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Taxation and State Finance in Ancient India

R. SUBRAMANIAN[1]

ABSTRACT

The antiquity of Indian legal system has long been acknowledged by many. The importance of finance was well recognized in ancient India and treasury was considered to be a part of the State. Ancient India had a clear and humane tax policy. There were several types of taxes. The difference between tax and non-tax revenue was well recognized. Various officials were appointed for tax collection and revenue administration. Ancient Indian law makers emphasized that citizens should not be put to hardship by way of taxes. Mahabharata, Arthasastra, Manusmriti, Apastamba Sutra, Sukraniti and other Dharmasastras dealt on taxation. The taxation system in ancient India was more advanced than the contemporary nations. Taxes were categorized under various heads akin to the modern classification. The tax rates were reasonable and people friendly and had many features which arise from the policies of a welfare state. Even the rich were not approached in a biased manner. Tax exemptions were granted to a various category of people. Taxation system included Land revenue, Sales tax, Income Tax and Imports and exports duty. The hierarchy of state authorities and their duties were well defined. During emergencies, extra taxes were collected to tide over the emergency, but here also the limits were prescribed. Permissible heads and limits of public expenditure were well defined. State had to maintain funds to meet the expenses for twenty years. Detailed accounts were maintained in a scrupulous manner, audited and submitted to the cabinet. There was a state insurance for goods. Overall, the tax system and revenue management were at par with any developed state.

Keywords: *Taxation and revenue collection, ancient India, policy, methods, authorities.*

I. INTRODUCTION

The antiquity of Indian legal system has long been acknowledged by those who are well versed in the legal history of the world. "Hindu Law has the oldest pedigree of any known system of jurisprudence and even now it shows no signs of decrepitude" , declared John D. Mayne. The importance of finance in running the State was well appreciated by ancient Indian law givers since they included the treasury as a component of the State. Under Indian constitution also finance is a part of the constitutional provisions. The inclusion of finance as a component of

[1] Author is an Advocate and PhD scholar at The Tamilnadu Dr. Ambedkar Law University, Chennai, India.

the state was done by all ancient law givers like Manu, Yajnavalkya, Vishnu, Gautama, etc. as also the Arthasastra writer Kautilya. Treasury was called as Kosha in Sanskrit. Further, like any advanced taxation system, many kinds of taxes were levied in ancient India, but fleecing of people was prohibited by Dharmasastras. Various categories of officials were appointed to carry out the task of tax collection. Importantly, from the days of yore, Indian law givers emphasized that the citizens should not be put to hardship, but only a reasonable and just amount should be collected as tax from the public. Further strict control measures were exercised over spending of public funds with due limits prescribed for various expenses.

"Taxes are what we pay for a civilized society" is the modern definition of taxation given by Oliver Wendell Holmes, a judge of the Supreme Court of United States of America. No Government can survive without tax income and given the scale of welfare activities undertaken by the Modern Governments, there is even a greater need to augment tax resources. So, newer and newer avenues are explored by modern Governments to increase the tax revenue. But centuries before the formation of the Western theories and concepts on the origin and legitimacy of state and taxation, the Mahabharata emphasised the need for having a state(king) to have a civil society and declared that an individual first requires a king and then only a family and money . This is because, without a king, the safety of citizens and their belongings cannot be ensured. Consequently, a king needs to administer the country to protect the citizens from both internal and external adversaries and for this he needs money in the form of tax. Thus, this explanation in Mahabharata is perfectly in tune with the modern theories of legitimacy of state and taxes.

This paper attempts to summarize tax collection system and State finance in ancient India.

II. Taxation system in other countries of the ancient world

Historians reckon Mesopotamia, Greece and India as cradles of civilization. The histories of these countries date back to a period prior to 3500 BCE. When one tries to find the details of taxation system in countries other than India, what all one could know is that there was some form of tax in all the other countries , but one gets only very sketchy details, because taxation in those countries depended on individual kings and was not based on any detailed codes like Dharmasastras or Arthasastra as was the case in ancient India. On Roman taxation, there have been research works discussing as to whether a particular item is a tax at all . This is due to the absence of concrete materials on taxation system in ancient Rome but this was not the case in ancient India which had clear Dharmasastra provisions on taxation. So, we can safely infer that ancient India had much better tax laws comparable to modern taxation system which was not

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the case in the rest of the world.

III. Overview of revenue in ancient India

Like modern states, Arthasastra had clearly distinguished between tax revenue and non-tax revenue. Tax revenue included land revenue, income tax, a sort of professional tax on guilds, sales tax, customs duty, taxes paid by vassal kings, taxes paid on special occasions, gifts to king, etc.

Non-tax revenues included produce of crown lands, sale proceeds of grains, interest collected, profit on exchange of grains, gains on barter, profits on manufacturing activities undertaken by the state such as beverages, extraction of oil, manufacture of sugarcane related products, etc.

As per Arthasastra, revenue collection was further classified under various heads of accounts just like the modern accounting system for taxation. They were as follows :

(A) Durga (Capital-Fort)

This head of income included income from tolls, fines, weights and measures, liquor, the slaughter of animals, threads, oils, ghee, sugar, the warehouse of merchandise, the prostitutes, gambling, building sites, the association of artisans and handicrafts, taxes collected at the gates from the people known as wanderers and the like.

(B) Rashtra (country parts)

This head included income from produce from crown lands, a portion of produce payable to the government, religious taxes, taxes paid in cash by merchants, taxes on ferries, boats and ships, taxes in towns, taxes on pasture grounds, road–cess, tax on ropes and the like.

(C) Khani (mines)

Tax income from dealings on gold, silver, diamonds, gems, pearls, corals, conch shells, metals, salt and other minerals extracted from plains and slopes come under this head.

(D) Setu (public works)

Tax income from flower gardens, fruit gardens, vegetable gardens, wet fields, fields where crops are grown by sowing roots for seeds (i.e., sugarcane crops, etc.) come under this head.

(E) Vanam(forests)

Tax income from game forests, timber forests and elephant forests were classified under this head.

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(F) Vraja(pastures)

Tax income from (grazing of) cows, buffaloes, goats, sheep, asses, camels, horses, and mules come under this head.

(G) Vanikpatha (trade routes)

This head covers the tax income from traffic on land and waterways.

IV. Principles of taxation

(A) Reasonableness of taxation

Dharmasastras clearly laid down those taxes should be fair and that no excessive taxes should be levied by the king.

Manu states the following on taxes:

“. Let not the king cut his own root by levying no taxes nor the root of the people by levying excessive taxes. (Manusmriti, Chapter VII, verse. 139)”

“As the bee draws honey from flowers (without endangering or destroying them), the king shall draw moderate taxes annually from his subjects (Manusmriti, Chapter VII, verse.129).”

Yajnavalkya and Katyayana also lay emphasis on not levying harsh taxes in the following words

“A king who enriches his treasury by oppressive methods would before long be deprived of his prosperity and meet with destruction “

“The fire generated by the heat of oppression does not quench without consuming the prosperity and family of the king”.

Raghuvamsa of Kalidas states that it was only for the good of his subjects that the king collected taxes from them, the same way the sun draws moisture from the earth and returns it a thousand-fold". (through rains)

The most significant aspect of ancient Indian tax system was that, unlike the modern legal systems, most of which profess to extract more money from the rich which factor has resulted in the rich getting a harsher treatment, Indian legal system did not treat the rich in a biased manner but recognised the fact that even the rich were part of the system and contributed for the growth of the country. Mahabharata advises the king to be extend hospitality to the affluent and rich when they approach him for any issue. The king has been advised to recognise the fact that the rich people are also part of the state. The king should only benevolently appeal to them to be philanthropic and assist in the material growth of the state . This ancient wisdom is equivalent to the modern concept of corporates involving themselves in developmental works of the country in the form of corporate social responsibility.

K.P. Jayaswal, after reviewing a host of ancient authorities on Hindu law, sums up the principles of taxation in ancient India

- State should not be greedy in taxation so as not to destroy itself and the public
- State should not tax excessively
- Moderate taxation by State is desirable
- State taxation should be such that it should not be a burden on the citizens
- State should have a lighter process while proposing to increase the taxes
- Taxes should be levied in properly with due regard being paid to the place of taxation, time of taxation and the form of taxation
- State should charge taxes only after ascertaining the inputs and outputs;
- All vital factors, physical inputs, economic criteria and human efforts are to be considered before levying taxes;
- Imports detrimental to the local industry and imports of extravagant items should be discouraged by a huge tax burden;
- imports that are beneficial to the country should be granted exemption from duties;
- Factors congenial to the productive should never be hampered
- Innovation should be encouraged; and
- Tax increases should be gradual and within the paying capacity of the public and not in a detestable manner
- prudent economic factors were behind the decisions on taxation in the ancient Indian taxation system

  The above clearly prove that ancient Indian kings who were guided by the rules laid down in Dharmasastras were guided by the principles of a welfare state.

(B) Exemption from taxation

The taxation policy of all modern governments grants exemption to deserving cases. The ancient Indian rulers, being guided by Dharmasastra rules, followed the same principle two thousand years ago and granted exemptions. The exemptions were as follows :

1. Manusmriti granted exemption to those who were well versed in the Vedas, a blind man, an idiot, crippled people and people who are more than seventy years old

2. Apastambasutra granted exemption to the following categories of persons.

A learned brahman

- Women of all castes
- Minor male children
- Students staying with their teachers for pursuing studies

3. Vasishta Sutra granted exemption to the following categories:

- Those who were well versed in Vedas
- Servants of the king
- minor and a student
- Widows who return to their parents' family
- Unmarried daughters
- Wives of servants
- Very old people

From the above it could be seen that the exemption granted in ancient India was wide and more benevolent. Even modern tax laws do not grant sweeping exemptions to so many categories of persons.

V. CATEGORIES OF TAXES

Ancient Indian legal system had a variety of taxes, both direct and indirect like a modern state. They are discussed below:

(A) Land Revenue

Katyayanasmriti reckoned the rate of land tax as one sixth of the product However, the ruler had no right to collect land revenue if there was no product from the land due to natural calamities . This shows the welfare nature of the state and the humane approach of ancient Indian law givers. Under modern tax laws, exemption from land tax is seldom granted and even if granted, the procedure it so cumbersome that a poor peasant is not able to avail them. In contrast, ancient law givers provided it as a rule that when there was no yield from the land, the king had no right to collect tax.

(B) Sales Tax

Sales tax was levied in ancient India, but the striking feature of the system was that unlike the modern taxation which considers the maximum retail price as the basis of taxation, ancient Indian law makers stipulated that all the expenses incurred for food and also for arranging the safety of the goods should be deducted and tax should be levied only on the net profit. This stipulation was provided both by Manusmriti and Apastambasutra

The place of levy of this tax was market place, road, mines etc., where sale took place. It was further laid down that no double taxation should be done on goods . This provision is at par with the modern provisions of law which avoid double taxation. Another important point was that in the absence of profit, no tax was levied. The sales tax was levied at the rate of about five percent.

(C) Income Tax

According to Vishnu purana Income tax was levied at the rate of two percent on income from profits on cattle and gold and according to Mansusmriti one-eighth, one-sixth or one-twelfth part on crops. Further, one- sixth of income was the tax on income from trees, honey, ghee, perfumes, medicinal herbs, flowers, substances used for flavouring food, flowers, roots and fruits, leaves, grass, articles made of bamboo, skins, earthen vessels and all articles made of stone.

(D) Imports and exports duty

As per Kautilya's Arthasastra, both imports and exports were taxed in ancient India. Flowers, fruits, vegetables, roots, bulbous roots, seeds, dried meat, etc. were taxed at the rate of twenty percent. Conch shells, diamonds, precious stones, pearls, corals, necklaces, etc. were taxed after taking into account the duration of production, cost of production and quality

VI. State authorities

Ancient India had an amazing system of revenue collection comparable to the modern times. Apart from having a very clear direction and approach on various matters like taxation policy, types of taxes, rate of taxes and exemptions, ancient India's tax collection system was also sophisticated and well managed. Mahabharata urged the king to employ ministers and other officers subordinate staff who are trustworthy for deputing them for physical inspection of the places like gold and silver and other mines, large markets, river banks, markets of food, grain, places of sale of salt and vegetables, cattle markets, bullion trading centres, and other places so that tax income can be maximised . It was further prescribed that whosoever is efficient in whichever field should be employed for collection of tax in that particular field. For example, people trained in agriculture must be given the task of tax collection in the agriculture sector; likewise, people well versed in commerce, trade, etc. should be engaged in tax collection in those areas. This speaks of high specialisation which even the modern tax collecting machineries many not have since they have a unified service lacking exposure to diverse fields. Further, the state must ensure that the lives of the people engaged in tax collection, as well as of those engaged in these sectors, are properly prospected by the state apparatus. This is meant to ensure career progression to tax personnel as well as to the assessees.

Arthasastra lists the authorities entrusted with taxation. At par with modern administrative systems, ancient India had separate authorities for revenue collection and custody of revenue. Collector General (Samaharta) was the in charge of tax collection and Treasurer-General (Sannidhata) was the custodian of finance and was responsible for their disbursement. Collector General was to divide the country into several districts. The Treasurer -General was to acquaint himself with the income and expenditure so that he might be able to frame accurate budgets.

Chief Superintendent of accounts was in charge of the accounts department and it was his duty to see that everything related to finance was properly entered in the books. The accounts officers had to maintain accounts. Detailed accounts showing every component had to be maintained. Annual accounts of every department were submitted to accounts department and after scrutiny, they were submitted to the minister in charge of the department

The following authorities are mentioned in Arthasastra who are concerned with revenue and expenditure of the State .

Sannidhatri - In charge of the treasury, warehouse and other departments. He was also looking after the functions looked after by a controller of stores in the modern setup.

Samahartri - He is equivalent to a Revenue administrator and was responsible for the collection of customs duty/ tolls.

Akshapataladhyksha – He was discharging the functions of a chief of accounts department. He was also responsible for the upkeep of records and preparation of budget estimates and related matters.

- Koshadhyaksha - He role was that of a treasurer who was the in charge of all the materials be it forest products or other precious items
- Panyadhyaksha - He was functioning as the Director of Trade
- Manadhyaksha - This is equivalent to the post Superintendent of Land and Time Measurement
- Shulkadhyaksha - This is equivalent to the post of Collector of Customs
- Suradhyaksha – He was basically an excise Commissioner

VII. Tax collection during emergencies taxes

Modern governments collect extra taxes or a cess over and above the regular taxes for limited periods during emergencies like war or any other adverse eventuality or calamity so that the state can recover from the disaster and rebuild itself quickly. This principle of additional taxation during emergencies was well recognized in ancient India also. Almost all ancient Indian law makers uniformly provided that during emergencies, the king could extract more tax from the public. The Mahabharata provided that during emergencies, the king should make a fervent appeal to the people to contribute more tax . Arthasastra provided that during financial emergencies, the ruler could demand more tax on agricultural yield. The king's officers had the right to urge the people to grow more crops so as to ensure more income. If these measures could not bring the desired results, the officials could ask the people for benevolence in view of the emergency and those who offered higher taxes were treated with due honour. In case of financial emergency, various other devices could also be adopted but to ensure that these did not lead to hardship, Arthasastra mandated that these expedients should be resorted to only once, and never more than once . It is therefore very clear that even in case of grave emergencies, great discretion was exercised by ancient Indian kings.

VIII. State expenditure

Modern governments have well defined public expenditures and also a very clear methodology and authorized procedure and budgeting system for incurring and accounting the expenditure from public funds. They are controlled by separate ministries and are subjected to strict legislative scrutiny. Strikingly these developed features which are considered as modern-day developments were followed from the days of yore in India and ancient India had an amazing accounting and budgeting systems. It is very significant that ancient Indian law makers not only classified the heads of income and taxes but even classified justifiable expenditures of the State so that no unauthorised expenditure was incurred from public funds. Kautilya had categorised the following items of expenditures as State's expenditure.

- Religious Sacrifices,
- Worship of manes
- Charitable purposes
- Expenses of the king's palace
- Expenditure on civil departments
- Foreign missions' expenses,
- Expenditure armed forces and their supplies

- Expenditure on public works
- Expenditure on preservation of forests

Sukraniti, an ancient Indian legal text also deals elaborately with permissible expenditures . It even puts a cap on the total expenditure of the state. It lays down that only one-half of the State revenue was to be spent for the six purposes of administration in the following proportions: (1) payment of salaries to headmen- 1/12; (2) armed forces – 3/12; (3) charitable funds- 1/24, (4) public utility services-1/24;(5) payment of salary to officials-1/24; (6) king's expenses and palace expenses-1/24. According to the Sukraniti, there was to be enough money in the treasury to cover public expenses for twenty years. Even the most advanced states of the modern world do not lay down this stringent rule for keeping a reserve to meet the expenses of the state for twenty years, on the contrary, most of the states have huge deficits and unmanageable debts.

IX. Accounting system

(A) Method of accounting

Accounting system for taxation under Mauryas equalled the modern accounting process. Brought forward amounts were duly accounted under that head. Daily receipts were categorised separately and more importantly, like the most modern accounting practice, casual and non-recurring items were specifically accounted. Comparable with a modern accounting professional there was an accounting superintendent who was entrusted with the upkeep of accounts. His office was to have seats for clerks and shelfs with account books well arranged.

(B) Accounting books

Kautilya had prescribed that account books should be maintained department-wise and should contain the following details

- The number of the department
- The details of works should be mentioned with further details of cumulative finishing in various manufactories
- The figures of profit or loss, expenditure and deferred earnings
- The amount realised both in cash and kind
- Details of the executing agency
- Details of wages incurred
- Details of free labourers engaged if any
- Details of precious stones and other items.

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- Details about customs, avocations, and the transactions of all sections of society (this may be to ascertain the right rates of taxation)
- Details of salaries and gifts to the king's courtiers;
- Details of income in various forms of wives and sons of the king
- Details about friendly and enemy kings.

(C) Verification of accounts

Whenever upkeep of accounts is mandated under any modern law, the law naturally provides for the audit of accounts both by internal auditor and external auditor who are to be qualified professionals. Kautilya had, two thousand years ago, prescribed a meticulous procedure for the verification of accounts. Kautilya prescribed that the transactions should be checked by superintendent and audited by competent auditors. Then they were submitted to the minister concerned which were then considered by the ministers sitting as a cabinet

X. State insurance

A form of insurance of goods by the State also prevailed in ancient India. As per Arthasastra, the merchants travelling from place to place had to pay small road tolls which were collected by an official called Antapala who was responsible for the upkeep of the road and its safety. If any loss was suffered by any merchant from thieves, Antapala was supposed compensate the loss

XI. Conclusion

The above discussion clearly brings forth the fact that ancient Indian law makers and economic planners had great wisdom and foresight and that the nuances of collection and administration of public funds were so finetuned that they matched the most advanced taxation and accounting systems of the modern world. The concept of a welfare state originated in other countries much later, but in India from the beginning the Dharmasastras and the Arthasastra laid down these principles in clear terms even in the matter of tax collection. Added to this was the fact that as per Dharmasastras, the kings in India did not have any law-making powers and they had to scrupulously follow the rules laid down in Dharmasastras and this ensured observance of Dharma – path of righteousness all through the recorded history of India. This ensured that no taxes were levied unreasonably and no expenditure from state funds other than the authorised ones were incurred.

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