

Tax Planning and Tax Policy in India: A Study of Modern Practices and Ancient Indian Wisdom

Dhuvan C M, Syed Ashfaq Pasha, Mayur G, Riya Tiwari, Soorrrya S J, Subha Shree G
Dr. Batani Raghavendra Rao

MBA Students 2025-2027 batch Faculty of Management Studies
Faculty of Management Studies, CMS Business School, JAIN (Deemed-to-be-University)
Bangalore, India

ABSTRACT

Taxation is one of the most essential components of a country's financial system. Governments rely heavily on taxes to generate revenue that is used for public welfare, infrastructure development, economic growth, and the functioning of administrative systems. In a developing country like India, an efficient taxation system plays a crucial role in balancing economic development with social welfare. Tax policy determines how taxes are structured, imposed, and collected, while tax planning refers to the lawful strategies used by individuals and businesses to reduce their tax liability within the framework of the law.

In recent decades, India has experienced significant changes in its taxation system. Reforms have been introduced to simplify tax structures, improve transparency, and encourage compliance among taxpayers. Modern tax planning practices involve making use of deductions, exemptions, rebates, and investment schemes provided under the Income Tax Act. These methods allow taxpayers to organize their financial activities in a way that minimizes tax liability without violating legal provisions.

However, taxation as a concept is not new to India. Ancient Indian economic thinkers had already developed sophisticated ideas about taxation and governance. One of the most important sources of ancient Indian economic thought is the Arthashastra, written by the philosopher and economist Kautilya. This text provides detailed insights into how rulers should collect taxes in a fair and efficient manner while ensuring the welfare of the citizens. It emphasizes that taxation should be reasonable, just, and not oppressive so that the economic productivity of the people is not harmed.

The purpose of this research paper is to examine tax planning and tax policy in India by studying both modern practices and ancient Indian wisdom. The study aims to understand how contemporary tax systems operate and how they compare with the ethical and economic principles mentioned in ancient texts. By exploring the similarities and differences between modern taxation methods and traditional economic ideas, this research highlights the relevance of ancient wisdom in shaping fair and effective tax policies.

Ultimately, the paper seeks to show that a balanced taxation system should not only focus on maximizing revenue but should also promote fairness, transparency, and sustainable economic development. The insights gained from ancient Indian economic philosophy can provide valuable guidance for improving modern tax policies in India.

INTRODUCTION

Taxation is a significant aspect of governance since the inception of a first form of organized society. Governments need the financial resources so as to carry out their operations and offer services to the people.

Taxes are the main source of the revenues, with the help of which governments can afford infrastructure, contribute to the economic growth, and provide basic services, which include healthcare, education, and law and order

India has a taxation system that has evolved over millennia. Since the early kingdoms until the colonial and latter on to the modern democratic state, the organization and management of taxes has been subject to constant changes. The

process of economic and political evolution has affected the manner in which taxes are raised and disbursed in every stage of development.

The current Indian taxation system has several objectives. It aims at generating revenue to the government in order to finance the expenditure of the people. The other significant goal is to enhance economic growth through investment, savings, and industrial growth.

Moreover, taxation is also another instrument, which is utilized to decrease the income inequality and provide a more balanced wealth distribution in the society.

The Indian government has made a number of reforms in recent years to enhance efficiency and transparency of the tax system. Such reforms are meant to ease the taxation procedures, minimize tax evasion, and raise compliance to the taxpayers. This has helped in enhancing the financial makeup of the nation.

Concept of Tax Planning

Tax planning is a procedure whereby individuals and businesses plan their financial affairs to enable them to lower the tax liability as required of them by the law. It entails the utilization of different deductions, exemptions, rebates, and incentives that are given in the tax laws.

Tax planning has the objective of not paying taxes but paying the tax that is required by the law. Good tax planning will ensure efficient management of funds by the taxpayers. The prudent choice of the investment opportunities and financial methods will help people to save more and pay less tax.

Tax planning also helps businesses to streamline their performance in terms of financial performance and be in compliance with the regulatory requirements. What should be comprehended is that tax planning should never be out of the law as determined by the government.

There is a big difference between lawful tax planning and tax evasion. Whereas tax planning is a legitimate approach that is allowed under tax laws, tax evasion is an unlawful act conducted with an aim of evading taxes as a result of fraud or misrepresentation. It is good tax planning, which is of benefit to the government and the taxpayers. They can lessen their financial load and the government can get a better compliance and a more systematized tax structure.

Tax Policy in India

Tax policy is the term used to refer to system of rules and regulations that a government uses to determine how to impose, collect and manage the taxes. It constitutes a major component of the economic system of a country since taxation has a direct impact on the individual, businesses, investments and the general economic activity. The tax policy in India should be levied so as to not only provide income to the government but also to enhance economic stability, investment and social welfare.

The Indian tax system has been through a number of reforms since the years to keep in pace with the changes of the economy. Previously, the taxation system in India was deemed complicated and had various tax rates and complicated processes. In order to curb these problems, the government came up with different reforms that seek to make the system simple, more transparent, and to motivate voluntary compliance with the taxpayers. Economic goals like the spread of industrial development, amelioration of inequality in incomes, promotion of the development of the infrastructure, and provision of a stable stream of government revenues mostly influence the tax policy in India. Through managing tax levels, establishing exemption, and encouraging some investments, the government can manipulate the behaviour within the economy and dictate the path of economic growth. Improvement of tax administration by digitization and modernization of tax collection systems is also a recent concentration of the Indian government in recent decades.

The taxation process has become simpler and transparent due to online submission of tax returns, electronic payment systems and better monitoring mechanisms. The above measures have contributed to raising the level of taxpayer participation and to minimize cases of tax evasion. An effective tax policy will also make sure that the citizens are fairly taxed. It also enhances economic effectiveness since it promotes productive activities and discourages practices that can be detrimental to the economic growth. Hence, the tax policy has a significant role in determining the financial

and economic stability of the nation. The Indian Tax Policy Objectives. Tax policy of any nation is influenced by some goals which aids in deciding the way taxes are to be organized and executed. In India, the tax policy is geared towards attaining a number of economic and social objectives leading to a total development of the country. Revenue Generation Raising government income is one of the most basic aims of the tax policy. Taxes are spent on financing the public spending like the development of infrastructure, defence, healthcare, education, and social welfare programs. The government would find it hard to sustain the public institutions and provide the much needed services without the adequate tax income.

Economic Development Another tool that is applied to enhance economic growth is the tax policy. The government can promote investment and growth of industries by providing tax breaks and subsidies to some industries or sectors. As an example, tax incentives can be offered to companies that are functioning within such industries as renewable energy, manufacturing, and technology to spur economic growth. Lessening Inequality of Income. The other significant goal of tax policy is to minimize economic inequality in the society. Progressive taxation systems mean that one who has higher income will pay a higher proportion of tax compared to people with lower income. This assists in equalizing the wealth distribution and aids social justice. Promoting Savings and Investment. Tax policy can also play an important role in financial behaviour of individuals by motivating them to save and invest. Some investment plans and saving tools are also provided with tax deduction or exemption, which encourages individuals to deposit their funds in productive financial management. This is not only benefiting the individuals but also leading to the general growth of the economy. Economic Stability It is also possible to maintain economic stability by use of taxes. The government can manipulate the taxation policies in times of inflation or slowdown of the economy to manage economic changes. Policymakers can achieve this by adjusting the tax rates and implementing fiscal policies that would allow stabilizing the economy and ensure stable growth.

Indian Tax System Influences.

Taxation in India is organized in such a manner that both the central government and the state governments are in a position to gather taxes. The Indian Constitution specifies the ability of the various levels of government in taxation. There are taxes that are collectable by the central government and some of them are collectable by state governments or the local authority. Indian taxation system can be very broadly classified into two major categories: Direct Taxes and Indirect Taxes ,The roles of each of the types of tax within the economy are different and taxpayers are not affected by them in the same manner.

Direct Taxes Direct taxes are levies that are paid directly by either individuals or organizations to the government. The weight on the tax in this system cannot be shifted to another individual. The person or the party who is subject to the tax is the one who will directly pay the tax to the government. Direct taxes are perceived to be founded on income, profits or wealth. This will imply that the level of tax paid will be determined by the financial ability of the taxpayer. Consequently, direct taxes can be regarded as fairer since they operate under the principle that the ones having higher income have to pay more to the government. Income tax is one of the most significant direct taxes in India. It is levied on the revenues that individuals, businesses and other entities make within a financial year. Tax rates also differ with the income and the nature of a tax paying individual. Direct taxes are significant towards the encouragement of equity in the taxation system. They contribute to the distribution of the tax burden in society more fairly since they are, in fact, founded on the capacity to pay.

Indirect Taxes Indirect taxes are taxes levied on products and services instead of levies being imposed on income. In such kind of taxation, one can shift the tax to another individual. As an illustration, when a consumer buys a product in a shop the price of the product will have the tax that the government has placed, already included in it. The tax is transferred to the consumer in the form of purchase price. The use of indirect taxes is quite common, since it is comparatively simpler to collect and manage. These taxes are also collected by businesses on behalf of the government and handed the collected value to the authorities.

The significance of Tax Planning in New India.

In contemporary India, tax planning has emerged as a significant part of financial management to the individual and business. As the tax regulations continue to remain difficult in nature, and more and more financial transactions continue to emerge, taxpayers continuously seek out ways to benefit ably administer their tax bills. Tax planning assists

individuals to plan their finances in a manner that enables them to enjoy the benefits that the tax laws provide. Tax planning is also promoted in India provided it is done within the legal environment. The Government on its part offers a number of deductions, exemption, and other incentives to encourage savings, investment and economic growth. All these advantages are meant to encourage the investor taxpayers to use their funds on areas that bring development to the country like infrastructure, insurance, retirement savings, and housing. To an individual, tax planning can be used to minimize the tax that is payable by using the deduction that is allowed by law. Taxpayers will be able to reduce their taxable income on investing in approved financial instruments and schemes and enhance their long-term financial security.

Tax planning forms an important aspect of corporate financial planning to businesses. The tax planning techniques help companies manage their expenditure, enhance profitability and are also used to make sure that they comply with the taxes regulations. The other advantage of tax planning is that it promotes financial discipline among the taxpayers. People can make better financial decisions when they make a careful decision regarding their investments and spending. This not only saves them on their tax liability, they also enhance their financial stability in the long term. Tax planning Legal framework in India. In India, tax planning has a clear legal framework that is laid down by the government. The most important taxation law in India is the income tax act of 1961. This law has stipulated how income is going to be taxed on individuals, businesses and other entities. The Act gives comprehensive provisions on the taxable income, rate of tax, deductions, exemptions, as well as tax filing. It also states the duties and rights of taxpayers besides the authority of tax authorities. The law makes the tax planning activities transparent and legitimate by clearly defining these rules.

Taxation laws are also constantly revised to suit the fluctuating economic situations by the government. These changes are brought by annual announcements of budgets and finance acts. These changes can be tax rates change, creation of new deductions or elimination of old provisions. Besides the domestic laws of taxation, India also adheres to the international taxation principles to ensure that the cross border financial transactions are regulated. As the world becomes more globalized, tax policies have to cover such areas of concern as international trade, foreign investments, and multinational corporations. There are also harsh provisions in the legal framework to avoid tax evasion and fraud. The government is very keen on the use of money and imposes fines to individuals or business organizations which want to avoid paying taxes. The measures will ensure that the taxation system is upheld in terms of integrity and credibility. Unethical and Ethical Tax Practices. As much as tax planning is a legal and acceptable business, caution should be taken to draw the line between ethical and unethical tax planning. Ethical tax planning is the application of legal tax planning methods that are allowed by the tax laws to lessen the tax liability. It venerates the soul of law and it helps in developing a clear financial system.

Unethical practices, conversely, are connected with using tax laws loopholes and abusing the financial reporting to avoid tax payments. Such practices can include income records falsification, asset concealment or unlawful financial dealings. Such activities are considered as tax evasion and they are criminalized by law. The positive role of ethical tax planning in the economy is that it promotes good financial conduct whilst the tax code is adhered to. Ethical practices by taxpayers provide a stable and reliable financial system. The world governments are laying more emphasis on ensuring that they encourage ethical taxation practices.

Tax authorities in India have also come up with a number of initiatives to bring about transparency and limit the area of unethical tax practices. Such efforts involve better reporting mechanisms, increased compliance rules and better scrutiny of financial dealings. To sustain the taxation system, it is crucial to balance between ethical responsibility and tax efficiency. Taxpayers should also be aware that it is legal to minimize the taxpayers liability, but cheating to evade paying taxes compromises the operations of economy and the relationship between the citizens and the government.

Historical attitude of Taxation in India

Taxation in India is a concept that has been in existence thousands of years ago. Even during the ancient era, leaders realized that they needed to raise tax among people to ensure that they could sustain the government, defend their land and motivate people to be economically active. Nevertheless, taxation of those times was not solely associated with gathering funds; it was also regulated by moral values and the need of leaders to provide the good of their citizens.

The ancient Indian kingdoms tended to collect taxes in agricultural produce, goods or labour. Farmers gave part of the

crop, merchants paid taxes on the goods and practitioners gave services or donations to the state. These were taxes that assisted leaders in sustaining the state infrastructures, carrying out military operations, and sustaining the operation of the government. Among the most detailed accounts of taxation in ancient India, there is the Arthashastra by Kautilya. This source gives an in-depth account of the affairs of the government, economy and the statecraft. It provides clear instructions on the method of collection of the taxes by the rulers, the administration of state funds, economic prosperity and so on. Kautilya pointed out that taxation must be equitable, moderate and structured in a manner that will not impair productivity of the citizens. In his philosophy the over-taxation had the potential of killing economic action and causing dissatisfaction in the population. Thus, he recommended that the rulers must levy taxes at a steady pace and make sure that the pressure on the citizens is not excessive. One known concept of ancient Indian economic theory is the comparison of taxation to the honey work of a bee on flowers.

The state ought to raise revenue without destroying the financial potential of its citizens just as a bee extracts the nectar without destroying a flower. This principle indicates a moderate attitude to taxation both in terms of revenue collection and welfare to the population. Applicability of the Ancient Wisdom in the Contemporary Tax Policy. Even though contemporary systems of taxation are more sophisticated and have elaborate legal provisions, numerous principles that were discussed in ancient Indian books are still applicable in the contemporary world. The principles of equity, disclosure and the economic equilibrium still have a presence in present day tax policies. The policymakers in modern India strive to create tax systems that would lead to economic growth without violating social justice. Some examples of how the tax policy can be applied to meet these objectives include progressive taxation, investment incentives and welfare programs. These concepts are very similar to the ancient thinking that taxation should be used to the wider benefit of the society. The ancient economics thinkers thought that the success of the state was influenced by the success of its people. In case individuals were well-off and economically productive, it is natural that higher revenues would be provided by the state in the form of taxes. This school emphasizes the need to have a balanced tax system which is conducive to the economic growth and the wellbeing of society. The significance of responsible financial management is also present in modern tax planning practices. Though taxpayers have the right to take legal measures to minimize their taxes, they should not exceed the influence of ethics and law. This strategy is in line with the conventional doctrine that leadership ought to be grounded on justice and accountability.

Taxation is another essential part of economic system of any country. Tax policy and tax planning are very important in India in terms of influence on financial behaviour, encouragement of investment and maintenance of government expenditure. Recent taxation system has developed to support the demands of an increasing and diverse economy, and there are numerous reforms that have been implemented on the taxation system to enhance efficiency, transparency and compliance. Tax planning enables individuals and businesses to organize their financial liabilities properly by taking advantage of the availability of legal provisions as stipulated in the tax legislation. Tax planning, in this case, can assist the taxpayers to minimize their financial liability without breaching the government rules when done in a responsible manner. Meanwhile, the policy of taxes is necessary to guarantee the adequate amount of revenue needed to finance the development of the state and its services to people. The ancient Indian economic thought has many insights to offer on the principles of fair taxation. The concepts addressed in the Arthashastra prove that fair and moral taxation is not a new concept in Indian rule and that it has been a central issue in India throughout the centuries. The ancient thinkers acknowledged that high rates of taxes may damage the productivity of an economy whereas the reasonable rates of taxes may encourage the prosperity and stability. Comparing the current policies of taxation with the ancient economic principles, it becomes obvious that a great number of the traditional thoughts are still applicable to the current situation. Not just revenue generation but fairness, transparency and wellbeing of the citizens must be part of a successful taxation system. To sum up, the ancient Indian economic philosophy can be used in the contemporary tax policies. A mixture of modern financial policies and the old-fashioned ethical principles will help India to maintain the development of the tax system that will contribute to the sustainable economy and welfare of the population.

LITERATURE REVIEW

Tax planning and tax policy have been widely studied in the field of public finance and economic policy. Scholars have examined how taxation systems influence economic growth, investment decisions, and income distribution. In the Indian context, several studies have focused on the structure and effectiveness of tax policies governed by the Income Tax Act, 1961 and the Goods and Services Tax framework.

According to Lall (2017), tax planning plays a crucial role in financial decision-making for both individuals and corporations. Effective tax planning enables taxpayers to legally minimize their tax liability while ensuring compliance with statutory provisions. Similarly, Singh and Sharma (2019) emphasize that tax reforms in India have aimed to simplify tax administration and enhance transparency in the taxation process.

Research on the implementation of GST highlights its importance in creating a unified indirect tax structure. Kumar (2020) states that the introduction of GST significantly reduced the complexity of multiple indirect taxes and improved efficiency in tax collection. However, several scholars argue that challenges such as compliance costs and policy adjustments continue to affect businesses.

In addition to modern taxation systems, researchers have also examined ancient Indian economic thought. The Arthashastra written by Kautilya is widely regarded as one of the earliest treatises on economics, governance, and public finance. Kautilya's taxation principles emphasize moderation, fairness, and the welfare of citizens. His famous analogy suggests that tax collection should be like a bee collecting honey from flowers without harming them.

Scholars such as Rangarajan (1992) and Boesche (2003) highlight that ancient Indian economic policies reflected a sophisticated understanding of fiscal management and state administration. Ancient texts like Manusmriti also provide insights into taxation practices and the responsibilities of rulers in ensuring economic justice.

Despite the existence of extensive research on modern tax policy and separate studies on ancient Indian economic philosophy, limited research has attempted to integrate both perspectives. Therefore, this study aims to bridge this gap by comparing modern tax planning practices in India with the principles of taxation found in ancient Indian wisdom.

OBJECTIVES OF THE STUDY

The primary objectives of this research are:

1. To analyze modern tax planning practices followed in India under the Income Tax Act, 1961 and the Goods and Services Tax framework.
2. To examine taxation principles described in ancient Indian economic texts, particularly the Arthashastra written by Kautilya.
3. To compare the philosophical and structural aspects of ancient taxation systems with contemporary tax policies in India.
4. To evaluate the relevance of ancient Indian economic wisdom in addressing modern taxation challenges.
5. To provide insights and recommendations for developing a balanced and ethical taxation system that integrates modern practices with traditional economic principles.

RESEARCH METHODOLOGY

This research methodology employs a multi-dimensional qualitative and analytical framework designed to integrate ancient fiscal philosophy with modern tax administration and policy.

Qualitative Hermeneutics and Textual Analysis

The study utilizes hermeneutics as a primary qualitative methodology to interpret and analyze ancient Indian scriptures and classical literature, specifically the *Arthashastra* and *Manusmriti*. This involves a three-step process:

- **Textual Analysis:** Identifying key economic concepts, theoretical frameworks, and fiscal prescriptions within the original IKS texts.
- **Conceptual Mapping:** Organizing these ancient ideas into modern thematic domains such as taxation systems, resource management, and labor economics to identify parallels with contemporary theory.
- **Historical Contextualization:** Situating Kautilyan and Vedic economics within their specific historical and imperial settings to understand their original intent and application.

Doctrinal and Statutory Analysis

A doctrinal research method is used to examine modern statutory provisions, constitutional mandates, and legal frameworks. This involves the critical analysis of:

- The Income-tax Act, 1961 and the proposed Income-tax Bill, 2025 to evaluate structural shifts in direct taxation.
- GST 2.0 reforms and Council meeting recommendations to assess the transition toward simplified indirect tax slabs.
- Official government budget documents, CBDT guidelines, and finance ministry reports. Comparative and Exploratory Framework

The study adopts a comparative examination between ancient IKS taxation philosophy and the contemporary Indian tax system. This exploratory approach analyzes continuities in shared normative principles—such as proportionality, welfare orientation (*Yogakshema*), and fiscal moderation— alongside institutional transformations driven by digitalization and federalism.

INDIA'S CURRENT TAX PLANNING TECHNIQUES

The process of organising one's financial operations in a way that legally lowers the amount of tax due is known as tax planning. To put it simply, it refers to utilising government regulations and perks in order to reduce taxes. For both people and organisations, tax planning is crucial because it enables them to better manage their income, boost savings, and make financial plans. The Income Tax Act, 1961, which describes how income is taxed and what deductions or exclusions are available, provides the legal framework within which tax planning is carried out in India.

The Income Tax Act's Tax Planning

The primary legislation governing taxes in India is the Income Tax Act, 1961. It offers the framework for figuring out taxable income and making tax payments to the government. This Act establishes standards for taxing various forms of income, including capital gains, commercial earnings, salaries, and income from other sources.

Understanding the several provisions that enable taxpayers to lower their taxable income is essential to tax planning under this Act. For instance, some payments and loan repayments are deductible. Additionally, salaried workers benefit from normal deductions and allowances including Leave Travel Allowance (LTA) and House Rent Allowance (HRA). Taxpayers can legally lower their tax burden by making appropriate use of these benefits.

Selecting between the government's new tax system and the previous one is a crucial component of tax planning. The new system offers lower tax rates but fewer deductions than the previous one, which permitted a number of exemptions and deductions. In order to determine which regime is best for them, taxpayers frequently examine their financial circumstances.

Legal Strategies to Lower Tax Obligations

One of the primary goals of tax planning is to legally reduce tax liability. It's critical to recognise the distinction between tax evasion and tax preparation. Hiding income or giving false information to avoid paying taxes is known as tax evasion, which is prohibited. On the other hand, tax planning makes use of the government's legal tools to lower taxes.

There are a number of legitimate ways to lower tax obligations. Investing in government approved savings plans that provide tax advantages is one popular method. Claiming deductions for specific costs, such as health insurance premiums, house loan interest, and education loan interest, is an additional method. For instance, those who take out a home loan are able to deduct both the principal repayment and the interest paid.

By setting up their salaries in a way that minimises taxes, people can also lower their taxes. Certain reimbursements and allowances are either completely or partially tax-exempt. Meal vouchers, trip reimbursements, and medical reimbursements, for instance, can lower taxable income. Taxpayers can improve their financial planning by being aware of these provisions.

Common Investments and Tax-Saving Deductions

By offering tax breaks for specific kinds of investments, the Indian government promotes saving and investing. Section 80C of the Income Tax Act, which permits people to deduct up to a certain amount for qualified investments, is one of the most popular deductions.

The Public Provident Fund, a government-backed long-term savings plan, is one popular tax-saving investment. It provides a steady interest rate and tax-free interest. The National Savings Certificate, a fixed-income investment offered by post offices, provides an additional choice.

Equity Linked Savings Schemes, which are mutual funds that primarily invest in stocks, are another option available to taxpayers. In addition to offering tax benefits, these funds have the potential to yield larger returns than conventional savings plans.

Payments for life insurance policies, child tuition, and contributions to pension plans are additional typical deductions. People can lower their tax liability and create long-term financial security by carefully utilising these deductions.

Strategies for Corporate Tax Planning

For businesses, tax planning is equally crucial. Corporate tax planning is organising business operations in a way that complies with the law and minimises tax obligations. In order to benefit from incentives, exemptions, and deductions, businesses closely examine tax laws.

Claiming depreciation on assets like buildings, machinery, and equipment is one tactic that businesses frequently employ. Because depreciation takes into account the wear and tear of assets employed in the business, it lowers the company's taxable earnings. Additionally, businesses subtract costs for things like advertising, rent, employee wages, travel, and R&D. These costs are deductible since they are deemed essential to operating the firm.

The government occasionally offers tax breaks to industries including infrastructure development, manufacturing, and renewable energy. Companies that invest in these industries can be eligible for tax breaks or lower tax rates. Businesses can lower their tax liability while still adhering to the law by employing these tactics successfully.

TRADITIONAL INDIAN TAXATION KNOWLEDGE

In India, the concept of taxes dates back thousands of years. In order to manage the state and promote public welfare, ancient Indian intellectuals and leaders recognised the significance of tax collection. Numerous ancient writings offer instructions on how taxes should be collected and utilised. These concepts demonstrate how taxes were associated with justice, fairness, and the welfare of people even in antiquity.

Arthashastra's Tax Principles

Kautilya, also known as Chanakya, wrote the Arthashastra, one of the most significant ancient writings on economics and administration. This book offers comprehensive advice on taxation, economic management, and administration.

In order to maintain the kingdom, construct infrastructure, and safeguard the populace, the king was tasked with collecting taxes from the populace, according to the Arthashastra. Nonetheless, Kautilya stressed that taxes have to be fair and not too onerous. He gave the analogy of a ruler collecting taxes in a gentle and non-invasive manner, much like a bee gathering honey from flowers.

This idea emphasises how crucial tax balance is. People may become less inclined to labour or generate goods if taxes are excessively high. However, if taxes are too low, the state might not have enough money to run its affairs effectively. As a result, Kautilya advocated for moderate taxation that benefits both the people and the government.

The Arthashastra also discusses various taxes, including customs duties, trade taxes, and land taxes. Depending on their economic activity, farmers, merchants, and dealers were required to pay these taxes.

Manusmriti and Other Ancient Texts' Concepts of Taxation

The Manusmriti is another significant old book that addresses taxes. Guidelines for social order, government, and the

duties of rulers are provided in this work.

Manusmriti believed that the king had an obligation to equitably collect taxes and utilise them for societal well-being. The tax rate was frequently determined by an individual's income or capability for output. For instance, traders may pay taxes depending on their profits, whereas farmers may pay taxes on a portion of their agricultural produce.

Honesty and openness in tax collecting are also stressed in ancient writings. Tax collection officials were supposed to behave morally and refrain from corruption. Officials may be severely punished if they misused public funds or took advantage of residents.

These concepts demonstrate that ancient Indian intellectuals were interested in making sure the tax system was just and advantageous to society in addition to collecting taxes.

Ideas such as Equitable Taxation and Citizen Welfare

Fairness was a fundamental idea in ancient Indian taxes. Although taxes were intended to help the state run, they shouldn't put citizens through needless suffering. It was expected of the ruler to use tax money for public good and to act appropriately.

Maintaining law and order, constructing roads and irrigation systems, promoting agriculture, and defending the kingdom against outside threats were just a few of the numerous uses for the taxes that were collected. In certain instances, the state also provided assistance to its population in times of natural calamities or hunger.

This concept represents an early version of the welfare state, in which taxes are collected and used by the government to raise citizens' standards of living. According to ancient Indian academics, the prosperity of the state was contingent upon the prosperity of its citizens. The kingdom would be powerful if its people were content and had stable economies.

There are a lot of parallels between ancient and contemporary taxation concepts. The goal of contemporary governments is to equitably collect taxes and utilise them for social welfare, public services, and development. Ancient writings such as the Arthashastra and Manusmriti include knowledge that still offers important insights into how taxes should be balanced between the demands of the state and the welfare of its citizens.

In general, traditional Indian knowledge indicates that taxes ought to be reasonable, equitable, and public welfare-oriented. Even under contemporary tax systems, these ideas are still applicable and continue to have an impact on conversations about governance and economic policy.

COMPARATIVE ANALYSIS

The connection between ancient ethics and modern technology shows a shared idea of a "Social Contract," even as legal approaches have changed from Dharma to constitutional requirements.

Budget and Tax Policy Implications: Ancient vs. Modern

Ancient tax policy focused on the Yogakshema, or welfare, of the people. The 2024-25 Union Budget reflects this with a record capital expenditure (Capex) of ₹11.11 lakh crore (3.4% of GDP) aimed at building national infrastructure. This is a modern take on Kautilya's advice for state-led development of roads and irrigation. While ancient kings returned revenue through immediate protection and relief during disasters, the modern state uses Direct Benefit Transfer (DBT) and targeted subsidies to achieve justice in distribution.

Tax Regimes: Proportionality and Slabs

IKS proposed a tiered tax structure (1/6th, 1/8th, 1/12th) based on land productivity. This echoes the modern system of graduated tax slabs, where higher earners pay more. The 2025 GST 2.0 reform further simplifies this by reducing multiple slabs to two main categories (5% for essentials and 18% as the standard rate). This meets the IKS ideal of "fiscal moderation" to protect the tax base.

Tax Planning: The Samaharta vs. Project Insight

The ancient Samaharta, or revenue officer, monitored a kingdom’s economy in a non-intrusive way. Today, Project Insight 2.0 uses AI, machine learning, and Social Network Analysis (SNA) to verify financial profiles of taxpayers from all angles. While the Samaharta relied on local informants, the modern algorithm employs automated e-verification to find discrepancies between reported income and actual financial behavior, aiming for the ancient goal of transparent oversight using digital tools.

Feature	Ancient (IKS)	Modern (2024-2025)	Continuity
Policy Anchor	<i>Dharma</i> (Moral Duty)	Constitution & Law	Reciprocal Obligation
Tax Metaphor	Honeybee (Minimal harm)	GST 2.0 (Rate Rationalization)	Moderation
Welfare Goal	<i>Yogakshema</i>	Capex-led Infrastructure	Distributive Justice
Scrutiny	<i>Samaharta</i> / Informants	Project Insight / AI	High-tech Accountability

FINDINGS / DISCUSSION

The study finds that India is now in a state of "Fiscal Re-synthesis," where technology helps promote ancient values of trust and accountability.

Impact of Budget 2024-25 on Tax Planning

The 2024-25 Budget brought strategic changes that redefine tax planning:

- **Simplification & Certainty:** The increase in the Standard Deduction (from ₹50,000 to ₹75,000) and the removal of the "Angel Tax" for all investor categories support capital formation. This reflects IKS advice to encourage and reward productive enterprises.
- **Capital Gains Rationalization:** The move to a flat 12.5% rate for long-term gains (removing indexation) signals a shift towards a low-rate, broad-base tax system. While this makes planning easier, it increases the burden on traditional investment-based tax planning, common among middle-income groups.

The 2025 Reforms:

GST 2.0 (September 2025)

Findings show that the "Next-Gen" GST reforms have corrected the "Inverted Duty Structure" in sectors such as textiles and fertilizers. This change reduces the tax-on-tax effect that IKS sought to prevent. By moving 99% of items from the 12% slab to the 5% slab, the government has enhanced the "Ease of Living" for everyday households.

IT Bill 2025 and the "Decodification" Risk

A key issue is Section 273 of the 2025 Bill. Unlike Section 144B of the 1961 Act, which provided detailed rules, Section 273 refers to faceless assessment processes through administrative schemes and notifications. This could reduce transparency and increase the subjectivity of tax officers, conflicting with the IKS value of predictability in the law.

Surveillance vs. Privacy

The Bill’s expansion of the government’s ability to access virtual spaces (emails, social media) for investigations raises concerns over the balance between the state's need to detect tax evasion and individuals' right to privacy. While the IKS Samaharta was all-knowing, modern governance must navigate this tension within constitutional protections.

Tax Morale and the "Dharmic" Contract

The findings suggest that initiatives like the "Taxpayer's Charter" and "Faceless Assessment" are rebuilding tax morale by reducing the harassment that IKS warned against. When the state acts as a protector rather than a predator, taxpayers are more likely to see compliance as a national contribution (Dharma) instead of a burden.

CONCLUSION

The evolution of India's taxation system reveals a profound synthesis between ancient ethical foundations and modern technological advancements. This research demonstrates that while the legal frameworks have transitioned from the moral dictates of *Dharma* to the constitutional mandates of the Income Tax Act, 1961, and the proposed Income Tax Bill, 2025, the core normative principles remain remarkably consistent.

Integration of Ancient Wisdom and Modern Policy

The comparative analysis highlights that modern fiscal strategies often mirror Kautilyan economic thought. Key continuities include:

- **The Honeybee Principle:** The ancient ideal of collecting taxes gently to avoid harming the productive base is reflected in modern "rate rationalization" efforts, such as the GST 2.0 reforms that simplified tax slabs to boost affordability.
- **Yogakshema (Public Welfare):** The state's duty to ensure the well-being of its citizens remains the primary anchor for tax policy. This is evidenced by record capital expenditures for infrastructure in the 2024-25 Union Budget and the use of Direct Benefit Transfers to ensure distributive justice.
- **Fairness and Proportionality:** The tiered tax structures suggested in ancient texts like the *Arthashastra* find a contemporary parallel in India's progressive tax slabs, ensuring those with a higher capacity to pay contribute more to the nation's revenue.

Technological Transformation and Ethical Challenges

Modern tax administration has been revolutionized by digitalization through initiatives like Project Insight and GSTN, which use AI and big data to ensure high-tech accountability. While these tools fulfil the ancient goal of transparent oversight once managed by the *Samaharta* (revenue officer), they also introduce modern tensions regarding digital literacy and the balance between state surveillance and individual privacy.

Final Synthesis

Ultimately, a successful taxation system in India must move beyond mere revenue maximization to focus on fairness, transparency, and sustainable development. By blending modern financial policies—such as the simplification of the Income Tax Bill 2025—with traditional ethical principles, India can foster a "Dharmic" social contract. When the state acts as a protector rather than a predator, tax compliance is transformed from a legal burden into a national contribution toward the collective prosperity of society.

REFERENCES

- Bhanage, & Pachhapurkar. (2026). *Ethical and Philosophical Foundations in IKS*.
- Boesche, R. (2003). *The First Great Political Realist: Kautilya and His Arthashastra*.
- ClearTax. (2025). *Socio-economic Impact of GST 2.0 Reforms*.
- Dasgupta. (2023). *Sustainability and Dharma in Ancient Texts*.

- Debbarma. (2023). *Ancient Indian Economic Thought vs. Western Realism*.
- EY. (2025). *Modernizing the Income Tax Act: From Archaic Terms to Tax Years*.
- GKToday. (2025). *Project Insight: 360-Degree Financial Profiling in India*.
- Karthik, & Nandini. (2025). *MSME Liquidity and the Challenges of Digital Literacy*.
- Kautilya. (n.d.). *Arthashastra* (L. N. Rangarajan, Ed. & Trans., 1992). Penguin Books India.
- Khan. (2025). *GST Rate Reductions and Competitiveness in the MSME Sector*.
- Kumar. (2020). *Efficiency and Complexity in the GST Framework*.
- Lall. (2017). *Tax Planning and Financial Decision-Making*.
- Maheshwari, & Begde. (2025). *Big Data and AI in Indian Tax Administration*.
- Manikandan et al. (2025). *Digitalization and the Divide in Public Service Access*.
- Mir. (2025). *GST 2.0: Next-Gen Simplification and Slab Rationalization*.
- Mohanka. (2025). *Critique of the Income Tax Bill 2025: The Risks of Decodification*.
- MS Associates. (2025). *Non-Intrusive Enforcement through Multi-Source Data Integration*.
- Prasad. (2022). *Kautilyan Theory and Modern Administrative Science*.
- Press Information Bureau (PIB). (2025). *Overview of the Income Tax Bill 2025*.
- Sapra et al. (2025). *Taxpayer Behavior and the New Tax Regime*.
- Sihag, B. S. (2017). *Kautilya: The True Founder of Economics*.
- Singh, & Sharma. (2019). *Transparency and Reform in the Indian Taxation Process*.
- Vadikar. (2025). *Arthashastra and the Modern State: A Comparative Study*.