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From Kautilya to Contemporary Taxation: Re-examining Ancient Indian Economic Wisdom for Tax Morality and Voluntary Compliance

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ABSTRACT

Tax systems rest on a quiet bargain: citizens pay because they believe the state is fair, competent and restrained. This review re-reads Kautilya'sArthashastra, the Sanskrit treatise on statecraft whose final form modern scholarship places in the early centuries of the Common Era, as an early theory of that bargain, and tests it against contemporary research on tax morale and voluntary compliance. Drawing on critical translations of the text, the behavioural and economic literature on compliance, and official Indian legislation and revenue data available to October 2026, the article maps six Kautilyan principles (limited taxation power, ripeness of extraction, remission in distress, official integrity, record-based administration and graduated deterrence) onto modern constructs such as the slippery slope framework, procedural justice, third-party reporting and cooperative compliance. The review finds a strong structural parallel but also clear limits: the Arthashastra is a realist manual that pairs restraint with surveillance, so it cannot be read as a ready-made ethic of voluntarism. India's recent turn to simplified law under the Income-tax Act, 2025, faceless and data-driven administration, and rising direct-tax collections suggest that trust-building and enforcement are now being pursued together, as the text recommends. The article closes with a policy and research agenda for embedding dharma-informed fairness, service quality and transparent accountability in digital tax administration.

Keywords: *Indian tax administration; voluntary compliance; greenwashing; extended producer responsibility Kautilya; Arthashastra.*

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1. Introduction

Why people pay taxes is one of the oldest puzzles in public economics. The benchmark deterrence model treats evasion as a gamble set by the tax rate, the probability of detection and the penalty (Allingham &Sandmo, 1972; Becker, 1968), yet it predicts far more cheating than most societies observe. Later work shows that non-economic factors such as norms, fairness perceptions and trust help to close this gap (Alm et al., 1995; Torgler, 2007). Tax morale, usually defined as the intrinsic motivation to pay taxes, has therefore become a central concept for explaining compliance and for designing fiscal policy (Luttmer&Singhal, 2014; Torgler&Schaltegger, 2005). Reviews of the evidence stress that accountability, democratic governance, transparent legal structures and trust in institutions sustain it (Torgler, 2011).

This literature is overwhelmingly Western in its sources, even though South Asia produced one of the earliest systematic treatises on public finance. The *Arthashastra*is traditionally attributed to Kautilya, also called Chanakya or Vishnugupta, the adviser of the Mauryan ruler Chandragupta. Contemporary philology treats it as a composite text codified in the early centuries of the Common Era from older expert traditions (Olivelle, 2013). Its English translations by Kangle (1972), Rangarajan (1992) and Olivelle (2013) make its fiscal chapters accessible to economists. Spengler (1971) summarised the text's tax doctrine in three propositions: the power to tax is limited, taxation should not be felt as heavy, and increases should be graduated. Sihag (2014) goes further and presents Kautilya as a forerunner of many later economic concepts. The wider *dharmashastra* tradition points the same way, since Manu's code fixes the ruler's share as a modest fraction of produce and treats excess extraction as a wrong (Olivelle, 2005).

Read naively, such claims invite anachronism. Boesche (2002) portrays Kautilya as a political realist, and Scharfe (1993) shows how contested the text's interpretation remains. The *Arthashastra* advises restraint in taxation, but it also prescribes spies, harsh penalties and tight state control over trade. A responsible re-examination therefore has to ask a narrower question than "Did Kautilya anticipate modern economics?" The question here is: which of the text's fiscal principles correspond to mechanisms that modern research identifies as raising tax morale and voluntary compliance, and where do they diverge?

The article is a narrative review. It draws on critical editions and translations of the *Arthashastra* and *Manusmriti*, peer-reviewed research on tax compliance and tax morale, and official Indian legislation and revenue statistics available to October 2026. It has three aims: (a) to map Kautilyan principles onto modern compliance constructs; (b) to assess India's present tax-administration scenario against that map; and (c) to propose a forward-looking agenda. Section 2 presents the present scenario, Section 3 the future perspective, and Section 4 the conclusion.

2. Present Scenario

2.1 Kautilyan fiscal principles and modern compliance theory

The *Arthashastra* places taxation inside a wider theory of royal duty. In its famous formulation, the ruler's happiness lies in the happiness of the subjects (Kangle, 1972; Rangarajan, 1992). Revenue is necessary because the treasury sustains the army and the administration, but the text warns against extraction that outruns the producer's capacity. It advises the ruler to collect what is ripe and to leave the unripe, since forcing the unripe provokes unrest and damages the source of future revenue (Rangarajan, 1992; Sihag, 2014). Spengler (1971) condensed this doctrine into limited taxing power, a burden that is not felt as excessive, and graduated increases. Table 1 lays out six principles that recur across the fiscal chapters and pairs each with a modern construct, a representative body of evidence and a present-day Indian touchpoint.

Table 1

Kautilyan Fiscal Principles Mapped to Contemporary Compliance Constructs

Kautilyan principle (textual locus)	**Contemporary construct**	**Representative evidence**	**Indian touchpoint, 2025–26**
Limited, moderate taxing power; graduated increases (Book 5, Ch. 2; Spengler, 1971)	Fairness and the psychological tax contract	Feld & Frey, 2007; Torgler, 2011	Rates left unchanged in the Income-tax Act, 2025 (Press Information Bureau [PIB], 2025)
Collect what is ripe; avoid the unripe (Book 5, Ch. 2)	Trust-driven versus coercive extraction (slippery slope)	Kirchler et al., 2008; Tyler, 2006	Simplified law, standardised forms (Central Board of Direct Taxes [CBDT], 2026)
Remission for new settlers and	Responsive regulation;	Ayres & Braithwaite,	Strengthened dispute-resolution framework (PIB,

Kautilyan principle (textual locus)	Contemporary construct	Representative evidence	Indian touchpoint, 2025–26
in calamity (Books 2 and 4)	contingent consent	1992; Levi, 1988	2025)
Integrity of revenue officials; catalogue of embezzlement (Book 2, Ch. 8)	Procedural justice; trust in authorities	Braithwaite, 2003; Kirchler& Wahl, 2010	Faceless schemes to remove the interface (PIB, 2025)
Record-based administration; village and household registers (Book 2)	Third-party reporting; information trails	Kleven et al., 2011; Slemrod, 2019	Consolidated TDS provisions, Section 393 (PIB, 2025)
Graduated deterrence; penalties for false declaration at toll posts (Book 2, Ch. 21)	Audit threat; enforced compliance	Allingham &Sandmo, 1972; Alm, 2019	Digital-first enforcement powers (PIB, 2025)

Note. Textual loci follow the divisions in Kangle (1972), Rangarajan (1992) and Olivelle (2013). The mapping is an interpretive synthesis by the author, not a claim of historical influence.

The first two principles speak to legitimacy. Modern research finds that perceived fairness of the tax burden and the exchange between taxes and public goods shape compliance beyond audit risk, which Feld and Frey (2007) describe as a psychological tax contract between citizens and the state. Levi (1988) reaches a similar point from political history: compliance is quasi-voluntary because citizens comply when they believe the government keeps its side of the bargain and that others comply too. The third principle, remission, is an early form of the responsiveness that Ayres and Braithwaite (1992) recommend, in which regulators match their response to the taxpayer's circumstances and conduct.

The last three principles concern capacity and credibility. The *Arthashastra* devotes unusual attention to the dishonesty of revenue officials, cataloguing many ways in which they may divert funds (Olivelle, 2013; Rangarajan, 1992). That emphasis fits evidence that taxpayers judge the authority's treatment of them, and the honesty of its staff, when deciding whether to cooperate (Braithwaite, 2003; Tyler, 2006). Its insistence on registers and verification parallels the finding that evasion is close to zero where income is reported by third parties and substantial where it is self-reported (Kleven et al., 2011; Slemrod, 2019). Finally, the text never abandons punishment. Boesche (2002) and Olivelle (2013) both read it as a realist document, so the Kautilyan model is closer to "restraint plus credible enforcement" than to a purely moral appeal.

2.2 Trust, power and voluntary compliance

The closest modern analogue to this combination is the slippery slope framework. Kirchler et al. (2008) argue that compliance is shaped by two dimensions: the power of tax authorities, which produces enforced compliance, and trust in them, which produces voluntary compliance. Compliance is lowest when both are low, and the best outcomes arise when high trust and high power coexist in what the authors call a service-oriented climate. Kirchler (2007) and Kirchler and Wahl (2010) provide the theoretical and measurement foundations for this view. Figure 1 places the six Kautilyan principles on the two dimensions.

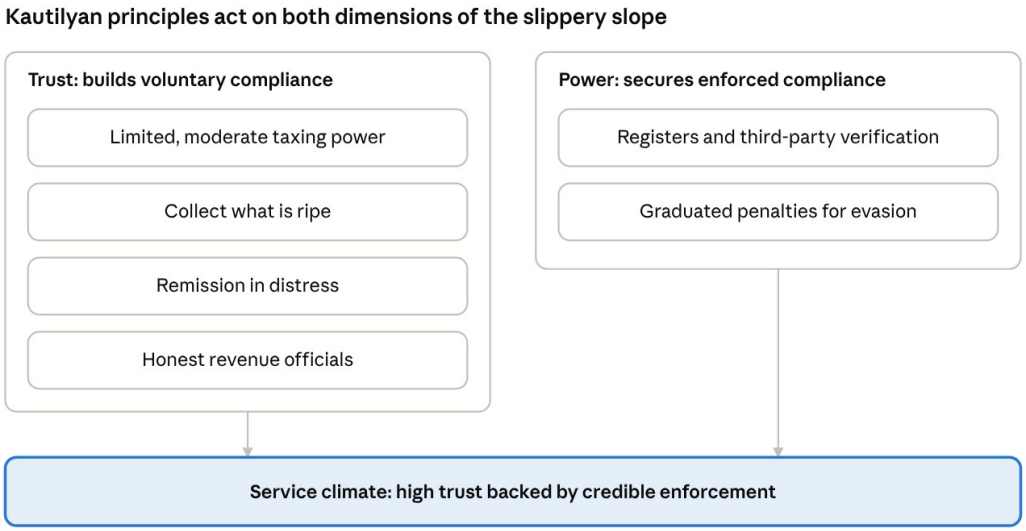


Figure 1: *Kautilyan Principles on the Trust and Power Dimensions of Tax Compliance*

Note. Dimensions adapted from Kirchler et al. (2008); allocation of principles is the author's interpretation of Table 1.

Evidence on how far morale can be moved deliberately is mixed. Alm (2019) concludes that compliance is shaped jointly by enforcement, social norms and the quality of the fiscal exchange, and Luttmer and Singhal (2014) find that several channels of tax morale are well established but that interventions built to exploit them have produced inconsistent revenue gains. Torgler (2007) adds that trust in institutions and democratic participation are among the more robust correlates of morale. The cooperative-compliance work of the Organisation for Economic Co-operation and Development (OECD, 2013) similarly argues for earned trust, transparency and predictability in relations between tax bodies and large taxpayers, with enforcement retained for those who do not reciprocate.

2.3 The Indian administrative and fiscal scenario

India's recent reforms are consistent with the trust-plus-power logic. The Income-tax Act, 2025 was passed by Parliament on 12 August 2025, received presidential assent on 21 August 2025 and came into force on 1 April 2026, replacing the Income-tax Act, 1961 (CBDT, 2026). The Income-tax Rules, 2026 were notified on 20 March 2026, together with simplified and standardised forms (CBDT, 2026). Official explanatory material states that the drafting followed three principles: textual and structural simplification, no major policy change and no change in rates (PIB, 2025). It also records that the law had been amended some 65 times, with more than 4,000 amendments, which contributed to complexity and litigation (PIB, 2025). The new Act introduces a single "tax year", consolidates withholding provisions into one section and empowers the central government to frame schemes that eliminate the interface between officials and taxpayers where technology permits (PIB, 2025). Read through Table 1, these measures address ripeness and integrity by lowering compliance costs and discretion, and they address deterrence through digital-first enforcement.

Revenue data show a system that is buoyant but not uniformly so. Provisional figures indicate that net direct tax collections rose 5.12% to about ₹23.4 trillion in 2025–26, below the 9% growth assumed in the revised estimates (Yadav, 2026). Net corporate collections grew 11.4% to ₹10.99 trillion, while non-corporate collections, which include individual taxpayers, were almost flat at ₹11.83 trillion after substantial personal income-tax relief, and refunds fell 1.09% to ₹4.72 trillion (Yadav, 2026). In the first months of 2026–27, net collections up to 10 August were reported at ₹8.11 lakh crore, 23.09% above the corresponding period of the previous year (BusinessToday, 2026). These series cannot be read as direct measures of tax morale, since they respond to growth, rate changes and refund timing. What they show is that a rate-cut year need not

collapse revenue when the base widens, which is consistent with the Kautilyan preference for moderate rates and broad, well-documented bases.

Three structural constraints temper the optimistic reading. First, informality limits what third-party reporting can capture, a problem that Besley and Persson (2014) identify as central to why developing countries tax so little. Second, digital delivery has to earn citizen trust. Muralidharan et al. (2016) show, in a welfare context, that biometric authentication reduced leakage and made payments faster and more predictable, which indicates that state capacity can be built through technology and that citizens notice. Tax administration is likely to be judged on the same experiential grounds, a theme developed in the OECD (2020) account of tax administration embedded in taxpayers' natural systems. Third, this review did not identify a regularly published national survey series on tax morale in India comparable to those used in European research (Torgler, 2011), which limits evidence-based evaluation of the reforms described above.

3. Future Perspective

India has used the 2025–26 reform cycle to simplify its statute. The harder task is to turn a simpler law into a durable relationship of trust, and the Kautilyan lens suggests three directions, which Figure 2 brings together.

3.1 From simple law to a trust architecture

The *Arthashastra* worries less about the text of the law than about the conduct of the people who administer it (Olivelle, 2013; Rangarajan, 1992). The modern equivalent is the quality of digital administration. As scrutiny becomes more automated and data-driven, taxpayers will judge fairness by whether decisions are explained, reviewable and consistent, which is the core of procedural justice (Tyler, 2006; Braithwaite, 2003). The OECD (2020) vision of tax administration built into taxpayers' own systems promises lower compliance costs, but it also concentrates information in the hands of the authority. Law and information policy therefore need to travel together. Three safeguards follow from the evidence reviewed above: a statutory duty to give reasons for automated or faceless decisions, published service-standard data such as refund turnaround and grievance disposal times, and clear limits on how third-party data may be used. These steps respond directly to the trust dimension of the slippery slope (Kirchler et al., 2008), and the experience of biometric payment reform suggests that visible reliability is what citizens remember (Muralidharan et al., 2016).

3.2 Calibrated deterrence and cooperative compliance

Trust does not remove the need for power. Kleven et al. (2011) found that audits and threat-of-audit letters changed behaviour for self-reported income but had no effect on income already reported by third parties. Deterrence is therefore most useful where information gaps exist, such as small business and informal earnings, which Besley and Persson (2014) identify as the frontier problem of developing-country taxation. A responsive approach would escalate from education to warnings to sanctions according to the taxpayer's demonstrated intent (Ayres & Braithwaite, 1992), while cooperative-compliance programmes would offer large and sophisticated taxpayers predictability in return for transparency (OECD, 2013). Remission in the Kautilyan sense was tied to distress and to the settlement of new territory, not to repeated forgiveness of evasion, and a modern analogue should keep that distinction. Relief for hardship, honest error and first-time default is consistent with trust-building, whereas open-ended amnesty may signal that non-compliance is tolerated.

3.3 An evidence and ethics agenda

Research is the weakest link. Luttmer and Singhal (2014) conclude that morale-based interventions have so far delivered mixed results, and Alm (2019) stresses that what works varies with context. India would benefit from a recurring national survey on tax attitudes, linked where lawful to administrative data, and from randomised evaluations of communication, service and audit interventions of the kind pioneered in Denmark (Kleven et al., 2011). The effect of the Income-tax Act, 2025 on filing behaviour, disputes and processing times should be measured once a full cycle of data is available, rather than assumed. On the cultural side, the *dharmashastra* idea that the ruler's share is a conditional entitlement (Olivelle, 2005) can enrich civic and professional tax education, but it must be presented as a heritage resource and not as a substitute for

institutions. Scholars of the text caution against reading modern concepts back into it (Boesche, 2002; Scharfe, 1993), and a credible research programme will keep that discipline.

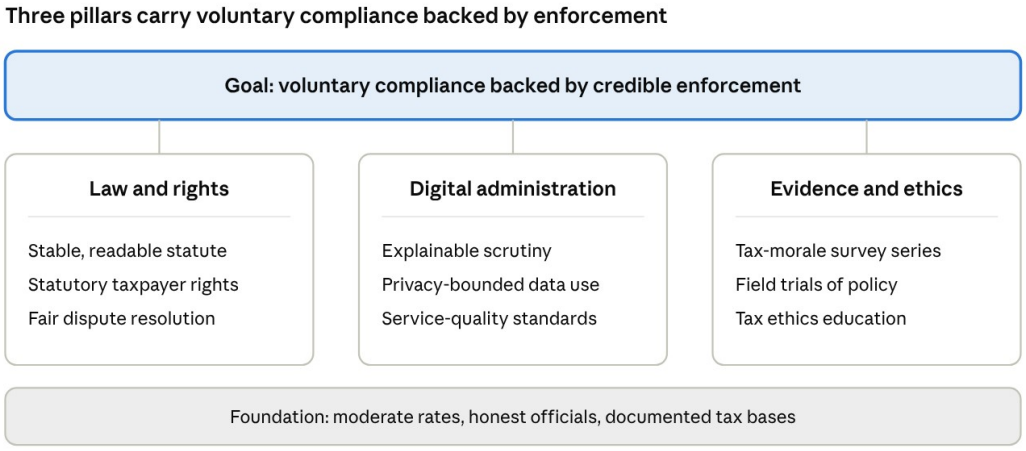


Figure 2: *A Proposed Framework for Trust-Based and Enforcement-Backed Tax Compliance in India*
Note. Framework developed by the author from the evidence reviewed in Sections 2 and 3.

4. Conclusion

This review asked whether Kautilya's fiscal thought can inform contemporary thinking on tax morale and voluntary compliance. The answer is a qualified yes. Six principles in the *Arthashastra*, namely limited taxing power, collection of what is ripe, remission in distress, honest officials, record-based administration and graduated deterrence, correspond closely to mechanisms that research links to fairness, trust, procedural justice, information trails and credible enforcement (Kirchler et al., 2008; Kleven et al., 2011; Luttmer&Singhal, 2014). The text's combination of restraint and coercion resembles the slippery slope framework more than it resembles either a pure deterrence model or a pure appeal to conscience. India's Income-tax Act, 2025, with its simplified language, unchanged rates, consolidated withholding rules and powers to reduce the human interface, applies similar logic in a digital setting (CBDT, 2026; PIB, 2025).

The findings should be held with caution. The review is narrative rather than systematic, relies on English translations and secondary scholarship, and presents an interpretive mapping rather than evidence of historical influence. Several revenue series are provisional, they respond to growth and rate changes as much as to morale, and India lacks a regular survey series on tax attitudes. The strongest claim the evidence supports is therefore one of structural resemblance, not causal proof.

Three implications follow. For policy, simpler law must be matched by explainable digital decisions, published service standards and proportionate, information-targeted enforcement. For law and information science, the growth of third-party data and automated scrutiny makes taxpayer rights, reason-giving and data-use limits part of the compliance agenda, and not peripheral to it. For scholarship, a national tax-morale evidence base and carefully designed field trials would let India test, rather than assume, what builds voluntary compliance. The enduring lesson of the *Arthashastra* is not that ancient advice can be transplanted whole. It is that a state which taxes with restraint, administers honestly, documents carefully and punishes proportionately creates the conditions in which compliance can be genuinely voluntary.

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