the administrative structure in order to better match it with the specialised and ever-changing character of tax administration.

In addition, according to the Income Tax Act of 1961, the CBDT is the entity that is legally vested with the authority to provide orders to the agencies in charge of income tax.

## **1.10.1 Central Board of Direct Taxes (CBDT)**

The CBDT is the highest authority in charge of enforcing the laws that pertain to direct taxes. In accordance with the Central Board of Revenue Act of 1963 (54 of 1963), the Central Board of Revenue Tax Department (CBDT) was established on January 1, 1964. Prior to this, the central Board of Revenue was responsible for overseeing the administration of both direct and indirect taxes. The collection of direct taxes, which are in the form of income tax, is the major responsibility of the Central Board of Direct Taxes (CBDT). Additionally, the CBDT is responsible for providing the Ministry of Finance with annual estimates for the purpose of policy and planning regarding direct taxes. When it comes to the enforcement of laws in India that pertain to direct taxes, the Central Board of Direct Taxes (CBDT) is the most important authority that is tasked with this responsibility. For the Central Board of Revenue Act of 1963 (Act 54 of 1963), the foundation of this organisation on January 1, 1964, was a significant step that was mandated by the law. Prior to



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the implementation of this restructure, the Central Board of Revenue was responsible for monitoring both direct and indirect taxes.

The collection of direct taxes, which are mostly in the form of income tax, is the major responsibility of the CBDT. This includes things like the administration, assessment and collection of taxes that are imposed on businesses and individuals based on the amount of money they bring in. By acting as the highest authority in matters pertaining to direct taxes, the CBDT is responsible for ensuring that tax laws are implemented in a manner that is both fair and transparent. Its primary objective is to promote the ideals of fiscal responsibility and equality.

The CBDT is responsible for a number of important functions, including assisting to the policymaking and planning processes of the Ministry of Finance, in addition to its duty as a law enforcement agency. In addition to supplying the Ministry of Finance with annual estimates, the board is also responsible for giving insights and projections pertaining to direct taxes based on those estimates. This engagement is essential for making well-informed decisions at the policy level, which in turn makes it easier to effectively plan and allocate resources based on the money that is expected to be collected via direct taxes. When it comes to dealing with the intricacies of income tax administration, the establishment of the CBDT as a distinct institution for direct tax concerns highlights the necessity of specialisation. In order to improve the efficiency and effectiveness of tax administration, the government decided to separate the oversight of direct and indirect taxes. This was done with the intention of adjusting methods to the specific issues that were provided by each tax category. Illustrates the organisational structure of the Income Tax Department, which is composed of three levels. The CBDT, the apex body, Chairman and six members at the first level, Attached Officers of CBDT with eight Directorates and DGITs and DITs at the 7 second level and Field Formation of CBDT (Figure 1.3) consists of three Directorates with Chief Commissioner of Income Tax (CCITs), Additional Commissioner of Income Tax (ACITs), Assistant Commissioner of Income Tax (ACITs) and Income Tax Officers at the third level. The Income Tax Department operates using a tiered system that is formed of three distinct levels and Figure 1.3 provides a graphic illustration of the hierarchical organisational structure that the department employs. The Central Board of Direct Taxes (CBDT), which serves as the governing body for the department and represents the highest echelon of this organisation, is located at the very top of this hierarchy. The first level of leadership is comprised of the Chairman and six members of the CBDT. These individuals work together to define and direct the broad policies and strategic direction of the Income Tax Department.

When we move on to the second level, we find that the organisational landscape consists of the Attached Officers of CBDT in addition to eight Directorates, Director Generals of Income Tax (DGITs) and Directors of Income Tax (DITs). These entities serve as mediators, connecting the CBDT to the field formations in order to facilitate communication. The incorporation of eight



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specialised Directorates exemplifies the department's dedication to tackling various aspects of taxation, which contributes to a more nuanced and responsive approach to the issues that are associated with tax administration. Illustrates the Field Formation of CBDT, which is the third and final level of the CBDT hierarchy. The Additional Commissioners of Income Tax (ACITs), Assistant Commissioners of Income Tax (ACITs) and Income Tax Officers are all members of this level. This level is comprised of three Directorates that are managed by Chief Commissioners of Income Tax (CCITs). These units represent the operational entities that are responsible for implementing tax policy, carrying out assessments and guaranteeing compliance at the grassroots level. They act as the frontline operational entities.

The Field Formation has a hierarchical structure that depicts a tiered system. Chief Commissioners, Additional Commissioners and Assistant Commissioners are in charge of overseeing the operational aspects, while Income Tax Officers are responsible for carrying out day-to-day responsibilities. This arrangement guarantees that there is a distinct chain of command, which allows for effective decision-making and implementation. The three Directorates that are located at the third level conduct their operations in collaboration with one another and play an essential role in ensuring that tax policies and procedures are carried out without any hiccups. At the ground level, the Chief Commissioners, along with their supporting officers, play a crucial role in the oversight of regional operations, the conduct of assessments and the management of tax compliance.

It is the responsibility of the eight Directorates to act as a liaison between the Board and the field formations. The director generals of income tax (DGIT) are the individuals who are in charge of these directorates. When it comes to the work of evaluating and investigating, the chief Commissioners report directly to the members of the Board who are concerned with the matter. In addition, the CBDT exercises direct administrative control over the Director Generals of Income Tax (DGITs), who are directly accountable to the CBDT. These directorates are overshadowed by the Directors of Income Tax (DIT). They are employed by the DGIT and report to the Board through that organisation. CBDT is in charge of the administration of the legislation pertaining to direct taxes, which are administered by this department.

As part of its mission, the department is responsible for educating and assisting taxpayers in the process of filing tax returns, determining their tax liability, demanding taxes that are overdue, penalising dishonest taxpayers and resolving any tax disputes that may arise. The proportion of the country's direct tax revenue that has been steadily expanding since globalisation has been reporting a steady increase, which is causing this department to play an increasingly important position in the Indian tax system. At the present time, the Department of Revenue, which is part of the Government of India and operates through the Income Tax Department, is the entity that is responsible for the general administration of the Income Tax. The objective of the Income Tax





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Department is diverse and it encompasses critical functions that are essential to the operation of the Indian tax system. A main goal is to provide individuals with assistance and education throughout the entire process of paying their taxes. Providing advice on the intricacies of tax returns, assisting individuals and corporations in determining their tax liability and ensuring compliance with tax legislation are all part of this process. The department makes a concerted effort to collect taxes that are past due and makes use of a variety of different tools in order to retrieve payments that are owed to the government. In addition to this, it plays a significant part in the process of punishing dishonest taxpayers, with the objective of maintaining the honesty of the tax system and discouraging fraudulent acts.

The resolution of tax disputes is an essential component of the department's purpose, which includes a number of components. Taxpayers and the authorities in charge of collecting taxes may find themselves in conflict with one another due to the complexity of tax rules and the wide variety of financial activities. The Department of Income Tax acts as a mediator in these situations, seeking to resolve conflicts in a manner that is fair and unbiased and ensuring that tax matters are handled in line with the law.

Since the beginning of the era of globalisation, there has been a remarkable advancement in the share of the country's direct tax revenue that has been steadily increasing. This expansion highlights the growing significance of the Income Tax Department within the framework of the Indian tax system. The relevance of the department in ensuring that the nation's finances remain in good shape is becoming more and more apparent as its mission expands beyond the simple collection of income to include education, aid, enforcement and the resolution of disputes.

One of the most important departments in the Indian government is the Department of Revenue, which is responsible for acting as the administrative umbrella for the Income Tax Department. This centralised framework guarantees that tax-related matters are coordinated in a streamlined manner and that governance standards are consistent. The Department of Revenue is responsible for overseeing the general administration of income tax, ensuring that policies are aligned with national objectives and ensuring that tax laws are effectively and efficiently implemented.

## 1.10.2 Staff Strength

Following the approval of cadre reorganization in May 2013, the Income Tax Department has a network of 745 offices located in 510 cities. The overall sanctioned staff strength is around 78552 and the department has created 20751 more roles as a result of this restructuring. However, as of the 31st of March in 2016, the sanctioned and working strength of officers<sup>1</sup> was 11052 and 9200 respectively. The working strength of the staff was 45045 and there were 33507 vacancies for posts, which is 42.65% of the total. In an effort to improve the efficiency of the tax administration, the number of assessment units (AUs) has been increased by 1080, going from 3420 to 4500. It is predicted that this will result in a net increase in revenue of 25,756.04 Crore per year, while at the



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same time resulting in an increase in expenditures of 449,71 Crore per year. There will be one additional evaluating officer assigned to each range. Through a process of cadre reorganisation that took place in May 2013, the Income Tax Department underwent a significant alteration, which resulted in the establishment of a network of 745 offices spread throughout 510 cities. An total sanctioned staff strength of about 78,552 was included in this project, which included 20,751 newly formed posts as a result of the restructuring. The purpose of this initiative was to optimise the functioning of the department. Nevertheless, as of the 31st of March in 2016, the actual number of officers was 9,200, although the sanctioned number of officers was 11,052. This indicates that there are a considerable number of vacant jobs, which amount to 33,507, which is 42.65% of the total posts. Despite the fact that the sanctioned staff strength had increased, the working strength indicated that there was a gap that may potentially have an influence on the operational efficiency of the department.

As a strategic move, the number of assessment units (AUs) was increased by 1,080, bringing the total count from 3,420 to 4,500. This was done in response to the acknowledged need for increased efficiency in the administration of taxes. It was predicted that this enhancement would result in a net increase in annual income amounting to ₹25,756.04 Crore. In addition, it was anticipated that there would be a commensurate rise in annual expenditures, which would amount to a total of ₹449.71 Crore. With the decision to assign one more evaluating officer to each range, the commitment to improve the evaluation process and streamline income production was brought into sharper focus. Even while the reorganisation showed that it was taking a proactive approach to meeting the ever-changing requirements of tax administration, the fact that there were a significant number of open positions at the date that was specified raised concerns about the efficiency with which the sanctioned roles were being successfully implemented. A forward-looking perspective on revenue optimisation was demonstrated by the fact that the forecast of higher revenue coincided with the strategic growth of assessment units. On the other hand, the associated increase in expenditures highlighted the significance of maintaining strict fiscal management in order to strike a balance between the increased operational capacity and fiscal prudence.

The Income Tax Department made the decision to strengthen its operational capacities by raising the number of assessment units (AUs) from 3,420 to 4,500. This represents a major increase of 1,080 units. This decision was made as part of a strategic manoeuvre. This decision was a direct response to the recognised requirement of increasing the efficiency of the administration of taxes within the government. This enhancement was expected to result in a net increase in annual income, which was estimated to be ₹25,756.04 Crore; this was the anticipated consequence. Nevertheless, the concurrent anticipation of an increase in annual expenditures, which in total



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amounted to ₹449.71 Crore, highlighted the intricate relationship that exists between the expansion of operations and the responsibility to manage finances.

The decision to allocate an additional evaluating officer to each range demonstrated a commitment to improving the assessment process and maximising the amount of income generated. By taking this action, the department not only demonstrated its commitment to achieving operational excellence, but it also shown its determination to ensure that the assessment of taxable companies is both efficient and effective.

In spite of the obvious strategic foresight that was displayed in this cadre reorganisation, concerns were raised about the effectiveness of implementing the sanctioned roles. This was due to the fact that there were a significant number of unfilled jobs as of the date that was indicated. The department's ability to properly utilise and fill the newly formed posts was called into doubt as a result of this, which pointed to the possibility of difficulties in recruitment and deployment.

The forward-looking view on revenue optimisation became obvious as the anticipated growth in income coincided smoothly with the planned development of assessment units with the intention of increasing the number of assessment units. This indicated that a well-calibrated plan was being implemented with the intention of not only enhancing efficiency but also maximising the potential for revenue. The corresponding increase in spending, on the other hand, brought to light the vital requirement for smart budgetary management. It became clear that one of the most important factors to take into account in order to guarantee the long-term viability and success of the organisational reforms was the need to find a middle ground between greater operational capability and fiscal responsibility.

It is also recommended that the number of Administrative CITs who are deployed on assessment-related activities be increased from 228 to 250. Additionally, specific ranges were to be established with sufficient supporting staff in order to attract more attention to assessment. In addition to this, it was suggested that a separate Directorate be established for Risk Management. Additionally, other significant areas such as foreign tax, investigation and TDS were proposed to be enlarged. In addition to this, it is suggested to strengthen the appellate structure by increasing the number of CIT appeals and giving them with supporting manpower. It is not yet possible to say that the cadre restructure has been totally executed.

## **Conclusion:**

Taxation in India is not merely a fiscal mechanism but a mirror of the nation's socio-economic aspirations. From the voluntary contributions of the Vedic period to the complex fiscal policies of the present, the system has continuously evolved to meet changing needs. The post-independence period witnessed significant structural reforms aimed at mobilizing resources, reducing inequality and stimulating growth. Progressive taxation, land reforms and later liberalization measures marked a decisive shift towards modernization. The introduction of the GST was a landmark step



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toward simplification and unification of the tax system. Despite these efforts, challenges remain: tax evasion, administrative inefficiencies, compliance burdens and the need for equitable revenue sharing among states. Strengthening institutional frameworks like the CBDT, embracing technology, expanding the tax base and maintaining a balance between revenue generation and economic stimulation are crucial for future reforms. The study concludes that a responsive, transparent and inclusive tax system is essential for India's continued growth and social equity.

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