INDIA'S TAX REFORM TRAJECTORY: REFLECTIONS FROM THE PAST AND PATHWAY AHEAD

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ABSTRACT

The historical struggle to find an equitable tax system has been a cornerstone in the progression of India's fiscal policy, which is aimed at procuring socio-economic justice and distributive equity. The study commences with discussions on the historical background that can be applied to study the current system of tax administration and fiscal federalism in India. Additionally, it attempts to examine significant changes in India's tax system, which had its historical foundation on the principles of redistribution and autonomy. It also attempts to analyse the centralised, extractive and unequal fiscal policies that replaced the indigenous system during colonialism and contributed to the escalation of social inequality, along with placing an array of regressive social hierarchies. Furthermore, it continues with analysing the challenges faced by the post-independence policymakers in formulating new tax policies and modifying the previous ones.

The attempt to rationalise tax levels, widen the tax base and enhance transparency in the general fiscal regime in India in the post-independence period forms a predominant part of the paper. Despite the aspirational goals or modern tax reforms, the actual realisation of socio-economic justice seems difficult. While reforms like GST have their own benefits, they do have negative impacts like disproportionate effect on the poor population, increased cost for essential services, increased compliance burden, and increased burden on small and unorganised businesses. At the same time, while fiscal federalism could bring greater collaboration between the state and the central government, the analysis also shows that tensions between them could act as a major obstacle to the uniform implementation of the policies. To conclude, the research comes forward with the policy recommendation that takes into consideration both historical models and present-day requirements. Recommendations involve the further simplification of the tax codes, recalibration of the exemptions in favour of vulnerable groups and more technical intervention in facilitating the tax administration. Furthermore, it proceeds with suggesting an efficient

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structure for fiscal federalism in India to achieve better allocation of resources and to curb the rising inequity within the country, especially through greater collaboration and just transparent sharing of revenues between the federal and state governments.

CHAPTER 1-INTRODUCTION

1.1 CONCEPT OF TAXATION

Tax, which is an abbreviation for the Latin word '*Taxare*'[3], which simply means to assess. In simple terms, it may be referred to as a mandatory contribution made by the population of a state to the government, with the aim of funding various developmental projects, which eventually form the foundation of financial management and socio-economic growth. Taxation in India has been ratified under *Article 265* of the Indian Constitution[4], which states that no tax shall be levied without a law specifying it. Besides revenue collection, taxation has served as a tool of redistribution, regulation and promotion of social welfare objectives, indicating the constitutional outlook of a welfare state.

The history of taxation in India proves that fiscal policy and socio-political agenda interact constantly. The driving forces behind most of the pre-colonial taxation systems were the ideas of proportionality and social good, with the income production process being focused on supporting the administrative activity and satisfying the social needs. Colonialism transformed this model into a centralised and extractive government, which was less concerned with equity but revenue maximisation. After gaining independence, India was in the process of restructuring its fiscal system in line with the constitutional values, particularly by sharing taxation powers under *Article 246* of the Indian Constitution[5].

The Indian Taxation system groups taxes into two broad categories, Direct Taxes and Indirect Taxes[6]. While direct taxes are those where incidence and burden fall on the same person, indirect taxes are where incidence and burden lie on two different individuals. This difference has been critical in determining the tax policies in India, while also shaping the debates on equity, regressivity, administrative efficiency and compliance. Even though direct taxes have

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[3] Oxford English dictionary, s.v. "tax(v.)", Latin Taxare

[4] Art. 265, Constitution of India,1950

[5] Art. 246, Constitution of India,1950

[6] Clear Tax, Tax concepts in India: meaning, types & examples at Tax Concepts in India: Meaning, Types and Examples (last visited June 18, 2025)

been seen to be progressive, indirect taxes have traditionally made a significant contribution to the revenue of India, although concerns have been raised over their effects on the poor segment of society.

The Indirect taxation system, which existed in India before the structural reforms, comprised multiple state and central taxes, which made economic administration difficult and open to loopholes. Also, consumer welfare was at stake, since levying taxes on taxes increased price distortion and reduced consumer welfare. All these gaps required a fundamental rewrite, which later saw the introduction of GST (Goods and Services Tax) in 2017. Through the 101st Amendment Act, 2016, GST introduced *Article 246A, Article 69A and Article 279A* into the Indian Constitution, which changed the scope of legislative competence on indirect taxes and institutionalised the cooperative federalism under the GST Council. The reform was aimed at setting up a harmonised, destination-based taxation regime, based on the principle of 'One Nation, One Tax'[7], to improve transparency, efficiency and consistency in taxation.[8]

In spite of such radical reforms, the achievement of constitutional goals like socio-economic justice and distributive equity has been disputed. Even though GST and digitisation projects have improved the administration and mobilisation of revenue in terms of taxation, the initiatives have brought about the problems of regressivity, increased compliance and strain in fiscal federalism. This paper will take into account both historical and constitutional perspectives to analyse the taxation history of India, beginning with the conceptualisation of taxes and ending with some of the recent reforms to determine whether the current tax governance system is in line with the constitutional requirements of legality, equity and inclusive development.

1.2 LITERATURE REVIEW

The existing literature on taxation in India represents an extended and dynamic tax history that has been influenced by the shifting of socio-economic, political and administrative requirements. Scholars usually date the origin of the Indian Taxation to the Vedic Era, when taxation was assumed to be a moral obligation rather than an intervention that was enforced. The existing research puts stress on the fact that the early tax system was more flexible,

[7] Rai.s, (2017). *Goods and Service tax in India.* Inspira-Journal of commerce, economics and computer science, 03(03), 167-172.
[8] 8101st *Amendment Act,* 2016, S.1,2,9,12,17.

proportional and entrenched in the moral system of Dharma. Scholars who have studied the pre-colonial fiscal arrangements stressed that the taxation was becoming more administratively rationalised. Even though these developments are often attributed to having increased efficiency and predictability, literature also indicates, with some amount of concern, a shift in the purpose of taxation as no longer being welfare-based but highly geared to revenue maximisation.

Much of the literature critically approaches the colonial taxation system and describes it as an extractive structure aimed at fulfilling the interests of the imperialists. This is widely quoted as a turning point in the organically developing history of Indian Taxation, where fiscal policy was no longer tied to socio-economic conditions. On the other hand, the post-independent literature represents an effort to restore the taxation system so as to aim at development, redistribution and social welfare. Subsequent scholarships, especially those of the post-1991 period, are concerned towards simplicity, liberalisation and economic integration at the global level.

On the whole, the available literature offers a deep understanding of a particular period of the Indian Fiscal History, but tends to look at them separately. This leaves a loophole in the comprehension of taxation as a dynamic socio-legal institution that is influenced by changing state goals and administrative abilities. This gap can be filled through the application of an integrated historical approach to study the history of taxation in India on a more holistic level.

1.3 OBJECTIVES OF THE STUDY

*To study the development of taxation in India over the years, indicating a shift from predatory and extractive policies to welfare-based policies.

*To critically analyse the introduction of GST, and discuss how it reorganised the existing tax structure in India, while creating limitations as a part of its implementation.

* To examine the effectiveness of the current tax structure in India and critically analyse whether the current framework is sufficient to fulfil the country's commitment to socioeconomic justice.

*To come up with reform-based suggestions to fill the current gaps and enhance the effectiveness of the existing tax system in India.

1.4 RESEARCH PROBLEM

The Indian tax model has evolved drastically since ancient times, from antique and medieval forms of revenue collection to extractive and exploitative forms of revenue collection during the colonial period and finally to the modern welfare-oriented approaches adopted by the government. Nevertheless, the issue of consistency, fairness and effectiveness of the current tax system to meet its socio-economic goals remains a matter of concern despite these revolutionary changes. Although successive union budgets have brought about reforms to ensure simplicity, digitisation and expansion of the tax base, concerns still exist about whether they are effective in ensuring fiscal stability. However, there are several studies covering individual periods of the Indian Tax history; a research gap exists in the process of amalgamating these periods to determine their long-term effects on the current taxation policy. Although the policies have sustainably evolved, current tax policies have failed to embrace historical lessons that can be used to eliminate enduring problems like tax evasion, inequitable distribution and inefficiency in distribution. The proposed research attempts to fill this gap by exploring the historical development in India and the use of the same in developing informed and effective policy recommendations.

1.5 RESEARCH QUESTION

* How has the historical development of Indian Taxation contributed to the design of the current structure of Indian Taxation?

* How far can lessons from the historical model of taxation in India help to guide reforms to improve consistency, fairness, efficiency and the current fiscal situation in India?

CHAPTER 2- THE GENESIS OF REVENUE: FROM VEDAS TO MUGHALS

2.1 TAXATION IN THE VEDIC ERA

What we describe today as taxation originated in the Vedic society in the form of tributes and offerings. They were not only justified by religious but also by political obligations of the subjects to the kings, who were responsible for ensuring the protection and well-being of the society. Unlike later systematic tax systems, the earlier systems were not legally obligated and was periodical. The earliest reference to taxation can be seen in the word 'Bali', which originally meant a sacrifice made to the gods but eventually came to be referred as an offering made to the kings. With time, it became more regular in nature and began to be recognised as the legitimate portion of the kings.

Another key ideology was Bhaga, which referred to the share of the agricultural produce owned by the king. This demonstrates the primitive constitution of the ground revenue and the substitution of voluntary giving with organised expropriation of the surplus. The Vedic literature does not specify any taxes, but later commentaries indicate that the share of the king was to be moderate (usually 1/6th of the total harvest), emphasising the need to ensure just taxation. There are also references to 'Shulka', which suggests that levies were imposed on trade and commercial activities, especially during the Later-Vedic period when barter exchange, craftsmanship and early market patterns started to surface. It was interpreted as a customs duty charged on goods that have been moved over routes, markets and waterways. These sources imply that taxation ceased to be imposed only on agricultural surplus and gradually evolved to cover other types of economic activities too.

Taxation, during the Vedic times, was not imposed by coercive forces and the power of the kings was restricted by tribal assemblies like the 'Sabha and Samiti'. With political centralisation on the rise at that time, specialised officers were appointed to collect the revenue, ultimately forming the foundation of an organised tax system. All of these assisted in formulating the initial principles and reasoning that further laid the foundation for the organised tax system that we see today.[9],[10],[11]

2.2 MAURYAN PERIOD- ARTHASHASTRA

The highest stage of fiscal development in ancient India was reflected in 'Kautilya's' 'Arthashashtra', with taxation being a compulsory institution instead of an enforced religious duty or voluntary habit. Taxation, in this treatise, is not just a collection of revenue, but it is interwoven with the Rajadharma, which is the moral obligation of the ruler to be able to strike a balance between the needs of society and the welfare of the people.

Land revenue (Bhaga) formed the core part of the state revenue and was supplemented by

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[9] UMA Bhowmik Debnath, Economic Ideas of the Rig Vedic Era in the history of ancient India, vol.15 IJCSPUB, ISSN: 2250-1770(2025)

[10] Jerome Joseph, P.K.Anuraj, Searching the roots of Taxation: from Vedic to contemporary, vol.30 IOSR-JHSS, 77-84 (2025)

[11] Aman Mishra, Tax system in India from Chanakya to Arun Jaitley, vo.6 IJCRT, ISSN: 2320-2882(2018)

customs duties, tolls, taxes on trade, craft and state businesses. Such diversified sources reduced the fiscal risk and boosted the economic base of the state. Taxation was managed by authoritative figures called Samaharata, who revised taxes according to assigned regions, occupation and seasonal differences to ensure fair taxation.[12]

The text highlights the consideration of the welfare of the people. During famines, wars or natural disasters, tax remissions and exemptions were allowed, and inducements were provided to encourage agriculture and economic growth. Therefore, the structure of taxation proposed by Kautilya was said to be efficient, accountable and fiscally prudent, creating a rational and institutionalised revenue system [13].

2.3 TAXATION IN MEDIEVAL INDIA

During the rule of the Delhi Sultanate, taxation was best defined as a military-fiscal instrument whereby land was granted to the nobles as a revenue-gathering and military administration instrument, popularly known as the 'Iqta' system. Peasants were the most affected since they had to pay 'Kharaj' (tax on land), which often consumed more than a third of their harvest. Additionally, non-muslims had to pay Jizya, which acted as a tool strengthening social stratifications. Rulers like Alauddin Khilji, in order to sustain political supremacy and deter profiteering, employed strict market and price regulation systems in order to balance the need of wealth and military stability.

Under the Mughal empire, the existing systems were professionalised through the introduction of 'Dahsala' and 'Zabt' reforms by 'Raja Todar Mal', which substituted the use of guesswork with standard land measurements. To open up India to the world, the Mughals monetised the economy by replacing grain collection with tax in the form of cash. Even though Akbar used this policy of taxation to promote religious tolerance, it was subsequently used as an ideological weapon by other rulers, which shows how taxation was less about financial benefit but more about political expression.[14],[15]

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[12] Prof. Sheikh Mohsin Sheikh Ismail, Prof. Rahul Naryan Rathod, Ancient Indian Taxation System and its lessons for modern fiscal policies, ISSN: 2319-4979

[13] Pecuinia, Chankya's Arthashtra: the ancient guide to economic strategy at Chanakya's Arthashastra: The Ancient Guide to Economic Strategy – Pecunia (last visited Jan. 29, 2025)

[14] Akhtar, J. (2007). THE MUGHAL FISCAL SYSTEM AND MERCHANTS OF GUJARAT. Proceedings of the Indian History Congress, 68, 358–362. http://www.jstor.org/stable/44147847

[15] Reena, Economic system and trade under Mughal rule: A historical analysis, vol.7 IJERED, ISSN: 23208708 (2019)

South India was exceptional with a decentralised style, with temples acting as a financial hub responsible for accepting and reallocating agricultural assets. These reforms, during the medieval period, governed revenue on a professional basis, within the subcontinent, and by the 17th century, India emerged as a global economic giant. Though they also established social inequalities, which strengthened Zamindars at the expense of a huge weight on the shoulders of peasants, establishing a structural inheritance that subsequently provided a template for colonial taxation policies in India.

CHAPTER 3 - THE COLONIAL PIVOT: TAXATION AS A TOOL FOR IMPERIAL EXTRACTION[16]

3.1 INTRODUCTION

The advent of the British Colonial Regime was a major diversion from the traditional fiscal history of India. In contrast to ancient and medieval systems, where taxation was a means of local control, redistribution and social legitimacy, colonial taxation was more concerned with the economic interests of the British Empire. The financial system was essentially based on achieving maximum revenue generation and ensuring a constant flow of raw materials to Britain, keeping India as a captive market for British-manufactured products. In the colonial era, taxation was reduced to an instrument meant for mere social exploitation and extraction.[17]

3.2 THE STRUCTURAL PILLARS OF AGRARIAN REVENUE

Agriculture became the foundation of the colonial revenue policies. The Britishers presented three main land revenue systems, which were region-specific but were united by the idea of maximum revenue extraction:

1.) **The Permanent Settlement (1973):** This system came into existence in Bengal, Bihar and Odisha under the tutelage of Lord Cornwallis. It identified Zamindars as permanent proprietors. They had to pay a constant and irrevocable amount to the government. Although this system guaranteed Britishers a steady flow of income, it also gave Zamindars the freedom to exploit peasants brutally to achieve set targets, resulting in mass dispossession and

[16] Nitendrakumar B.zala, Colonial Rule on Indian Society and Economy, (IJRSML) vol.12, issue:1, ISSN: 23212853

[17] Dr Sandhya Rani, Colonial Taxation and its Impact on Indian Society, IJEDR 2025 vol.13, I.3, ISSN: 23219939 (SEP., 2025)

countrywide poverty.

2.) The Ryotwari System (1820): During the British rule, the system of Ryotwari was applied primarily in the Bombay presidency, Madras presidency and some parts of Assam. It was put across by Sir Thomas Munro in a bid to establish a direct connection between the British government and the peasants. The cycle of constant reviews and sudden revenue hikes resulted in the impoverishment of the peasants, which destroyed the very aim of the system to provide equity.[18]

3.) The Mahalwari System (1833): This system was introduced by Holt Mackenzie and was concerned basically with the North-West part of India. Tax was not levied on an individual, but collectively on a village, referred to as a Mahal. The village headman was the person in charge of revenue collection and payment. Even though revenue was determined on the whole village, and not the individuals, collective liability meant that even honest cultivators would be affected, in case others failed.[19]

Other than land revenue, the colonial state relied very much on indirect taxes that were largely composed of:

1.) The Salt Tax: It was a tax imposed by the British on the sale and production of salt, and was considered an unfavourable move, considering that salt was an everyday necessity. The tax criminalised the traditional practices by imposing fines and punishment on ordinary people, symbolising colonial economic exploitation and the repressive character of British rule in India.

2.) Excise and Custom Duties: The traditional colonial policies were deliberately designed to suit British industrial interests. Handicrafts and products that were made in India had high taxes; meanwhile, British companies entering India had to pay low tariffs. This discrimination protectionism resulted in swift deindustrialisation, especially in the textile industry and reduced India to a source of raw labour.

3.) Other Levies: The colonial state also imposed its rule via license fees, stamp duties,

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[18] Vajiram and Ravi, Ryotwari System, features, drawbacks, impacts, available at https://vajiramandravi.com/upsc-exam/ryotwari-system/ (last visted on Jan 4, 2026)

[19] Geeksforgeeks, Ryotwari and Mahalwari system, available at Ryotwari and Mahalwari Systems - GeeksforGeeks (last visted on 23 July 2025)

road cesses and forest taxes. Even the traditional rights like cattle grazing and collecting fire wood was highly controlled, driving the rural people further into poverty.

3.3 THE DRAIN OF WEALTH AND THE SOCIO-ECONOMIC IMPACT

Another important characteristic of this time was the expropriation of wealth between India and Britain. The revenue that Indian taxpayers collected was not reinvested to develop their local areas; instead, it was used to fund campaigns of the British military in different countries and remittance of earnings to the metropole. This led to long-term economic stagnation and destroyed native manufacturing, causing catastrophic human effects. Peasantry was most susceptible to environmental shocks due to high taxation coupled with compulsory production of cash crops and the absence of a buffer in periods of drought. Such monetary rigidity was a first-hand cause of the frequent and devastating famines of the 19th century. Moreover, the system enhanced social inequalities by encouraging the domination of Zamindars and Moneylenders over the rural masses.

In conclusion, the idea of colonial taxation did not merely constitute a fiscal issue, but was also a typical characteristic of the colonial relationship itself. It strategically destroyed the traditional Indian economic system, economically crippled the rural masses and institutionalised a 'Drain of Wealth' that would create structural inequalities in the long run. It was an age of excision that brought a conclusive change in the history of Indian Taxation and prepared the groundwork for the post-independent taxation reforms.

CHAPTER 4- EVOLUTION OF POST-INDEPENDENCE TAXATION[20]

4.1 FISCAL PHILOSOPHY OF A SOVEREIGN NATION

After attaining independence in 1947, India was left with a colonial tax system that was mainly aimed at raising revenue in order to fund imperial interests. The country's shift from colonial to a sovereign nation prompted a paradigm shift. Taxation ceased to be a tool for collection but a means of social engineering, redistribution of wealth and a cornerstone in the funding of developmental projects on a large scale. This chapter highlights India's transition from having a rigid and high-rate tax structure in the early decades post-independence to a more simplified

[20] Sonal Singh, A historical and analytical study of evolution of taxation in India with special reference to the post- independence era, IJESH, vol. 9, issue.2, ISSN: 2250- 3552 (2019)

and well-regulated structure in the contemporary time.

4.2 THE EARLY POST-INDEPENDENCE ERA (1947-1990s)[21]

In the early decades of the post-independent era in India, the Socialist Pattern of society spawned a taxation system that was overly progressive. Recommendations of Nicholas Koldar and John Matthhei Commission report drove the government to suggest a range of levies, including Wealth, Gift and Expenditure tax, which gave rise to the landmark Income Tax Act of 1961. However, by the 1970s, the personal Income Tax rate increased to an astounding 97.5%, which was intended to reduce inequality, but instead led to tax evasion and the development of the shadow economy.

As these prohibitive rates turned out to be counter-productive, the focus shifted to rationalisation and structural reforms. The L.K. Jha Committee (1976) brought to light the ineffectiveness of the indirect taxes, especially highlighting the cascading effects of tax-on-tax and suggested that a change to Value Added Tax was need of the time, following which the country saw the introduction of MODVAT (Modified Value Added Tax), which allowed manufacturers to obtain credits on input taxes. The economic crisis of 1991 placed the country in a position to have a total overhaul of the structure, from a stifling high-rate regime to a more simplified and competitive tax situation.

4.3 TAXATION IN THE WAKE OF LPG REFORMS (1991)

The Liberalisation, Privatisation and Globalisation (LPG) reforms of 1991 triggered the paradigm shift of Indian Taxation, shifting the country out of the Socialist Pattern to marketoriented fiscal policy. Under the guidance of the recommendations of the Raja Chelliah Committee, the government realised that the prohibitive tax rates were stifling growth and promoting an enormous shadow economy. As a result, there was a radical, low-rate, broad-base shift to Direct Taxation; personal income tax rates were drastically simplified and limited to a maximum of 30%, and corporate taxation was rationalised to encourage Foreign Direct Investment (FDI).

Simultaneously, Indirect Taxation was reformulated to make India a part of the global supply

[21] Aastha Singh, Babli Rani, A Historical study of taxation in India: Economic, social, and political dimensions, IJRR, vol.12, issue.9, E-ISSN: 2349-9788 (2025)

chain. This entailed a gradual elimination of protectionist barriers, whereby the highest level of customs tariffs plummeted to a range of competitive international rates, and the cascading tax-on-tax method was replaced by a value-added system (MODVAT was replaced by CENVAT). This restructuring transformed the fiscal apparatus of the state, as a tool of repressive distribution of wealth, into an economic facilitation tool.[22]

4.4 GST REFORMS: A PARADIGM SHIFT

Among the major trends in the Indian Taxation System, one of the very significant steps was the introduction of GST in 2017, which was intended to replace the disjointed system of cascading state and central taxes. Before its introduction, the tax-on-tax character of VAT, Excise and Service Tax pushed up the prices for consumers and impaired the free movement of goods. GST resolved this problem by consolidating 17 different types of taxes under one regime, which again was made possible by the One Hundred and First Amendment Act, 2016. This reform prompted a Destination-Based Consumption Tax Framework, which presented that the state of consumption, rather than the state of origin, would be taxed. In order to maintain Centre-State balance and facilitate federal harmony, a dual GST model was developed, which consists of[23]:

1.) **CGST/SGST:** This is the tax that is paid to the Centre and the State, respectively to the supply of goods that were made in the same state.

2.) **IGST**: It refers to the tax that the Central Government imposes on the inter-state supply of goods and services. It is applicable in cases where a transaction is made between two states.

The reform is operationally based on GSTN (GST Network), which is an electronic backbone that replaced discretionary bureaucracy with information-based invoice matching in order to avoid evasion. Despite the fact that the shift incorporated the informal sector into the formal sector, it caused new complexities, such as a multi-layered tax structure and GST Compensation Cess. The latter, which was aimed at guaranteeing states a rise of 14% in revenue, became a source of fiscal conflict amid the pandemic. Within the policy formulation, GST developments have highlighted the need to revert the revenue guarantee model to a three-

[22] Dr. Mohmmed Shahid, Impact of Liberalization, Privatization, Globalization (LPG) on Indian economy, IJRISS, 175-180

[23] Dr. Karan Thakur, Ishwar Negi, Analysis of the Indian tax structure before and after implementation of GST: an overview, JETIR, vol. 11, Issue 6, ISSN: 2349-5162 (2024)

tiered rate system, in order to remove the controversies and compliance expenses incurred by the small businesses.[24]

4.5 DIGITISATION OF TAX ADMINISTRATION

The Indian Tax ecosystem is facing a digital transformation that changed the state into a facilitator from a policing organisation. In its simplest sense, this change is characterised by the substitution of cumbersome, obtrusive processes with a smooth e-filing and e-assessment system, where the interface between the taxpayer and the officer is removed to make the process transparent. With the help of AI and Big Analytics, the administration has started using Annual Information Statement (AIS) to match high-value transactions, with reported income, thereby expanding the tax base without raising rates.

Grounded in the GSTN and faceless assessment schemes, the Tax-Tech infrastructure forms a framework of a trust-but-verify model, which makes it easier to submit accurate tax returns to the taxpayer by providing pre-filled forms and prompting e-refunds, but simultaneously using predictive algorithms to identify evasion with the scalpel of precise targeting. Finally, with digitisation, tax administration has turned into an information-based system that is active in real-time conditions, focuses on voluntary compliance and prevents the possibility of corruption.[25],[26]

CHAPTER 5- NAVIGATING CHALLENGES AND THE ROAD TO REFORM

5.1 CHALLENGES IN THE CURRENT FISCAL FRAMEWORK

Although the Indian taxation system has continued to evolve, structural issues still persist that cannot be solved through cosmetic fixes.

1.) **Social Inequity**: The taxes in India are mostly consumption-based, where the ability of the taxpayer to pay is not the real consideration. This generates a retrogressive system, where the poor contribute a greater proportion of their income to taxes, whereas the rich use a

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[24] Mahesh C. Purohit, Issues in the introduction of goods and services tax, vol.45, 12-15 (2010), Economic and political weekly.

[25] Dr Vodnala Chandramouly, Dr. Mallaram Srinivas Reddy, A study on digitalisation of tax system in India, IJCRT, vol.13, ISSN: 2320-2882 (2025)

[26] Sameer Gupta, Advancing tax administration: role of technology in India's tax ecosystem (2024) available at: https://www.business-standard.com/economy/analysis/advancing-tax-administration-role-of-technology-inindia-s-tax-ecosystem-124122301148_1.html (last visited Dec. 23, 2024)

bigger percentage of their earnings to purchase basic commodities. The existing GST model contributes to this unfairness as important commodities continue to be taxed at a high rate compared to luxury products.

2.) Small Tax Base: The direct tax base is extremely low in India, with only about 1.6% of the population paying income tax as per the recent reports. This small base is highly attributed to the fact that agricultural income is not taxed at all, and, as a fact, rich individuals and corporations take advantage of loopholes in order to avoid and evade taxes.

3.) Economic and Psychological Disincentives: Given that high taxation declines the amount of disposable income, it may reduce aggregate consumption and suppress the growth of national GDP. Moreover, high marginal rates in progressive tax schemes can make people unwilling to work longer or seek higher wages, since a substantial portion of the additional work will be subtracted.

4.) Bureaucratic and Political Obstacles: Administrative inefficiencies often plague the tax system, whereby the expenses for the collection of small taxes are more than the revenue, which usually leads to diversion of funds towards interest groups instead of projects benefiting the masses. Furthermore, the lack of a simplified and comprehensive tax code provides a climate of uncertainty, which hinders compliance and economic recovery.

5.2 POLICY RECOMMENDATIONS

To address the existing gaps in the Indian Taxation, the following recommendations could be taken into account:

1.) Complete Adoption of GST 2.0: Although the recent transition to a three-slab system (5%, 18% and 40%) has eliminated the problem of classification disputes, the next step should focus on the incorporation of petroleum, natural gas and electricity. Introducing these to the GST platform will enable the smooth passage of the Input Tax Credit along with the supply chain, eliminating the hidden cascading costs that are presently amassing in Indian production and export prices.[27]

[27] Sacchidananda Mukherjee, How to Mitigate Revenue Uncertainty Related to Restructuring the GST Rate Structure? (NIPFP) no.429 (July, 2025)

2.) Digital Broadening of the Base**:** The government should consider incorporating AI in its use to amalgamate data shared via the GST Network with Income Tax returns instead of increasing tax rates. By conducting automatic cross-referencing of high-value consumption with the income reported, the administration will be able to expand the direct tax base, although keeping the peak rates at the present level to stimulate private investment and employment.[28]

3.) Strengthen Direct Tax Equity**:** To ease the regressive weight of the indirect taxes on the poor, the Standard Deduction for the salaried should be more strongly subjected to inflation, which would bring significant relief to the middle class. Also, a high-rate tax on large-scale commercial agriculture income must be implemented to create equity, whereby rich landowners contribute to infrastructure development in the country, just like other corporate and professional groups.[29]

4.) Permanent Dispute Resolution and Mediation: To enhance the investment environment in India, temporary 'Vivad se Vishwas' schemes ought to be adopted as a permanent ADR system. This, along with the complete functional capability of the GST Appellate Tribunal in 2026, will provide policy stability that global businesses require to expand their operations in India[30].

5.3 CONCLUSION

The history of tax reform in India, the shift from the high-rate regime of the post-independence era to the integrated and digitised system of 2026, is suggestive of the broader change of the nation into a global economic powerhouse. This has been characterised by a fundamental change of philosophy, from the rejection of an extractive mindset of the colonial era to the adoption of a more productive and facilitative paradigm based on transparency and technology. The reforms, such as GST, are not simply a change in legislation but a structural change to formalise the economy and eradicate cascading inefficiencies that plagued the Indian

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[28] LTIMindtree bags ₹3,000 crore CBDT contract to build AI-powered tax analytics platform, The Economic Times, (Jan 16, 2026). Available at:https://enterpriseai.economictimes.indiatimes.com/news/industry/ltimindtree-secures-3000-crore-aipowered-tax-analytics-project-from-cbdt/126558815

[29] Press Information Bureau, 'GST Reforms2025: Relief for common man, Boost for business', Govt. of India, (Sep. 4, 2025)Press Note Details: Press Information Bureau

[30] Ministry of Finance and Corporate Affairs, Smt. Nirmala Sitaraman launches Goods and Services Tax Appellate Tribunal (GSTAT) in New Delhi, (Sep. 2025) available at: Press Release: Press Information Bureau

Industry during the past few centuries.

But the shift is not complete, as discussed in the paper. The tax structure is now required to deal with its remaining structural imbalances in order to meet the '2047 vision'. The final metric of the success of the fiscal path of India will be its capacity to strike a balance between the buoyancy of revenues and social justice. With these policy recommendations adopted, the Indian Tax System will not be a drag on the citizens but a high-velocity engine of sustainable, inclusive and long-term economic growth.