

Ancient Indian Wisdom on Taxation and Fiscal Ethics: The Startup as the New Seedling

Ancient Indian thought on taxation and fiscal ethics was not confined to the mechanics of revenue extraction. It was anchored in a profound understanding of how wealth is created and how premature taxation of a nascent enterprise is not a prudent decision but a policy failure. This insight, articulated in Kautilya's *Arthashastra* and echoed in the *Manusmriti*, *Shanti Parva* of the *Mahabharata* and other ancient Indian scriptures, anticipates Bharat's taxation of startups and early-stage innovation. The 12-year trajectory of the Angel Tax, from its introduction in 2012 to its abolition in 2024, is, in essence, a modern re-enactment of ancient Indian fiscal wisdom.



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Its structural problem was precisely what Kautilya would have identified: it taxed not income, not profit, not surplus, but capital at the moment of its commitment to an enterprise that had not yet produced anything. The *Shanti Parva* (Book XII, Section 88) captures this through a beautiful analogy:

यथा मधुकरः पुष्पात् रसग्नाहि न पीडयन् तथा राज्ञः करः ग्राह्यो न च पीडयः प्रजाजनः

The ideal state is like a bee that gathers honey without damaging the flower, so that it continues to bloom and yield. The Angel Tax violated this principle at its root. It taxed not profit, not income, not any fruit the enterprise had produced, but the very seeds being planted. In Indian civilizational ethos, those seeds deserve the state's protection, not its appetite.

Dharma, Trust and the State as Trustee

Bhishma's counsel to Yudhishtira in the *Shanti Parva* is clear: the state is a trustee, not a proprietor. Revenue belongs, ultimately, to the welfare of the people from whom it is drawn. When the state taxes capital that is committed to the creation of enterprises that would have employed thousands, generated property and expanded the economy's productive frontier, it is not exercising fiscal authority; rather, it is hampering its own economic base. The paternal metaphor of the *Shanti Parva* - the state should be as fair between its subjects as a father between his sons - implies that the entrepreneur venturing into new productive territory deserves not predation but protection, precisely because the risks they bear serve the common good.

Conclusion

The Angel Tax's eventual elimination is not merely a chapter in Indian tax history. It is a validation of the civilizational wisdom found in the *Arthashastra*, *Manusmriti* and *Mahabharata*, millennia before modern startup ecosystems were imagined. The principle is simple and durable: protect the seedling. Tax the harvest. The state that confuses the two does not merely lose revenue; it destroys the future it is meant to build. As Bharat positions itself as a global hub for innovation and entrepreneurship, it is revisiting the fiscal ethics of Kautilya, Manu and Bhishma.

However, the relevance of ancient Indian texts on ethical and responsible taxation in the context of startups goes much beyond the scrapping of a tax. It is the state that controls profiteering impulses while protecting businesses, which form the bedrock of a sound startup ecosystem. Needless to say, a sound knowledge system is always a prerequisite for an idea to bloom.

capital and labour toward a common productive purpose). To tax the capital infusion at the moment of formation - before value had been created - would have been, in Kautilya's scheme, an act of fiscal arbitration.

The Manusmriti: Capacity as the Tax's Measure

The *Manusmriti*'s verse of proportionality (7.128) is equally significant:

यथा फलेन युज्येत राजा कर्ता च कर्मणाम् ।
तथावेक्ष्य नृपो राष्ट्रे कल्पयेत् सततं करान् ॥

It means that taxes should be assessed after careful consideration, so that both he and those who do the work receive their fair share. The key phrase is "those who do the work": a recognition that the entrepreneur's surplus is not a windfall to be appropriated but a return on risk and labour that must be protected for the enterprise to continue.

The differentiated tax shares prescribed in the *Manusmriti* - one-sixth for mature agricultural produce, one-eighth for less productive land, one-twelfth for the least fertile - encapsulate sensitivity to the taxpayer's productive capacity that maps directly onto the question of when and how much a startup ought to bear.

Scrapping of the Angel Tax: An Error Rectified

The tension between the state's revenue instinct and the Kautilya protection of nascent enterprise was dramatised by the debates over the so-called Angel Tax. Introduced in 2012 under Section 56(2)(viib) of the Income Tax Act, it targeted unlisted companies issuing shares at a premium above fair market value, taxing the excess as income. Intended to curb money laundering, it was criticised for stifling innovation and fundraising. It was terminated in the Union Budget 2024-25, citing the need "to bolster the Indian startup ecosystem, boost entrepreneurial spirit and support innovation".

Fable with Moral

The Compassionate Elephant and Prince Meghkumar

Restraint and devotion form the bedrock of Jain teachings, acting as twin forces that purify the soul and dismantle karmic attachments. Through rigorous self-restraint and unwavering devotion, an individual gains the spiritual strength required to conquer earthly desires and achieve ultimate liberation. The following story reflects the same - Lord Mahavira initiated Prince Meghkumar, but the harsh ascetic life soon overwhelmed the prince. Sensing his distress, Mahavira recounted Meghkumar's past life.



Long ago, during a raging forest fire, a majestic forest elephant managed to stand in a small, cleared safety patch. Around him, dozens of other desperate, terrified animals huddled together to escape the blazing inferno. As the weary elephant shifted his weight and raised a heavy foot to scratch an itch, a tiny, terrified rabbit quickly darted into the newly empty space beneath him. The elephant looked down and saw the fragile creature trembling right under his massive foot. Realizing that bringing his foot down would instantly crush the little rabbit, he made an extraordinary decision fueled by unconditional mercy. Choosing compassion over his own physical relief, he held his heavy foot suspended in the air.

He maintained this impossible, agonizing posture for over three days and nights until the raging forest fire completely died down. The prolonged physical stress took a severe toll on his body, but his mind remained focused entirely on protecting the fragile life beneath him. When the smoke finally cleared and the rabbit safely scurried away, the elephant's exhausted body gave out, and he collapsed. Yet, this pure intent of selflessly saving a life elevated his soul, ultimately leading to his noble rebirth as Prince Meghkumar.

If a soul could endure such immense physical hardship out of pure kindness when it was just a wild animal, human beings can certainly endure temporary discomforts and challenges to protect their spiritual path, and ethical values. Moral of the Fable: Be compassionate even if it requires self-sacrifice and unwavering discipline.

Did you know?

Did you know that Punch-marked coins are the earliest known coins in the Indian subcontinent, dating from the 6th century BCE to the 2nd century CE. Punch-marked coins were not "minted" like later coins with a king's portrait, name or inscription. Their authority came from small symbols punched separately into pieces of metal, usually silver. That is why each coin can look slightly irregular, almost like a small metal document carrying several official or semi-official marks. They were predominantly made of silver, though fractional copper and a few gold or lead pieces also exist. They lacked written text or legends. Instead, they featured punched motifs inspired by nature and daily life, such as the sun, trees, hills, rivers and animals. In ancient Indian literature, they are referred to by names such as *Purana*, *Karshapana*, *Pana*, and *Mashaka*. Punch marked coins are mentioned in



the *Manu Smriti* (c. 200 BCE - 200 CE), and *Buddhist Jataka* (c. 300 BCE - 400 CE) as circulating in the North until approximately the beginning of the 1st century CE, and lasting three centuries longer in the South until about 300 CE. So, a punch-marked coin is not just an old coin. It is evidence of a society moving from barter and weighed metal exchange toward a more organised monetary economy. Their symbols were marks of trust in an expanding world of trade, guilds, janapadas and early states.

Wisdom Word Search

A V I T L Q K O O L I
N M A L I B K J D O A
G K U P A P O N N U O
A K U T P O E A I Y V
D B J A I A A V A A A
I A T L T S L G H A Y
U Y H A O T S V A T P
O B P D E F U I I T A
V A R U V U R Y K A K
G I D Q W K A D A M G
C H E L A V A U B S R J

WORDS TO FIND

Angaadi, Chelavu, Kadam, Kooli, Muthal, Paattam, Pattu, Ponnuru, Vaaypa, Varavu

ANGAADI: Market/Trading Center

CHELAVU: Expenditure/Expense. Rooted in the Dravidian base *Chel* (to go or pass), it literally means "that which goes out."

KADAM: Debt word for a liability or debt owed to someone else. A fundamental term in rural and informal economies.

KOOLI: Wage - The traditional term for the compensation paid for physical labor.

MUTHAL: Capital/Principal Asset - Dravidian root "primary".

PAATTAM: Lease/Rent It refers to the rent given by a tenant to the landowner for the right to use the asset.

PATTU: Credit/Running Tab - Dravidian root meaning "to receive" or "to attach."

PONNURU: Gold - This is the definitive Dravidian word for gold. In the traditional economy, *ponnu* wasn't just jewelry; it was the ultimate liquid asset and security.

VAAYPAA: Loan/Credit - Originating from the Dravidian root *Vaaykuka* (to yield or be granted), this is the traditional word used for borrowed funds or credit facilities.

VARAVU: Income/Revenue - translating to "that which comes in," Dravidian root *Varu* (to come). The native word for incoming cash flow or earnings.

Note: These terms come from MALAYALAM, one of India's 22 Scheduled Languages.

Marvels of India

THE SHRENI

Ancient Bharat's Marvel of Economic Organisation Bharat's ancient guilds, known as *Shreni*, were sophisticated economic institutions of the pre-modern commercial world. *Shrenis* were the most vital



institutions driving economic activity, functioning as legal entities composed of individuals engaged in similar trades, governed democratically through general assemblies and operating under the guiding principles of *Shreni Dharma*.

A Regulated, Standards-Driven Economy

They regulated manufacturing standards, trade, ethical codes, prices and the quality of crafts. Some of them became wealthy enough to act as custodians and bankers of religious and civic endowments. Kautilya's *Arthashastra* describes their regulation of trade, fixation of prices, supervision of weights and measures and even their judicial powers in commercial disputes, making them pivotal intermediaries between the state and the economy.

Pioneers of Corporate Banking

They also functioned as a bank, providing loans to its members. There is sufficient historical evidence to prove the existence of distinct *Shreni* banks owned and managed by the guild members.

A Sophisticated Multi-Functional Model

The research on Bharat's economic history shows that the *Shreni* model was not a primitive associative structure but an evolved institution providing specialised production, quality assurance, capital formation and social security, all undergirded by a profound ideology of corporate ethics.

QUIZ Economy, Commerce & Finance

Questions	Option A	Option B	Option C	Option D
1 Queen pineapple is renowned for its exceptional sweetness, rich aroma and high juice content. As the official state fruit of X, this GI-tagged variety is also celebrated for its lack of chemical residues. What is X?	Mizoram	Tripura	Goa	Karnataka
2 Which state has a geographical indication for the Chakshesang Shawl?	Nagaland	Manipur	Mizoram	Assam
3 In ancient India, powerful guilds of merchants, artisans and craftspeople played a major role in finance and commerce. What were these groups called?	Sabhas	Shrenis	Samitis	Shreshthis
4 What did the term 'Sarthavaha' designate in the economic landscape of ancient India?	Maritime Ship Captain	Head of Elephant Convoy	Merchant Caravan Leader	A Royal Accountant
5 The old Mesopotamian records refer to trade relations with the Indus Valley Civilization, whose seals have also been discovered in Mesopotamia. What was the ancient name used in those records for this settlement?	Dilmun	Magan	Sindhu Ghati	Meluhha

ANSWERS: 1 - B, 2 - A, 3 - B, 4 - C, 5 - D

तौकहाड

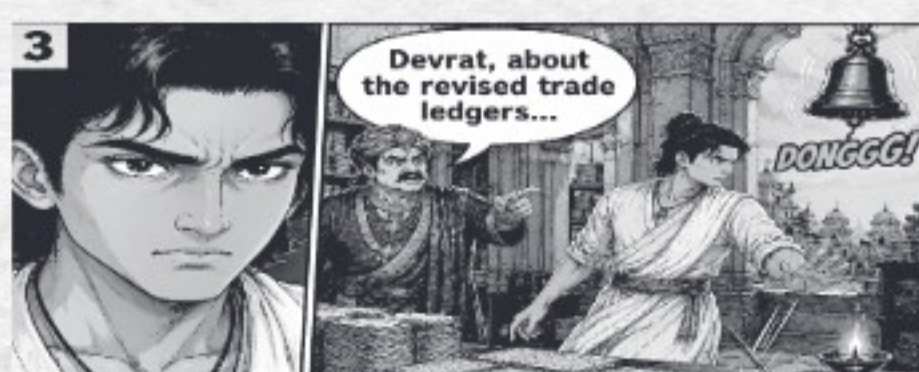
Spilled Water



1 In the prosperous trade city of ancient Ujjain, Devrat was the treasury's silent backbone, always staying past sunset to ensure the kingdom's ledgers were flawless.



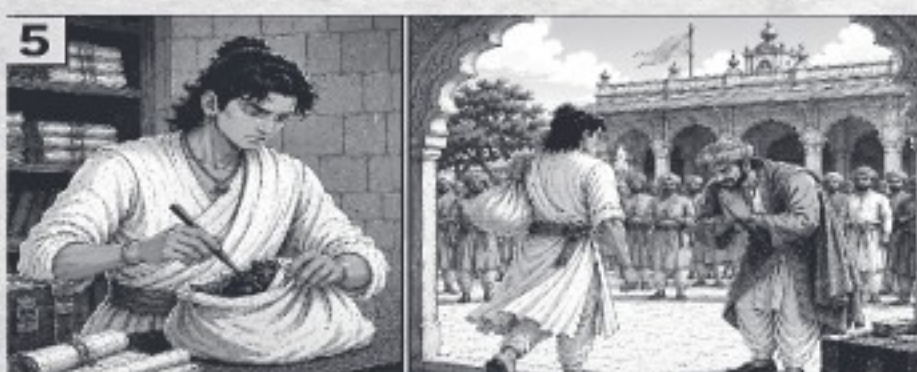
2 Instead of gratitude, his devotion was met with arrogance and humiliation from Minister Visham.



3 A loyal heart, once scorned, turns cold. The temple bell rings for sundown and end of working hours. Devrat decided to give them exactly what was asked. Nothing more.



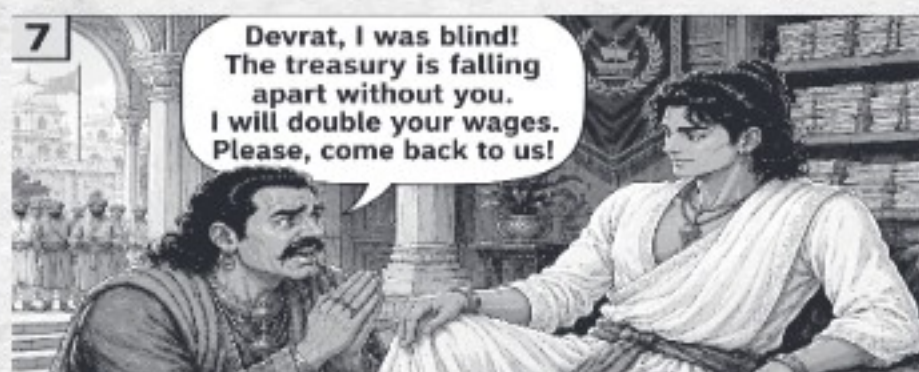
4 No one organised the ledgers and records like Devrat used to do. Traders faced delays, guards were overwhelmed, and disputes arose. The once efficient system crumbled every day.



5 Realizing his worth, Devrat offered his talents to the kingdom's foremost rival, a rich merchant guild.



6 With the treasury in shambles and the king's disappointment upon him, Minister Visham finally grasped that Devrat's uncelebrated work had been the only thing preventing this collapse.



7 Devrat, I was blind! The treasury is falling apart without you. I will double your wages. Please, come back to us!



8 No, Devrat. Can you gather this spilled water back into the pitcher, Minister Visham?

Just as water poured onto the earth cannot be gathered, words once spoken and actions once done cannot be reversed.

MORAL OF THE STORY: If you hurt someone who is loyal to you, you will lose them forever.