

Case for an Agricultural Income Tax

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It is contended here that agricultural income-tax has an important role in mobilising financial resources from the agricultural sector and in imparting a measure of progression to rural fixation.

Contrary to the general belief, imposition of ceilings on land holdings does not detract from the need for an agricultural income-tax.

In the States which now levy agricultural income-tax, the yield from the tax has grown more or less in proportion to total tax revenues.

Nor does the fact of small peasant proprietors predominating in the rural economy render the tax inapplicable for administrative reasons. The technique of presumptive assessment, already in use in the country for assessment of land revenue, can be used to assess the tax liability of small holders.

IMPOSED for the first time in Bihar in 1938. the agricultural income tax in its infancy, was, for obvious reasons, a great favourite with economists and also received support from official bodies reporting on taxation. [See, for example, Government of Madras Land Revenue Reforms Committee, Second Report. Ch 3. Pps 39-46 and Government of India. Taxation Enquiry Commission Vol 3, Pps 198-205 and Pps 222-221). By 1951 seven States, were levying this tax: Bihar (1938), Assam (1939), West Bengal (1944), Orissa (1918) U P (1948), Hyderabad (1950) and T C (1951). Two more States, Rajasthan and Madras joined in 1954. This tax was repealed in Hyderabad and U P in 1957 and in Rajasthan in 1960, but after the reorganisation of States, it was introduced in Kerala and Mysore I in 1957 for land under commercial crops only). At present therefore, seven States are again levying it, namely, Assam, Bihar, Kerala, Madras, Mysore, Orissa and West Bengal. We may now go on to examine the coverage and the structure of this tax.

One of the basic factors which determine the coverage and structure, and therefore, naturally, the yield from a tax on income is the 'concept of income' which is to be used as a tax base. In the case of the agricultural income tax, therefore, the concept of 'agricultural income' on which this tax is based, is crucial. For the purposes of agricultural income-taxation, the definition of 'agricultural income' given in the Indian Income Tax Act 1922, Section 2-(2) is usually accepted. Liberally interpreted this includes most incomes originating from the rural sector, including income from the practice of agricul-

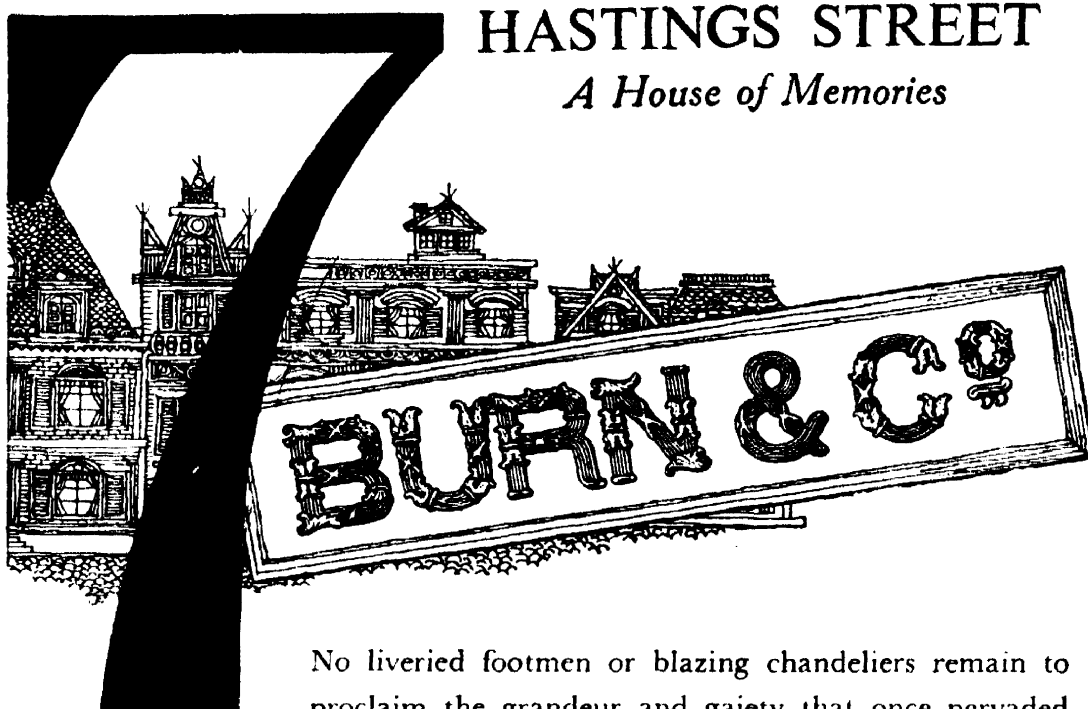
ture, income from various allied services and rents on both land and buildings in this sector. The judicial interpretation of these provisions has therefore been fairly liberal, both in the interpretation of the coverage of the agricultural sector, and in including in income, for the purposes of a State, all agricultural income accruing to the residents of the State and not only the income originating in the State itself. However, in one important sector, viz agricultural income of companies, judicial interpretation has tended to somewhat limit the scope of Guzdur agricultural income. In the case of Mrs Bacha F Guzdur, Bombay. Vs Commissioner of Income Tax Bombay, the Supreme Court of India ruled that dividend income received by an assessee is not agricultural income. Thus the shareholders of a company earning agricultural income, were not liable to pay agricultural income tax, either themselves or by deduction at source. Thus the States could collect agricultural income tax from companies-only by taxing them directly. Most of the States levying agricultural income tax, therefore, amended their tax structure accordingly. [See for example Govt of West Bengal. The West Bengal Agricultural Income Tax (Amendment) Act. 1957]-Actually apart from Madras and Mysore, which also levy this tax mainly on plantations, the other States have a separate Schedule for the taxation of agricultural income of companies, and in the process of amending this portion of their Agricultural Income Tax Acts they also raised the rates of this tax.

Two Broad Types

There are two broad types of agricultural income tax structures in India. We may call one the 'sche-

duler agricultural income tax' and the other the 'plantation., agricultural income tax.' To the former category belongs the more general type of agricultural income tax. as it is in operation in Assam, Bihar, Orissa and West Bengal and as it was in operation before it was repealed in U P Rajasthan and Hyderabad and to the latter category belongs the tax as it is in operation in the Southern States of Madras, Mysore and Kerala (although here a more complicated pattern has evolved). The 'schedular agricultural income tax provide, three different schedules of rates for individuals, undivided Hindu joint families and joint stock companies and associations. Companies and associations are normally more heavily taxed than individuals. This tax is general in nature and covers the whole of agricultural income was defined above). These taxes were originally designed mainly to tax rental incomes from Zamindari estates, but now also cover the returns accruing to larger farming and other units in the agricultural sector.

The "plantations" type of agricultural income tax is sometimes levied as a direct tax on the agricultural incomes of all plantations as in Kerala and Madras or sometimes do an agricultural income tax on commercial crops as in Mysore (In Kerala and Mysore this tax is levied in combination with a Basic Land Tax). This tax is an excellent arrangement for taxing the profits of plantations, which present very easily locatable sources of agricultural income. Actually the profits from most of the products of plantations, e g tea, coffee, rubber and tobacco, have been rising; because of price-rises as a result of rising of home and export demand.



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Existing Taxes

We may now study the actual rate pattern for both these types of agricultural income tax. In the "schedular" agricultural income tax the first rate schedule is for individuals. There is a minimum exemption limit of Rs 3000 after which a progressive rate schedule is set for successive slabs of agricultural income. No tax is levied for the first slab of Rs 1500 (RS 3000 in Orissa) and after this the minimum tax is 4 per cent—5 per cent. The number of slabs and the size of each slab varies from State to State. The maximum rate varies from 25 per cent in West Bengal to 78 per cent in Orissa. Related to this schedule is the rate schedule for members of undivided Hindu joint families. Each brother or co-partner of such a family has to pay a tax ranging from 2 per cent to 3 per cent on the first slab which varies from Rs 3000 to Rs 6000. After this slab members of joint families are also subject to the same-rate-schedule as individuals. The third schedule relates to the agricultural income of companies and the rate varies from 30 per cent to 40 per cent. Instead of this schedule, Bihar levies a super tax on agricultural incomes in addition to the agricultural income tax at a progressive rate ranging from 8 per cent to 33 per cent. A super tax is also levied in Kerala on both individuals and companies, the former at a maximum rate of 34 per cent and the latter at 31 per cent.

As regards the "plantations' agricultural income tax, Kerala and Madras levy it straightaway as a graduated tax on successive slabs of income. In Madras the rate rises from 3 per cent to 35 per cent. In Kerala, for the time being, due to difficulties of estimation of agricultural incomes, particularly of smaller units, this tax can be compounded into a lump sum tax of Rs 75 per year for total agricultural incomes of Rs 5000 or less. After this limit a graduated tax rising to 25 per cent is levied. However as mentioned above, there is also a 'schedular' tax with a super tax. In Mysore the tax pattern is slightly more complicated. The agricultural income tax as we have seen is levied only on lands under commercial crops. This land is divided into seven or eight categories and income estimated either on actual earnings or on

a presumptive basis. The exemption limit is Rs 3000 as agricultural income or 30 standard acres of land, after which the usual graduated tax is levied on successive slabs of income.

Rising Rates

A comparative study of the rate structure of this tax over the period of the last two decades would show that rates have been rising continuously. Actually one of the criticisms of this tax earlier, was that, a lower rate of agricultural income taxation creates a glaring anomaly especially when compared to the Central income tax on non-agricultural incomes. Rates of agricultural income taxation have however, been rising, particularly, during the last two decades.

A few points may be noted here before we try to arrive at any conclusion. To begin with there are considerable differences in the rate structure of various States, e.g. the maximum rate varies from 25 per cent in West Bengal to 78 per cent in Orissa. Then a super tax is levied in Bihar and Kerala, although in Orissa it can be said that the rate of income tax is by itself sufficiently high to fill in this gap. Again in the States where the agricultural income tax is provided only for the taxation of the agricultural income of plantations, the rate is definitely below the rate for the taxation of agricultural income of companies. This is a discrimination which is very difficult to justify because in Assam, Bihar and West Bengal plantations are subject to agricultural income taxation, at the rate which applies to companies. In these three States, the rate for companies varies from 34 per cent to 40 per cent of total agricultural income while in Madras and Mysore the rate varies from 5 per cent to 35 per cent of

agricultural incomes. Thus, in these States, plantations are at a considerable advantage, especially for the lower slabs of income, where the rate rises from 5 per cent. This anomaly should, therefore, be definitely removed and there seems to be little justification for the lower taxation of plantations in States which have provided special income taxes to tax their agricultural income. In general, there seems to be scope for an upward revision of rates in some States, to bring the direct taxation of agricultural income in line with that in States like Orissa and also in line with the direct taxation of non-agricultural incomes.

Yield Not Stagnant

We find however, that in spite of a very low tax structure in some States, the yields from the agricultural income tax have been rising fairly substantially as shown by the fiscal experience of the States, during the last decade. The Table shows that total receipts of all the States on account of the agricultural income tax have increased from Rs 433 lakhs in 1951-52 to Rs 892 lakhs in 1959-60 and are budgeted at Rs 867 lakhs for 1961-62. (Past experience shows that the budgeted estimates for this tax are usually on the conservative side.) A comparative analysis of the rise in actual yields from the agricultural income tax and total State revenue from taxation, leads us to the conclusion, that the relative increase of both was the same until 1959-60. The Table shows clearly that from 1951-52 to 1959-60, the extent of the rise in the two indices was the same viz. from 100 to 206. The index of yield from agricultural income taxation actually rose more from 1955-56 to 1958-59 than the index of total tax yields.

Table : Yield from Agricultural Income Tax

Year	Yield from agricultural income tax (Rs lakhs)	Index of yield from agricultural income tax (Base : 1951-52 = 100)	Index of yield from all State taxes (Base : 1951-52 = 100)
1951-52	433	100	100
1952-53	406	94	109
1953-54	377	87	118
1954-55	477	110	120
1955-56	574	133	123
1956-57	573	133	131
1957-58	780	181	171
1958-59	842	195	192
1959-60	892	206	206
1960-61 (R E)	848	196	216
1961-62 (B E)	867	201	219

Source : Reserve Bank of India *Bulletin*.

The above analysis, therefore, confirms that both from the point of view of the coverage of the tax as well as the yield from it agricultural income-tax is still a taxation measure of some importance in the fiscal machinery of the States. And yet at present the general opinion on the subject is sceptical of the usefulness of this tax on the grounds that it has lost its justification because of the application of ceilings on land holdings. It is also argued that from the administrative viewpoint, it is a difficult tax to levy and the returns from it have stagnated. Discussing rural taxation I S Gulati insists "The need for another measure has arisen partly because of the very ineffectiveness of the present tax based on agricultural incomes" U S Gulati. 'Resource Prospects of the Third Five Year Plan.' p 72). He goes on to say that ". . . judged from the current yield of the tax no substantial improvement has taken place in the application of this tax." Pointing out what in his opinion are the major shortcomings of this tax, he says "It is not sufficiently realised that from the view of effective application of a tax, how important it is to have a tax base which is easy to locate and identify. Between income and land as two alternative bases for a tax there could have been no question of a choice because the choice is so clearly in favour of land from the above point of view." D T Lakdawala sums up the argument against the agricultural income tax by saying that "In an under-developed country like India with smaller size of holdings, lower average incomes girater self-sufficiency. and greater illiteracy, agricultural income tax can only be collected with some degree of efficiency from a very small minority of the rural population. [D T Lakdawala, "Taxation and the Plans, P 114].

The validity of these arguments will be considered below. For the time being, however, it may be noted that, whatever its theoretical justification, the above viewpoint is fast gaining recognition in official circles; presumably also because a refined measure of taxation, however much it may correspond to equity ideals, is also usually a difficult tax to administer and hence may be sacrificed for a simpler measure. We find, for example, that the

Government of Rajasthan's Finance Enquiry Committee compares the agricultural income tax with the more inequitable but simpler surcharge on land revenue and recommends the latter because amongst other reasons the "mode of assessment will be simpler and less Iron blesome."

Far from Redundant

Some of these criticisms of the agricultural income tax have already been discussed while reviewing the working of this tax, e g yields, coverage, etc. It has to be seen, however, whether the agricultural income tax has become redundant after the abolition of intermediaries and the application of ceilings on land holdings and also whether the State tax administration can cope with the burden of levying this tax efficiently enough to realise expanding yields. Perhaps the argument that ceilings on land holdings make a progressive agricultural income tax redundant has been overstressed. To begin with, of course there is the political argument that ceilings on land holdings, have not been applied with as much rigour as was intended. However, leaving aside the political arguments and judging ceilings on land holdings in the light of the intention of the legislation itself, certain very interesting results emerge. One such point is that the ceiling on land holdings is so flexible that the income from the maximum agricultural holding could be subject to agricultural income tax. This is corroborated by facts. Let us take the case of Rajasthan. The ceiling was fixed at 30 standard acres of land for a family of five persons. Five extra standard acres were allotted up to a maximum limit of 60 acres. A standard acre is ".....likely to yield ten maunds of wheat yearly." [Government of Rajasthan. Rajasthan (Tenancy Amendment Act) 1960, p 3]. The price of wheat in December 1959 (it has risen since then) was Rs 17.37 per maund. At this price. 30 standard acres would yield an income of Rs 5,211 per year and the maximum of 60 standard acres Rs 10,422 per year. Agricultural incomes of this magnitude would definitely be subject to an agricultural income tax, if one existed. Ceilings on land holdings are liberal even as they are, but especially because they are not a ceiling on income but only a ceiling on land. And in

a developing economy where prices are rising and productivity of land is increasing, the 'ceiling' on land, will not always lead to a ceiling on agricultural income. As such, the ceiling on agricultural income from land will, within certain broad limits be a flexible concept.

Thus the base of the agricultural income tax will not be unduly narrowed with the application of the agricultural income tax, because income from agricultural holdings, even after the application of ceilings may in reality still be above the exemption limit of this tax. However, it may be argued that although the ceiling on agricultural income is flexible, an upper limit will always be there, while the purpose of an agricultural income tax would be largely only to tax incomes above this limit. But now we must also keep in mind that after the abolition of intermediaries, most of the units in the agricultural sector which yield large incomes (already existing or likely to emerge in the process of economic development) are exempted from the legislation of ceilings on land holdings. This might seem rather surprising, but a close look at the list of exemptions appended to most acts relating to ceilings on land holdings confirms it. The main sources of large incomes from agriculture, like large mechanised and specialised farms, dairies, breeding centres, orchards and groves, plantations (in most cases) and co-operative farms are all exempted from ceilings on land holdings. Actually large rental incomes having been more or less abolished, these remain the major sources of large incomes in the agricultural sector. It would be absolutely anachronistic if such sources of large agricultural incomes—which escape the legislation of ceiling, on land holdings are exempted from progressive income taxation. It is strange that this progressive agriculture income taxation should be abolished on the grounds that it has lost its *raison de etre* after the application of ceilings.

Taxation of Larger Units

The taxation of large units in the agricultural sector is further justified by the fact that these large units, are in a more advantageous position to use to their benefit the whole gamut of extension services and credit facilities which are provided through our rural planning

agencies. Considering, that it is a deliberate objective of policy to encourage these large units and to provide conditions which lead to their expansion, there seems to be little justification for not subjecting them to progressive taxation. Actually there is little reason for even exempting co-operative farms from this tax. A sample study of co-operative farms by the Planning Commission pointed out that many co-operative farms are merely a cover for mechanised farms run with hired labour, so that their owners can secure the benefits provided by the Government for genuine co-operative farms, [Programme Evaluation Organisation, Planning Commission 'Studies in Co-operative Farmings'],

The argument that taxation might be a disincentive, may be countered by providing the same tax holiday and other concessions which are given to new concerns in the non-agricultural direct taxation structure. A good tax system should always adjust itself to changes in production-techniques and other economic and social conditions. In this connection the agricultural income tax has another advantage, in the sense that it might orient the rural taxation structure to the needs of a more efficient agricultural economy which is the objective of rural economic planning. Actually to the extent that rural planning is successful in encouraging large-scale farming with modern techniques (in practice, however, it is still not clear whether the real policy basis of our agricultural planning will lead to large-scale farming or a small peasant proprietor economy with adequate servicing facilities) the agricultural income tax will become an ideal fiscal measure for mobilising resources for economic development.

Assessment of Income

There remains the argument that the administration of an agricultural income tax which would involve the estimation of agricultural incomes, maintenance of accounts and other difficulties, would raise so many problems both of a conceptual and practical nature that the working of this tax with even a minimum standard of efficiency, would be beyond the administrative capacity of many State Governments. We will see below that the administration of this tax can be considerably simpli-

fied, but apart from this, it is also possible to underestimate the capacity of State tax administrations. It is obvious that "... success in tax administration goes hand-in-hand with success in other branches of Government administration". [Haskell P Wald, Taxation of Agricultural Land in Under-Developed Economies, p 162].

Those who had been studying planning and administration in the States, would have no hesitation in saying that the State administrations have been required to play a far more important and diversified role than before during the last decade of economic planning. The implementation of programmes of Community Development, social services and transport and power development involve a good deal of administrative capacity and co-ordination within the State itself and with the Planning Commission and various Central Ministries. The available statistical indicators all point to a much higher level of performance of the States in the Second Plan period than in the First Plan. This is all the more true in the fiscal field. Of particular interest to us is the fact that the States have been, during the last decade, carrying out extensive revenue settlement and resettlement operations on land. "Many of the basic administrative requirements of land taxation can be satisfied in conjunction with the Government's administration of a land programme." [Ibid, p 165]. This is of particular interest to us because an adequate and experienced land settlement machinery is a precondition of the operation of an agricultural income tax which also relies on presumptive techniques of assessment, as suggested below.

One of the basic problems that the administration of the agricultural income tax throws up, is that the income of many small peasant proprietors cannot be assessed because they do not maintain any accounts. This is used as a major argument against an agricultural income tax in our country. It would be interesting to note how a few other countries of the world (some with tax administrations probably less experienced than India's) have solved this problem. In many Latin American Countries (Argentina, Brazil, Chile and Mexico), and some West European Countries (particularly Switzerland) a presumptive technique of

assessment is used for assessing agricultural income which is then taxed with an income tax *. The presumptive technique of assessment of farm income is usually based on some simplified procedures involving easily applicable indicators. In this connection Poland has developed "a simplified system of assessment based on external characteristics." [Jerry Lubowicki. "System of Taxation", Polish Perspectives, May 1961], Different types of land are assessed according to different "norms of estimated gross income per hectare". Various indicators like capital equipment on a farm, the size of the family, the size of the marketable surplus and of course the fertility and other characteristics of the land itself, may be given weight in the presumptive assessment of income from land.

Presumptive Assessment

The technique of presumptive assessment is of course, already used in the assessment of land revenue in India. It has actually been used in the assessment of the agricultural income tax in Mysore, in a modified form it can help in overcoming the difficulties faced in the levying of an agricultural income tax in India. In the case of the larger farming units, say, with an income above Rs 10,000 per year, maintenance of accounts should be compulsory. The presumptive technique of assessment could be used for the smaller assessees. The principle formulated by the Direct Taxes Administrative Enquiry Committee, that in the case of the smaller assessees for the non-agricultural income tax, the assessment formula should be as simplified as possible should be extended to the field of agricultural income tax also. In case the assessee is not satisfied with the income assessed by the presumptive technique, he must have the right to pay the tax on his "actual" income, but then it would also be fair to throw on him the onus of furnishing proper accounts. Perhaps this provision would lead to better accounting

* See 'Agricultural Taxation and Economic Development' edited by Wald and Froomkin; articles on "The Adaptation of Income Taxation to Agriculture in Underdeveloped Countries" by W W Heller and on "Survey of Principal Methods of Taxing Agriculture [in Underdeveloped Countries]" by the Fiscal Division, Department of Economic Affairs, United Nations.

procedures being used in the rural sector, which would also be useful in other ways for planning.

Once the principle underlying this scheme is accepted its actual working out would raise some difficulties, but these would not be of an insur-

mountable nature; and the experience gained in land settlement operations would be an invaluable asset in solving them. An agricultural income tax, modified by the application of presumptive techniques for assessment of smaller in-

comes, is quite practical in our country. It would be an excellent supplement to land revenue. It has the advantage of providing an element of much needed progression in our rural taxation framework and will also yield substantial revenue.

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