



Evolution of Tax system in India

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Chapter 1. Introduction

1.1 Background

The learned author K.B.Sarkar commends the system of taxation in ancient India in his book "Public Finance in Ancient India", (1978 Edition) as follows:-

"Most of the taxes of Ancient India were highly productive. The admixture of direct taxes with indirect Taxes secured elasticity in the tax system, although more emphasis was laid on direct tax. The tax-structure was a broad based one and covered most people within its fold. The taxes were varied and the large variety of taxes reflected the life of a large and composit population".

However Kautilya was first who elaborate the concept of finance and taxation in India

Kautilya also laid down that during war or emergencies like famine or floods, etc. The taxation system should be made more stringent and the king could also raise war loans. The land revenue could be raised from $1/6^{\text{th}}$ to $1/4^{\text{th}}$ during the emergencies. The people engaged in commerce were to pay big donations to war efforts.

Taking an overall view, it can be said without fear of contradiction that Kautilya's Arthashastra was the first authoritative text on public finance, administration and the fiscal laws in this country. His concept of tax revenue and the on-tax revenue was a unique contribution in the field of tax administration. It was he, who gave the tax revenues its due importance in the running of the State and its far-reaching

Contribution to the prosperity and stability of the Empire. It is truly an unique treatise. It lays down in precise terms the art of state craft including economic

This research paper explores the evolutionary trajectory of the tax system in India, tracing its development from ancient times to the present day. The paper examines the factors that shaped the tax system, including economic, political, and social influences. It also discusses key reforms and policy changes that have occurred over time, highlighting their impact on revenue generation, economic growth, and equity. By studying the evolution of the tax system in India, this paper provides valuable insights into the country's fiscal history and sheds light on the challenges and opportunities

List of sources and materials used for the research

By examining the historical evolution of the tax system in India, this research paper provides a comprehensive understanding of how taxation has evolved over time and its impact on the economy and society. It highlights the challenges and opportunities for future tax reforms, taking into account the changing economic landscape and global tax trends. This study serves as a valuable resource for policymakers, economists, and researchers

Research Design:

The research will adopt a historical approach to trace the evolution of the tax system in India from ancient times to the present day.

It will involve collecting and analyzing both primary and secondary data to provide a comprehensive understanding of the topic.

The research will include a qualitative analysis of historical records, legal documents, government reports, scholarly articles, and other relevant sources.

Data Collection:

Primary Data: The research will involve the collection of primary data from historical sources, such as ancient texts, inscriptions, colonial records, and government publications.

Secondary Data: The research will extensively review secondary sources, including books, research papers, articles, government reports, and policy documents related to the tax system in India.

Data Analysis:

The collected data will be analyzed qualitatively to identify patterns, trends, and key developments in the evolution of the tax system in India.

Comparative analysis will be conducted to examine changes in tax policies, rates, and administration over different periods.

The analysis will focus on identifying the factors that influenced tax reforms, the impact of tax policies on economic growth and equity, and the challenges faced in tax administration.

Chronological Approach:

The research will adopt a chronological approach, dividing the study into distinct historical periods to examine the tax system's evolution over time.

Each period will be analysed individually, considering the economic, political, and social factors that influenced tax policies and administration.

Case Studies and Examples:

The research will incorporate relevant case studies and examples to illustrate key aspects of the tax system's evolution.

Case studies may include significant tax reforms, policy changes, or instances of tax evasion and compliance challenges.

Comparative Analysis:

The research will compare the tax systems of different periods, highlighting similarities, differences, and the impact of changes on revenue generation, economic growth, and equity.

International comparisons may be made to provide insights into global tax trends and their relevance to the Indian economy.

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Some of important historical books listed here

❖ Arthashastra by Kautilya

Arthashastra, written by the ancient Indian economist and statesman Chanakya (also known as Kautilya), is a comprehensive treatise on statecraft, governance, and economics.

It provides detailed information on various aspects of taxation, including land revenue, customs duties, taxation of trade and commerce, and taxation of professions and occupations.

❖ Manusmriti (Laws of Manu):

Manusmriti is an ancient Hindu legal code attributed to the sage Manu.

It contains references to taxation, including land taxes, taxes on commercial activities, and penalties for tax evasion.

❖ Ain e Akbari by Abul Fazal

The Ain-e-Akbari provides valuable insights into the taxation system of the Mughal Empire under Emperor Akbar's rule. It serves as a historical reference for understanding the organization, administration, and revenue collection methods implemented during that period

❖ Brihat Samhita by Varahamihira:

Brihat Samhita, written by Varahamihira, is an ancient Indian text that covers a wide range of subjects, including astrology, astronomy, architecture, and economics.

It provides insights into taxation practices, including the collection of land revenue, taxes on goods and services, and taxation of professions

❖ Yajnavalkya Smriti:

Yajnavalkya Smriti is an ancient legal text attributed to the sage Yajnavalkya.

It contains references to various forms of taxes including taxes on agriculture, trade

Chapter 2 Ancient and Medieval India's taxation

Taxation played a crucial role in the economic and administrative structure of the Mauryan Empire, which existed from approximately 322 BCE to 185 BCE in ancient India. The Mauryan Empire, under the rule of Emperor Chandragupta Maurya and later Emperor Ashoka, implemented a well-organized taxation system to finance the administration, military, and public works. Here are the key roles of taxation during the Mauryan Empire:

- ❖ Land Revenue: Land revenue was the primary source of taxation in the Mauryan Empire. The state collected a portion of agricultural produce as land revenue. This tax was imposed on cultivable land and was collected in the form of grains, agricultural products, or a share of the harvest
- ❖ Trade and Commerce: Taxes were levied on trade and commercial activities. Merchants and traders had to pay customs duties on goods transported across the empire's borders. The state also imposed taxes on goods bought and sold in markets and bazaars.
- ❖ Mining and Forest Resources: The Mauryan Empire had significant revenues from the extraction of mineral resources and timber from forests. Taxes were imposed on mining activities, including the extraction of precious metals like gold and silver. The state also collected revenue from the exploitation of forest resources.
- ❖ Profession and Occupation Tax: The Mauryan Empire imposed taxes on various professions and occupations. People engaged in specialized trades, such as artisans, blacksmiths, weavers, and merchants, were required to pay taxes on their earnings and activities.
- ❖ Wealth and Property Tax: The empire implemented taxes on wealth and property. Wealthy individuals, including landlords and nobles, were subject to higher taxation based on their assets and holdings.
- ❖ Administration and Revenue Collection: The Mauryan Empire had a well-structured administrative system to collect taxes efficiently. Tax collectors, known as Sannidhata or Pranidhata, were appointed at different levels to assess, collect, and manage tax revenues. They were responsible for ensuring proper tax collection and reporting to the central administration

- ❖ Financing Empire and Public Works: Tax revenues played a crucial role in financing the administration, military, and public works of the Mauryan Empire. The collected taxes were utilized to maintain the imperial bureaucracy, support the army, construct infrastructure such as roads, canals, and reservoirs, and fund various welfare activities.

Taxation during the Mauryan Empire served as a significant source of revenue for the state and helped in the economic development and governance of the empire. It enabled the Mauryan administration to finance public services, infrastructure projects, and defense, contributing to the stability and expansion of the empire.

❖ Kautilya Arthashastra on taxation

Kosha Moolo Danda, which means "revenue is the backbone (of administration)" is sourced from Kautilya's Arthshastra Part 8, Chapter 1. This implies that a nation's status relies upon its fiscal power. He expressed that the Government's power had source of treasury. This verse is used in the logo of Income Tax Department.

Kautilya's System of Tax Administration

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1. Custom Duty (Sulka), which consisted of import duty (praveshya), export duty (nishkramya) and gate tolls / octroi (dwarabahirikadeyathe)
2. Transaction tax (vyaji), which included manavyaji (transaction tax for Crown goods)
3. Share of Production (Bhaga) which included 1/6th share called (Shadbhaga)
4. Tax in cash called (Kara)
5. Taxes in Kind (Pratikara), which included Labour (vishti), for military (Ayudhiya)
6. Counterveiling duties (Vaidharana)
7. Road Cess (Vartani)

Text

Manusmriti about taxation

According to Manusmriti, there was a well planned taxation system in which traders and artisans had to pay 1/5th of their profits in silver and gold, while the agriculturists were to pay 1/6th, 1/8th and 1/10th of their produce depending upon their circumstances.

Similarly, taxes were also levied on various classes of people like actors, dancers, singers and even dancing girls. Taxes were paid in the shape of gold-coins, cattle, grains, raw-materials and also by rendering personal service

Ain e Akbari on Taxation

Volume 3 of ain e akbari is entirely devoted to regulations for the judicial and executive departments, the establishment of a new and more practical era, the survey of the land, the tribal divisions, and the rent-roll of the finance minister.

Dahsala is an Indian system of land taxation which was introduced in A.D. 1580 under the reign of Akbar. This system was introduced by the finance minister of Akbar, Raja Todar Mal, who was appointed in A.D. 1573 in Gujarat, and it helped to make the system of tax collection from non-muslims more organised.

This system was land revenue system available in majority of Akbar's empire in areas such as Lahore to Allahabad, Malwa and Gujarat. Raj Todar mal was the person who pioneered and introduced this system to the empire. It was known to be one of the most efficient and effective revenue and record systems.

The land was measured in 'bighas'. The Dahsala system changed the land measurement method from using a rope to land measuring system by bamboo pieces connected by iron rings to make the measurement method more accurate. This measurement method was called the Bamboo Jarid system.

Under the Dahsala system lands were classified into four different categories. One was Polaj land which was land which cultivated and yield crops regularly. Second was the Parauti land which was not cultivated as it was left to regain its productivity. Another was known as Chachar land was left uncultivated for 3 to 4 years to make sure yielding a crop once. Fourth type of land was the Banjar land was left for more than 4 years. These lands were of no use.[3]

These lands were further categorised into three groups. These lands were categorised as grade number 1 land to grade number 3 land, with grade 1 being the best quality land. Under the Dahsala system the one third of the crop is known to be the share of the government. The government had done surveys and research to estimate the average produce of different crops and the average crop which would last for 10 so the revenue which was collected by government was fixed according to this ten-year assessment.[4]

The farmers had the choice of paying the government in cash or crops. The farmers who paid in cash the government would check how much the farmers had been producing for ten years and would find the average to find out how much should be paid to the government. Further under the

Dahsala system farmers found it easier to obtain loans which was repaid in annual instalments. Also, in situation such as bad season which lead to bad crop yield the government would exclude them from paying the revenue collection. The farmers received a receipt for every payment made to government of the revenue which meant that there was establishment of records under the Dahsala system.

Chapter 3 Taxation during Colonial Rule

It was in 1850 that Sir James Willson formally introduced the tax in India. He was the finance minister of the pre -Independent India. He introduced the tax during the first union budget session under British rule. The Indian Income Tax act of 1860 marks the watershed moment for taxation in India.

Understatement was high given the low minimum of Rs. 200 and the relatively high taxation rates of 2 and 4 % (compared for example with the flat rate of 0,83 % in Great Britain at the time). The Indian Income Tax Act of 1860 expired in 1867 and was replaced by a License Tax. The tax of 1860 was introduced by then government only for 5 years and replaced by license act 1867 which was imposed on Profession and Trades. The tax was latter converted into following years . In 1869 certificate tax was latter replaced by general Income tax . History of Taxation Post 1922

1. Preliminary :

The rapid changes in administration of direct taxes, during the last decades, reflect the history of socio-economic thinking in India. From 1922 to the present day changes in direct tax laws have been so rapid that except in the bare outlines, the traces of the I.T. Act, 1922 can hardly be seen in the 1961 Act as it stands amended to date. It was but natural, in these circumstances, that the set up of the department should not only expand but undergo structural changes as well.

2. Changes in administrative set up since the inception of the department:

The organisational history of the Income-tax Department starts in the year 1922. The Income-tax Act, 1922, gave, for the first time, a specific nomenclature to various Income-tax authorities. The foundation of a proper system of administration was thus laid. In 1924, Central Board of Revenue Act constituted the Board as a statutory body with functional responsibilities for the administration of the Income-tax Act. Commissioners of Income- tax were appointed separately for each province and Assistant Commissioners and Income-tax Officers were provided under their control. The amendments to the Income tax Act, in 1939, made two vital structural changes: (i) appellate functions were separated from administrative functions; a class of officers, known as Appellate Assistant Commissioners, thus came into existence, and (ii) a central charge was created in Bombay. In 1940, with a view to exercising effective control over the progress and inspection of the work of Income-tax Department throughout India, the very first attached office of the Board, called Directorate of Inspection (Income Tax) – was created. As a result of separation of executive and judicial functions, in 1941, the Appellate Tribunal came into existence. In the same year, a central charge was created in Calcutta also.

2.1 World War II brought unusual profits to businessmen. During 1940 to 1947, Excess Profits Tax and Business Profits Tax were introduced and their administration handed over to the Department (These were later repealed in 1946 and 1949 respectively). In 1951, the 1st Voluntary Disclosure Scheme was brought in. It was during this period, in 1946, that a few Group 'A' officers were directly recruited.

Indirect taxation

The history of indirect taxes in India dates back to the early part of the 20th century, when the British Raj imposed taxes on commodities such as salt, tea, and opium. These taxes were used to fund the British Raj's administrative and military costs. The first comprehensive taxation system in India was introduced in 1860, when the Government of India Act was passed. This act provided for a unified tax system in India, and it included a variety of direct and indirect taxes. The most common indirect taxes included excise duty, stamp duty, and customs duty.

In India, indirect taxes were first introduced in India in 1944 to protect British-made goods in the domestic market. The use of machines to produce fabric became commonplace throughout Europe during the Industrial Revolution in the 1800s. But, production increased to such a level that manufacturers found it challenging to sell their products as there was no demand. In such a situation, they sought to sell British products in the colonial Indian market.

They would soon come into competition with India's domestic clothing and textile market. Moreover, British products were much more expensive than Indian garments. So why would people buy them?

To resolve this problem, the British authorities came up with the idea of the very first indirect tax in India- 'excise duty'. This would bring the prices of Indian hand-made products at par with British machine-manufactured garments and clothes.

Chapter 4 Taxation after Independence

Post-Independence India needed a subtle and efficient taxation system which would have helped it to finance its infrastructure projects and eradicate poverty and hunger. Direct taxes and indirect taxes evolved slowly after independence.

❖ Evolution of Direct Taxes after independence

Direct taxes are currently levied by centre and state separately. These are:

1. Central Direct Taxes

2. State Direct Taxes

3 Personal Income Tax

4. Land Revenue Tax

5. Corporate Income Tax

6. Property Tax

7. Minimum Alternate Tax

8. Capital Gain Tax

9. Dividend Distribution Tax (Abolished in 2021)

10. Securities Transaction Tax

11. Equalization Levy

12. Direct taxes levied by the Central Government

13. Personal Income Tax

Personal Income tax was first proposed during India's first Union budget in 1860. Currently, the Income Tax Act, 1961 provides statutory backing of income tax in India. It provides taxation in case of following five types:

Income from Salary

Income from House Property

Income from Profits and Gains of Business or Profession

Income from Capital Gains

Income from Other Sources

Corporate Income Tax

The income-tax paid by domestic companies, and foreign companies on their income in India is corporate income-tax (CIT). It was levied for the first time in 1860.

It is at a specific rate as prescribed by the Income Tax Act, 1961 which is subject to the changes in the rates in the union budget every year.

In India, there is differential taxation for domestic companies and foreign companies. While a domestic company (registered under the Companies Act of India or totally managed from India) is taxed on its universal income.

A foreign company is only taxed on the income earned within India i.e. is being accrued or received in India.

Minimum Alternate Tax

Minimum Alternate Tax is a provision in Direct tax laws to limit tax exemptions availed by companies. Due to an increase in the number of zero tax paying companies, it was introduced by the Finance Act, 1987 with effect from assessment year 1988-89.

It envisages that at least a minimum amount of corporate tax is levied by the government as it ensures minimum levels of taxation for all domestic and foreign companies in India.

Currently it is charged at 15% of book profit (plus surcharge and Health and Education cess as applicable).

Capital Gain Tax

The capital gains tax is the levy on the profit from an investment that is incurred when the investment is sold. When stock shares or any other taxable investment assets are sold, Capital Gain Tax is applied on it. The tax is not applicable for unsold shares or any type of capital.

The tax is charged under Income-tax Act, 1961. It was introduced for the first time in 1947 but was formally revised in 1950.

There are two types of Capital gains Tax. These are:

Short-Term Capital Gains (STCG): It is applicable for assets held for less than 36 months.

Long-Term Capital Gains (LTCG): It is applicable for assets held for 36 months or more.

Nature of capital assets is also one of the criteria which decide the rate of taxation under Capital Gains Tax.

For Example: The STCG arising from the sale of capital assets, such as property, gold, and bonds are taxed as per the individual income tax slab rate.

LTCG on the sale of such assets are taxed at 20 percent (plus a cess of 3 percent on property and gold) and 10 percent (on bond).

The LTCG on listed equity shares and equity oriented mutual funds enjoy tax exemption on the condition that the Security Transaction Tax (STT) is paid on purchase of such transactions. While the STCG on listed securities is taxed at flat 15 percent.

Security Transaction Tax (STT)

STT is levied on turnover where the investor has to pay a small tax on the total consideration paid or received in a share transaction. It was introduced in the Budget of 2004 and implemented in Oct 2004.

The objective behind this taxation is to mitigate tax evasion as the same is taxed at source. Stocks, futures, options, mutual funds and exchange traded funds come under the ambit of STT.

Equalization Levy : Levy (EL) is a tax which is levied on consideration received by a non-resident for specified services such as online advertising or provision of digital space for online advertisement or any other service for the purpose of online advertising.

The levy has been imposed under the Finance Act, 2016. According to its provision, a person who is resident in India or a non-resident having a permanent establishment in India shall deduct EL at 6% on the consideration paid to non-resident towards specified services.

Direct taxes levied by the State Government

Land Revenue Tax

Land revenue tax is a fee paid on the purchase of a built property. It is basically the price paid for the ownership of the land to the government according to the specified laws bi-annually or annually.

There is a significant historical lineage of land taxation across the country as different systems such as Zamindari, Mahalwari and Ryotwari were followed across the country.

Evolution of Indirect Taxes in India

Indirect tax was first introduced in India in 1944 in the form of excise duty on Indian products as a measure of protection for goods imported from the UK.

There were several committees which were appointed for this purpose. From there, the process of reforms of indirect taxes in India went through ups and downs till the introduction of the Goods and Services Tax (GST) in 2017.

Till 2017, there were many taxes which were levied at central and state level. Central indirect taxes were Excise Duty, Customs Duty, Service Tax and Central Sales Tax.

State's indirect taxes included Value Added Tax, Entertainment Tax, Luxury Tax, Entry Tax and Stamp Duty.

However, after introduction of goods and service taxes these taxes were reduced to Central Goods and Service Tax (CGST), Inter-State Goods and Service Tax (IGST), Customs Duty to be levied by centre while State Goods and Service Tax (SGST) and Stamp Duty to be levied by states.

Thresholds, taxes to be subsumed and other matters.

One-half of the total number of members of the GSTC formed a quorum in meetings of the GSTC.

Decisions in GSTC were taken by a majority of not less than three-fourth of weighted votes cast.

Centre had one-third weightage of the total votes cast and all the states taken together have two-third of weightage of the total votes cast. All decisions taken by the GST Council arrived at through consensus.

Salient features of GST

Following are the salient features of GST:

Based on supply of goods or services: GST is applicable on 'supply' of goods or services as against the previous concept of the manufacture of goods or on sale of goods or on provision of services.

Destination-based consumption taxation: It is based on the principle of destination-based consumption taxation as against the present principle of origin-based taxation.

Types of GST: GST to be levied by the Centre is called Central GST(CGST) and that which is levied by the States would be called State GST (SGST).

An Integrated GST (IGST) is levied on inter-state supply (including stock transfers) of goods or services.

It is levied and collected by the Government of India and such tax shall be apportioned between the Union and the States in the manner as may be provided by Parliament by Law on the recommendation of the GST Council.

Import oriented Goods and Services: Import of goods or services is treated as inter-state supplies and is subject to IGST in addition to the applicable customs duties.

CGST, SGST & IGST are levied at rates to be mutually agreed upon by the Centre and the States. The rates were notified on the recommendation of the GST Council.

GST replaced the following taxes currently levied and collected by the Centre:-

Central Excise Duty

Duties of Excise (Medicinal and Toilet Preparations)

Additional Duties of Excise (Goods of Special Importance)

Additional Duties of Excise (Textiles and Textile Products)

Additional Duties of Customs (commonly known as CVD)

Special Additional Duty of Customs(SAD)

Service Tax

Cesses and surcharges in so far as they relate to supply of goods and services.

State taxes that have been subsumed within the GST are:-

State VAT

Central Sales Tax

Purchase Tax

Luxury Tax

Entry Tax (All forms)

Entertainment Tax and Amusement Tax (except those levied by the local bodies)

Taxes on advertisements

Taxes on lotteries, betting and gambling

State cesses and surcharges in so far as they relate to supply of goods and services.

Important events

1. World War II brought unusual profits to businessmen. During 1940 to 1947, Excess Profits Tax and Business Profits Tax were introduced and their administration handed over to the Department (These were later repealed in 1946 and 1949 respectively). In 1951, the 1st Voluntary Disclosure Scheme was brought in. It was during this period, in 1946, that a few Group 'A' officers were directly recruited. Later on in 1953, the Group 'A' Service was formally constituted as the 'Indian Revenue Service'.

2. This era was characterised by considerable emphasis on development of investigation techniques. In 1947, Taxation on Income (Investigation) Commission was set up which was declared ultra vires by the Supreme Court in 1956 but the necessity of deep investigation had by then been realised. In 1952, the Directorate of Inspection (Investigation) was set up. It was in this year that a new cadre known as Inspectors of Income Tax was created. The increase in 'large income' cases necessitated checking of the work done by departmental officers. Thus in 1954, the Internal Audit Scheme was introduced in the Income-tax Department.

3. As indicated earlier, in 1946, for the first time a few Group A officers were recruited in the department. Training them was important. The new recruits were sent to Bombay and Calcutta where they were trained, though not in an organised manner. In 1957, I.R.S. (Direct Taxes) Staff College started functioning in Nagpur. Today this attached office of the Board functions under a Director-General. It is called the National Academy of Direct Taxes. By 1963, the I.T. department, burdened with the administration of several other Acts like W.T., G.T., E.D., etc., had expanded to such an extent that it was considered necessary to put it under a separate Board. Consequently, the Central Board of Revenue Act, 1963 was passed. The Central Board of Direct Taxes was constituted, under this Act.

4. The developing nature of the economy of the country brought with it both steep rates of taxes and black incomes. In 1965, the Voluntary Disclosure Scheme was brought in followed by the 1975 Disclosure Scheme. Finally, the need for a permanent settlement mechanism resulted in the creation of the Settlement Commission.

.5 A very important administrative change occurred during this period. The recovery of arrears of tax which till 1970 was the function of State authorities was passed on to the departmental officers. A whole new wing of Officers – Tax Recovery Officers was created and a new cadre of post of Tax Recovery Commissioners was introduced w.e.f. 1-1-1972.

.6 In order to improve the quality of work, in 1977, a new cadre known as IAC (Assessment) and in 1978 another cadre known as CIT (Appeals) were created. The Commissioners' cadre was further reorganised and five posts of Chief Commissioners (Administration) were created in.

7. Tax Reforms : Certain important policy and administrative reforms carried out over the past few years are as follows :-

(a). The policy reforms include :-

- Lowering of rates;
- Withdrawals/reduction of major incentives;
- introduction of measures for presumptive taxation;
- simplification of tax laws, particularly relating to capital gains; and
- widening the tax base.

(b). The administrative reforms include :-

- Computerisation involving allotment of a unique identification number to tax payers which is emerging as a unique business identification number; and
- realignment of the available human resources with the changed business needs of the organisation.

Taxation after Liberalization, Privatization and Globalization

Tax system all over the world has undertaken substantial changes during the last two decades. The transition from a planned to market economy along with ever-increasing globalization demanded extensive tax reforms in this current era of economic reforms captioned by LPG (Liberalization, Privatization, and Globalization) since 1991. The conception of the Indian tax system was guided by similar concerns and yet, in some ways, varied and even unique as compared to others. Unlike most developing countries, which were guided in their tax reforms by multilateral agencies such as the International Monetary Fund etc., Indian tax reforms have largely abided by domestic perspective. Despite this, the tax system was broadly in conformity with international trends and practices. The paper pronounces and evaluates the introduction of reforms in direct and indirect taxation, and their impact on the GDP, including domestic liberalization and sustainable economic growth. The paper emphasizes the flaws still persisting in the tax system and lists the challenges faced by the government in developing a coordinated tax system in the Indian federal policy

The efforts to reform India's tax system started in mid-1980s With the announcement of Long Term Fiscal Policy in 1985. However Comprehensive and systematic attempt was made in 1991 in the Form of Tax Reform committee under Prof. Raja Chelliah which laid Down the road map for reforms in direct and indirect taxes as part Of structured reform process. The main proposals of the committee Comprised⁶, broadening tax base; reducing corporate tax rates; Reducing the marginal tax rates for individual tax category; bringing Services sector in the tax net within a VAT system; reducing number Of Customs tariff rates and its rationalization; simplification of laws

And administrative procedures etc. Most of the recommendations Were implemented over the years, at least at the central level but at The level of states the reforms did not picked up well. In 1994, Service Tax was initially introduced and applied on only three services. The Government set up a new Task Force on tax reforms headed By V. Kelkar in September 2002. The Kelkar committees suggested Comprehensive reforms⁷ including, cut in corporate tax rate; removal

Of tax exemptions, rationalization of incentives; simplification of Procedures; three-rate basic customs duty structure; raising the Limits of income tax exemption and two-tier brackets; long-term Capital gains tax and wealth tax; dividend tax abolition; service Tax to be levied in a comprehensive manner; no standard deduction For salaried class; gradual moving over the destination based, Consumption type value added taxes at the state level .However due To lack of administrative preparation and of discrepancies between Union and state governments the introduction of VAT was frequently Postponed. But in 2004 an integrated VAT on goods and services Came into force, to be levied by the central and state governments in Parallel, eradicating all cascading taxes. Dismantling and reforming About 60 percent of taxation will never be an easy task. In India, the Idea of GST was first adopted in 2000. Empowered Committee (EC).



Evolution OF JUDICIAL SYSTEM IN TAXATION

❖ Income tax

ITAT is a quasi judicial institution set up in January, 1941 and specializes in dealing with appeals under the Direct Taxes Acts. The orders passed by the ITAT are final, an appeal lies to the High Court only if a substantial question of law arises for determination.

Starting in 1941 with six Members constituting three Benches – one each at Delhi, Kolkata (Calcutta) and Mumbai (Bombay), the numbers of Benches have progressively increased and presently ITAT has 63 Benches at 27 different stations covering almost all the cities having a seat of the High Court.

Historically speaking, tax was introduced in India by the Act of 1860, where assessment was made by a Panchayat and a person feeling aggrieved by the order could appeal to the Collector of the District, whose order was final. Subsequently, the successive Acts of 1868, 1869, 1870, 1872, 1886, 1916 and 1917 made improvements providing for an appeal from the order of the Collector of the District to the Commissioner of Revenue of the Division but no reference was available to the High Court under these Acts. "Income Tax Act" in its modern form, as we know, was introduced which legislated advisory jurisdiction to the High Courts.

The Act was revamped in 1922 but did not introduce any changes in the adjudicatory structure. A strong desire for establishing an independent forum for redressal of assesses aggrieved under the Income Tax Act gathered momentum especially considering that Civil Courts were prohibited from entertaining litigation in the tax matters. In November 1938 Select Committee was appointed to consider amendments to the Indian Income Tax Act, 1922, which, inter-alia, recommended establishment of a Tribunal as an independent appellate Authority for hearing appeals arising from the decision of the Appellate Assistant Commissioner. As a consequence, ITAT was constituted on 25/01/1941 by virtue of section 5A of the Income Tax Act, 1922. Since its establishment, ITAT is functioning more or less on similar lines except for necessary consequential changes introduced on account of its expansion and extension of its jurisdiction. There have been no fundamental changes either in the constitution or the functioning of the Tribunal in the Income Tax Act, 1961.

ITAT draws inspiration from its motto 'Nishpaksh Sulabh Satvar Nyay', which means impartial, easy and speedy justice. ITAT stands out for its uniqueness of imparting justice to the litigants, by an inexpensive, easily accessible forum free from technicalities, regarded for its expert knowledge on the subject of Direct Taxes, besides rendering expeditious justice. More often than not, ITAT is referred to as 'Mother Tribunal' being the oldest Tribunal in the country. More importantly, it is the success of the ITAT, which has prompted the Government of India to constitute similar Appellate Tribunals for indirect taxes i.e. Customs, Excise, Service Tax Appellate Tribunal (CESTAT), Central Administrative Tribunal (CAT), Railway Claims Tribunal, Foreign Exchange Appellate Board, etc.

Over the years, ITAT has earned accolades, as its Members have adorned high positions in the judiciary and other equally important institutions. The first President of the Tribunal Mr.

Mohammed Munir Dar, was elevated to the Hon'ble Lahore High Court and later as the Chief Justice of the Pakistan Supreme Court. The second President of the ITAT Shri Khan Bahadur Yahya was also elevated as Judge of the Hon'ble Madras High Court. Hon'ble Justice Ranganathan of the Supreme Court of India was Vice President of the Tribunal. Hon'ble Justice Fathima Biwi later Governor of Kerala was Member of the ITAT. Till now, almost 32 erstwhile Members/Vice Presidents and Presidents of ITAT have been elevated to various High Courts including two to the Supreme Court.

In the 115th report of the Law Commission, the speeches delivered by the Law Minister in the Parliament and also by various Chief Justices, former Presidents of India and other dignitaries, the working of the ITAT has been commended on various occasions.

ITAT has been rendering a yeoman service in administration of justice in the field of Direct Taxes, and celebrating its 75th Year of glorious existence in January, 2016.

❖ Custom Duty and Excise duty

The Customs, Excise and Service Tax Appellate Tribunal (CESTAT) is an Indian quasi-judicial body that hears appeals against orders and decisions passed under the Customs Act, 1962 and Central Excise Act, 1944 as amended from time to time. It was constituted as Customs, Excise and Gold (Control) Appellate Tribunal (CEGAT) under section 129 of Customs Act, 1962,[1] as amended by section 50 and the Fifth Schedule of Finance (No. 2) Act, 1980.[2] These amendments became effective from 11 October 1982[3] and the Tribunal was also constituted on the same date.[4] Its initial mandate was under Customs Act, 1962, Central Excise Act, 1944 and Gold (Control) Act, 1968. Service tax was introduced by Chapter V of Finance Act, 1994[5] and this also was added to the jurisdiction of CEGAT. Accordingly, the name of the Tribunal was changed to Customs, Excise and Service Tax Appellate Tribunal (CESTAT) by amending section 129 of the Customs Act, by section 119 of Finance Act, 2003,[6] effective from 14 May 2003.

The Tribunal also has appellate jurisdiction in Anti Dumping matters and the Special Bench headed by the President, CESTAT, hears appeals against the orders passed by the Designated Authority in the Ministry of Commerce.

According to Section 86, any assessment order passed by Commissioner of Central Excise under section 73 or Section 83A or orders of revision by Commissioner of Central Excise under Section 84 or orders of the Commissioner of Central Excise (Appeals) under Section 85 are appealable before the Appellate Tribunal (CESTAT) by any of the aggrieved parties i.e., assessee, Commissioner of Central Excise or the Board.

The Government had a law enacted in 1986, to create a Tribunal empowered like a High Court, called Customs and Excise Revenues Appellate Tribunal.[7] Most powers of CESTAT were to be diverted to CERAT. This Act was not operationalised due to multiple difficulties including court cases, making an amendment necessary.[8] This Act was later repealed by Customs and Central Excise Laws (Repeal) Act, 2004.[9]

❖ Power of CESTAT

CESTAT functions with the following limitations, as it cannot:

- Grant compensation owing to unlawful action of revenue authorities.

- Review its own order (as any quasi-judicial authority cannot review its own order).
- Exercise powers beyond statute (as it is a creature of statute only).
- Issue writs or grant relief which ought to be granted by high court.
- Comment on legitimacy of statute. Must presume legal validity of the provisions of Act and Rules.
- Punish for its own contempt (must forward it to high court for its consideration).
- Act as a court (as it is a tribunal and cannot be equated to a court. Members of tribunal are not judges and their decisions are orders, not judgments).
- Overrule any high court judgement (as it is bound by judgements of high courts and Supreme Court).

❖ Goods and Service Tax

GST Act defines the phrase “adjudicating authority” as any authority competent to pass any order or decision under this Act, but does not include the Board, the First Appellate Authority and the Appellate Tribunal. Thus, in a way, any decision or order passed under the Act is an act of “adjudication”.

Steps of appeals under GST

Appeal level	Orders passed by....	Appeal to ———	Sections of Act
1 st	Adjudicating Authority	First Appellate Authority	107
2 nd	First Appellate Authority	Appellate Tribunal	109,110
3 rd	Appellate Tribunal	High Court	111-116
4 th	High Court	Supreme Court	117-118

As per the GST Act, CGST & SGST/UTGST officers are both empowered to pass orders. As per the Act, an order passed under CGST will also be deemed to apply to SGST. However, if an officer under CGST has passed an order, any appeal/review/ revision/rectification against the order will lie only with the officers of CGST. Similarly, for SGST, for any order passed by the SGST officer the appeal/review/revision/rectification will lie with the proper officer of SGST only.

➤ Time limit for filing a GST appeal

An applicant can file an appeal before the Appellate Authority within three months from the date of communication of the disputed order. Further, the Appellate Authority may condone a delay of up to one month if they are satisfied that there was a sufficient cause for such delay.

General rules for filing GST appeals

All appeals must be made in prescribed forms along with the required fees. Fee will be – The full amount of tax, interest, fine, fee and penalty arising from the challenged order, as admitted by appellant, AND –10% of the disputed amount In cases where an officer or the Commissioner of GST is appealing then fees will not be applicable.

Can an authorised representative appear in court?

Yes. Any person required to appear before a GST Officer/First Appellate Authority/Appellate Tribunal can assign an authorised representative to appear on his behalf, unless he is required by the Act to appear personally. An authorised representative can be-

A relative

A regular employee

A lawyer practising in any court in India

Any chartered accountant/cost accountant/company secretary, with a valid certificate of practice
A retired officer of the Tax Department of any State Government or of the Excise Dept. Whose rank was minimum Group-B gazetted officer

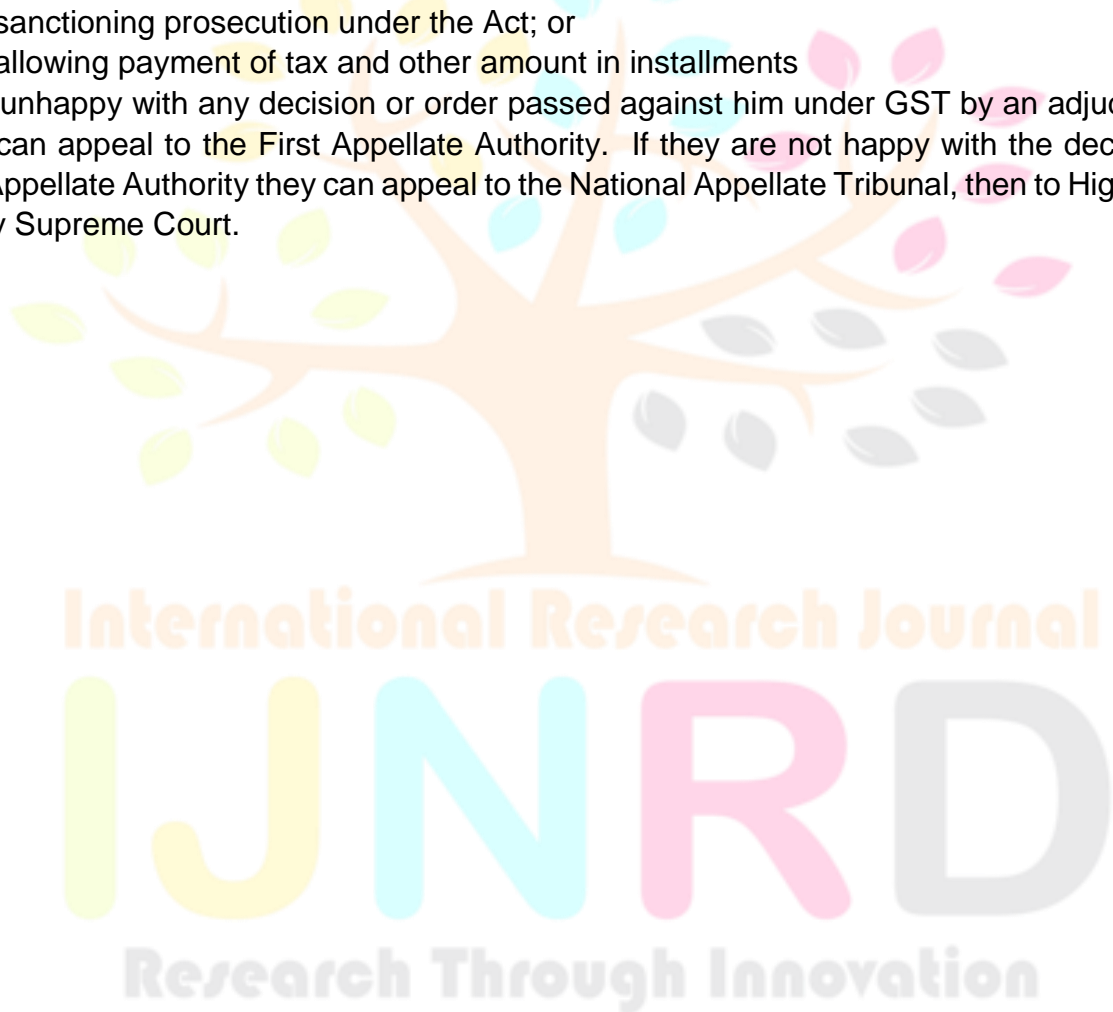
Any tax return preparer

Retired officers cannot appear in place of the concerned person within one year from the date of their retirement.

Appeal cannot be filed in certain cases

The Board or the State Government may, on the recommendation of the Council, fix monetary limits for appeals by the GST officer to regulate the filing of appeal and avoid unnecessary litigation expenses Can all decisions be appealed against? No. Appeals cannot be made for the following decisions taken by a GST officer-

- ❖ An order to transfer the proceedings from one officer to another officer;
- ❖ An order to seize or retain books of account and other documents;
- ❖ An order sanctioning prosecution under the Act; or
- ❖ An order allowing payment of tax and other amount in installments
- ❖ A person unhappy with any decision or order passed against him under GST by an adjudicating authority can appeal to the First Appellate Authority. If they are not happy with the decision of the First Appellate Authority they can appeal to the National Appellate Tribunal, then to High Court and finally Supreme Court.



A.I future in tax world

Tax operations are complex and time-consuming, and with the disruption in business caused by the pandemic, many companies have turned to AI to automate tax processes, among others, to improve efficiency. AI has helped businesses manage tax operations by streamlining processes, reducing errors, and providing real-time insights into tax compliance. As a consequence, more and more tax professionals are turning to AI to leverage its capabilities and effectively manage tax operations, in general. These transformative capabilities of AI apply throughout the entire tax lifecycle from planning to compliance, reporting and controversy.

Among the most impactful uses of AI are the following:

1. Automating tax return preparation and filing

One of many ways in which AI can be used in tax operations is through the automation of routine tasks, such as periodic tax return preparation and filing. Certain AI-powered software used solely or in tandem with Robotics Process Automation (RPA), for instance, can accurately extract data directly from source, such as the trial balance, invoices, and other relevant documents, and organize them into the prescribed tax forms. Through its machine learning algorithms, these AI-powered systems can also analyze tax returns for errors or discrepancies, thus reducing the time and resources required for manual data entry, which frees up staff to focus on more strategic and value-adding tasks.

2. Monitoring tax compliance and improvement

Another area where AI can be useful is in tax compliance monitoring and improvement. With so many changes or updates in tax rules and regulations, AI can help businesses stay compliant by alerting them to new tax developments. Needless to say, monitoring compliance to changes in tax rules is not easy and can be even more challenging without a good and reliable tool. With an AI-enabled monitoring tool, businesses can be updated on a more timely and regular basis, thus avoiding noncompliance which could lead to painful tax assessments and reputational risk.

AI can also help improve tax compliance by analyzing large datasets to identify trends and patterns that may indicate potential tax issues. This enables businesses to proactively address compliance issues before they become major problems and reduce tax assessment risks which could be costly and time consuming.

3. Enhancing the tax audit process and fraud detection

AI can also help businesses prepare for tax audits and improve the audit process. By analyzing past audits and identifying areas of weaknesses, AI can help businesses improve their compliance and reduce tax audit risks.

Tax authorities or agencies can also harness the power of AI in conducting tax audits. In certain jurisdictions, AI is used by these agencies to identify cases that could indicate potential fraud. By analyzing huge amounts of data, AI can detect anomalies and suspicious activities that may indicate fraudulent behavior.

For example, in one country, tax officials have successfully incorporated AI into their Goods and Services Tax administration. In the first year of implementation, only a few cases of fake invoicing

were detected and two people were arrested. However, in the following year, the tax agency saw improved detection with more than a thousand cases of fake invoicing being identified and more than a hundred people were arrested.

Several European Union (EU) countries have also been using AI to detect tax fraud. In one EU country, tax officials were able to identify an estimated 60 out of 100 cases of tax fraud using advanced technologies. These show how AI can be powerful and is widely used across geographies.

4. Forecasting and predictive analytics

Another area where AI can be helpful is in the analysis of tax data to formulate business strategy and make better decisions about tax planning and forecasting. Predictive analytics can analyze historical data to identify trends and patterns. For instance, algorithms can analyze sales data to help detect trends within various tax filing cycles — an annual, quarterly, or monthly basis. Those trends can then be used as the basis for predicting what's likely to happen next, which could be helpful in providing better sales forecasts and related tax obligations. By analyzing these data, businesses can gain insights into their operations and identify areas for improvement. This also guides and helps decision-makers optimize their business strategy by reducing costs in order to improve profitability.

The increasing demand for AI in tax operations shows how businesses are adapting to the new technologies to stay competitive in the post-pandemic era. As the technology continues to evolve, we can expect to see even greater innovation in tax operations and new opportunities for businesses to optimize their operations and reduce costs. Companies that embrace digital transformation and AI will be well positioned to stay afloat in the digital age and in this post-pandemic world.

Research sources:-----

1. Income tax website
2. Ancient book like manusmiriti, Ain-e-Akbari, Kautilya Arthashastra
3. Colonial period acts which states the condition of taxation in that era
4. Articles on Liberalization Globalization and Privatization policies
5. Insights collected by company PWC
6. Articles on judicial revolution of taxation in