
CHAPTER - SIX

Chapter 6

INDIRECT TAXES ON AGRICULTURE

6.1 INDIRECT TAXES

Indirect taxes on agricultural sector would cover taxation of agricultural inputs like use of electric and diesel pumps, taxes on electricity used, fertilisers, pesticides, etc. durable consumer goods and so on. Here both the central and state governments have jurisdiction of imposition of taxes. Central government resorts to imposing excise duties while state governments depend largely on sales tax.

6.2 STUDIES REGARDING INCIDENCE OF INDIRECT TAXES

The first systematic study of the overall incidence of indirect taxes in India was carried out by the Taxation Enquiry Commission, 1953-54 (TEC). This study was based on consumer expenditure data collected by the National Sample Survey (NSS) in the Fourth Round for the period April/September 1952 and it worked out the burden of indirect taxes in terms of percentages of expenditure in different monthly expenditure classes. More or less the same exercise was repeated for the years 1958-59, 1963-64 and 1973-74 by the Economic Division in the Ministry of Finance, Government of India¹. The main object of that study was to measure the distribution of the money burden of indirect taxes among expenditure groups in

both urban and rural areas and to indicate the order and direction of changes which had taken place since 1953-54, the year for which the Taxation Enquiry Commission had undertaken the first comprehensive study.

Unfortunately, however, we do not have for India either adequate data on income distribution or expenditure data by income groups. NSS provides details of expenditure only by expenditure groups. Hence most of the earlier studies of the incidence of commodity taxation have had to be content with working out the burden in terms of percentages of expenditure of households in different total or per capita expenditure classes.

6.3 DISTRIBUTION OF TAX BURDEN

Indirect taxes levied by the Central and the state governments rose from 8.9 percent of national income in 1963-64, the year of the last Ministry of Finance study of incidence, to 11.2 percent in 1973-74. Of this 11.2 percent, 1.65 percentage points could be said to have fallen on the government sector and on the investors and the rest to have been shifted to the private consumers. The portion falling on the consumers is estimated to have amounted to 10.54 percent of household consumption expenditure. This is an average of the burdens on the rural and the urban households. While the burden on the rural households amounted only to 8.0 percent of their consumption,

that on the urban households amounted to 18.0 percent. The rural sector accounted for 77 percent of private consumption and bore 57 percent of the indirect taxes allocable to consumers. The share of the rural sector in total population is estimated to have been 80.1 percent in that year. In the Ministry of Finance study of 1968-69, it has been estimated that, as of 1963-64 the rural sector accounting 81.5 percent of the total population then, had paid 60 percent of the indirect taxes. Thus the tax share of rural sector is seen to have fallen while its share in population also declined slightly.

The per capita indirect tax payment per annum for the urban households amounted to Rs.174.50 in 1973-74 and was about three times the per capita payment of Rs.57.30 estimated for the rural households. The proportion was nearly the same (2.9) in 1963-64².

6.4 DISAGGREGATION OF TAX BURDEN

Table 6.1 presents the details of the indirect taxes paid by the different per capita expenditure groups in rural and urban areas.

The progressive pattern of distribution of indirect tax burden is seen to prevail also among rural and urban households, except that the burden on the urban households is distinctly higher than on the rural households in the corresponding expenditure classes. This difference is partly due to the higher proportion of non-cash expenditure for the rural households and partly due to differences in the pattern of consumption between rural and urban households³. The former was the more important factor. This can be seen from the

Table 6.1

Indirect taxes as percent of total expenditure and total cash expenditure by per capita expenditure groups. (1973-74)

(In percentage)				
	Rural		Urban	
Monthly per- capita exp- enditure group	Tax as per- cent of total expenditu- re	Tax as percent of total cash expenditu- re	Tax as per- cent of total expenditu- re	Tax as per- cent of total cash expenditu- re
0-15	2.91	4.55	3.63	4.44
15-28	3.33	5.25	6.31	6.79
28-43	4.45	7.27	7.36	7.93
43-55	6.18	10.32	9.66	10.31
55-75	6.71	11.40	11.86	12.70
75-100	10.02	16.43	14.80	15.86
100 and above	16.17	22.46	30.19	31.35
All households	8.03	12.87	17.96	19.03

Source : Report of the Indirect Taxation Enquiry Committee
Part II, January 1978, Government of India,
Ministry of Finance, Department of Revenue, P. 90.

fact that tax burden as a percentage of cash expenditure is only marginally different as between rural and urban households in the same per capita expenditure classes except for the class having per capita expenditure of Rs.100 and above. In the rural sector, the proportion of cash expenditure remains more or less constant as one moves up the expenditure scale except of the very top, whereas in the urban sector the proportion of cash expenditure rises with the level of per capita total expenditure. This is one of the causes of the higher degree of progression in the urban sector.

6.5 CENTRAL AND STATE INDIRECT TAXES

The incidence of indirect taxation given above represents the combined burden of Central and State taxes. The incidence of the individual taxes included in the study, on the various per capita expenditure classes is shown in Table 6.2.

It will be observed that Central taxes account for the larger share of incidence in both rural and urban sectors. But the difference is much more substantial in relation to the urban sector (Central taxes accounting for 12.0 percent and state taxes for 5.9 percent) than in relation to the rural sector (Central taxes 5.0 per-cent and state taxes 3.0 percent).

Another important conclusion to be drawn from the table is that the central indirect taxes are more progressive

Table 6.2

Central and state indirect taxes as percent of consumer expenditure by per capita expenditure groups. (1973-74)

		(In percentages)								
		Monthly expenditure groups (in Rs.) per capita.								
		0-15	15-28	28-43	43-55	55-75	75-100	100 and above	8	9
1	2	3	4	5	6	7	8	9		
Rural										
Central taxes	1.68	1.86	2.58	3.68	4.25	6.32	10.30	4.99		
Central excise	1.42	1.50	2.01	2.92	3.27	4.95	7.87	3.85		
Import duty	0.26	0.37	0.58	0.76	0.99	1.48	2.43	1.14		
State Taxes	1.23	1.47	1.86	2.50	2.46	3.70	5.97	3.04		
Sales Tax	0.67	0.85	1.02	1.23	1.31	1.77	2.60	1.49		
State excise	0.22	0.27	0.32	0.63	0.37	0.83	1.82	0.73		
Others	0.34	0.35	0.53	0.64	0.78	1.00	1.44	0.83		
All Indirect Taxes	2.91	3.33	4.45	6.18	6.71	10.02	16.17	8.03		
Urban										
Central taxes	2.42	3.74	4.56	5.97	7.61	9.41	20.99	12.03		
Central excise	2.42	3.11	3.75	4.94	6.26	7.77	16.78	9.73		
Import duty	0.00	0.63	0.81	1.03	1.36	1.63	4.21	2.38		
State Taxes	1.21	2.57	2.80	3.69	4.25	5.40	9.20	5.93		
Sales Tax	0.30	1.63	1.86	2.35	2.69	3.01	4.51	3.23		
State excise	0.00	0.13	0.02	0.20	0.16	0.79	2.27	1.01		
Others	0.91	0.82	0.92	1.14	1.41	1.60	2.41	1.69		
All Indirect Taxes	3.63	6.31	7.36	9.66	11.96	14.80	30.19	17.96		

Source : Report of the Indirect Taxation Enquiry Committee, Part II, January 1978, Government of

than the state taxes. Central excise contributing about 50 percent to total incidence is, of course, the most important single tax and is also seen to be the most progressive. However, the two taxes that fall more lightly on the lowest two expenditure groups are import duties and state excise on liquor, whereas Central excise and sales taxes account for 72 percent of the incidence on them⁴.

6.6 INCIDENCE BY TYPE OF GOODS

L.K. Jha committee, 1976 has made attempt for the first time in India to work out the incidence of tax on major types of goods separately. Goods subject to tax have been classified into three main groups according to the nature of use, namely (i) mostly in the nature of consumption goods, (ii) mostly in the nature of intermediate goods including raw materials and (iii) capital goods, partly capital goods and parts thereof. The contribution of the indirect taxes on each group of commodities to the aggregate incidence is brought out in Table 6.3.

It is observed that the level of the incidence on urban households is nearly double that on the rural households. In both the sectors, consumption goods account for around 50 percent of the total incidence and the share of capital goods, partly capital goods and parts thereof amounts to about 6 to 7 percent of the incidence. The remaining portion of incidence

Tax burden as percent of consumer expenditure on all indirect taxes according to type of good:

Monthly per capita expenditure groups (in Rs.)									
	0-15	15-28	28-43	43-55	55-75	75-100	100 and above	All house-holds	
	1	2	3	4	5	6	7	8	9
RURAL									
1) Consumption goods.	1.28	1.51	2.08	3.20	3.16	5.18	8.53	4.05	
2) Intermediate goods	1.47	1.62	2.10	2.63	3.17	4.32	6.78	3.53	
3) Capital goods	0.16	0.21	0.27	0.35	0.39	0.53	0.86	0.45	
4) Total (All indirect taxes)	2.91	3.34	4.45	6.18	6.72	10.03	16.17	8.03	
URBAN									
1) Consumption goods.	1.82	3.06	3.62	5.16	6.36	8.38	14.78	9.17	
2) Intermediate goods	1.81	2.90	3.38	4.10	5.00	5.80	12.57	7.48	
3) Capital goods	0.00	0.35	0.36	0.40	0.50	0.62	2.84	1.31	
4) Total (All indirect taxes)	3.63	6.31	7.36	9.66	11.86	14.80	30.19	17.96	

Source : Report of the Indirect Taxation Enquiry Committee, Part II, Government of India, January 1978, P.9.

is attributable to intermediate goods. One point that deserves to be noted is that in the rural sector the incidence of taxes on intermediate goods is higher than that of taxes on consumption goods for the lowest two per capita expenditure groups. For all the groups above them the incidence of taxes on consumption goods is higher whereas in the urban sector the incidence of taxes on intermediate goods is slightly lower for the same two per capita expenditure groups.

6.7 BURDEN OF STATE TAXES

In the case of state taxes, however, consumption goods account for very high share of incidence as compared to the other two groups of commodities for both the rural and urban sectors. But as seen in Table 6.4 the aggregate incidence of state taxes is more in urban sector than in rural sector. In urban sector it is 5.93 and in rural sector it is only 3.04.

6.8 COMPARISON OF INCIDENCE OF INDIRECT TAXES IN 1963-64 AND 1973-74

A rough comparison can be made between the results of Indirect Taxation Enquiry Committee (1973-74) with those of the Ministry of Finance for the year 1963-64 in respect of only two expenditure groups. On the assumption that an average family consists of five persons, the per capita expenditure groups of Rs.100 and above in the 1973-74 study can be converted into a household expenditure group with an expenditure of Rs.500 and above. The incidence of taxes on this group and on all households

Table 6.4

Burden of state taxes as percent of consumer expenditure according to type of goods

		(In percentages)								
		Monthly per capita expenditure groups (in. Rs.)								
		0-15	15-28	28-43	43-55	55-75	75-100	100 and above	All households	
1	2	3	4	5	6	7	8	9		
<u>RURAL</u>										
1)	Consumption goods.	0.87	1.08	1.36	1.88	1.71	2.73	4.33	2.23	
2)	Intermediate goods.	0.21	0.22	0.29	0.37	0.46	0.61	1.00	0.50	
3)	Capital goods	0.15	0.17	0.21	0.25	0.29	0.36	0.54	0.31	
4)	Total State taxes	1.23	1.47	1.86	2.50	2.46	3.70	5.87	3.04	
<u>URBAN</u>										
1)	Consumption goods.	1.21	1.84	1.96	2.71	3.05	4.13	6.41	4.24	
2)	Intermediate goods,	Negl.	0.46	0.56	0.67	0.84	0.89	1.33	0.96	
3)	Capital goods	Negl.	0.27	0.28	0.31	0.36	0.38	1.46	0.73	
4)	Total State taxes	1.21	2.57	2.80	3.69	4.25	5.40	9.20	5.83	

Source : Negl. - Negligible.

Source : Report of the Indirect Taxation Enquiry Committee Part II, Government of India,

January, 1978, P. 95.

Table 6.5

A comparative statement of incidence of indirect taxes in 1963-64
And 1973-74

(In percentage)

Indirect Taxes	Rural		Urban	
	Rs.500 and above	All households	Rs.500 and above	All households
1	2	3	4	5
<u>1963-64</u>				
1) <u>Central taxes</u>	<u>10.47</u>	<u>5.76</u>	<u>23.16</u>	<u>11.07</u>
a) Central excise	7.47	8.95	16.10	7.70
b) Import duty	3.01	1.81	7.06	3.37
2) <u>State taxes</u>	<u>4.22</u>	<u>2.26</u>	<u>10.12</u>	<u>5.53</u>
a) State excise	0.67	0.52	0.94	0.48
b) Sales tax	2.59	1.24	7.02	3.67
c) Others	1.41	0.82	2.16	1.38
3) <u>All Indirect taxes</u>	<u>14.69</u>	<u>8.02</u>	<u>33.28</u>	<u>16.60</u>
<u>1973-74</u>				
1) <u>Central taxes</u>	<u>10.30</u>	<u>4.99</u>	<u>20.99</u>	<u>12.03</u>
a) Central Excise	7.87	3.85	16.78	9.73
b) Import duty	2.43	1.14	4.21	2.30
2) <u>State taxes</u>	<u>5.87</u>	<u>3.04</u>	<u>9.20</u>	<u>5.93</u>
a) State excise	1.82	0.73	2.27	1.01
b) Sales tax	2.60	1.49	4.51	3.23
c) Others	1.45	0.82	2.41	1.69
3) <u>All Indirect Taxes</u>	<u>16.17</u>	<u>8.03</u>	<u>30.19</u>	<u>17.96</u>

Source : Report of the Indirect Taxation Enquiry Committee Part II, Government of India. Ministry of Finance Jan.1978, P.

can then be compared as between the two studies. An attempt in this direction is made in Table 6.5.

All the earlier studies had also revealed a progressive distribution of indirect taxes with reference to consumer expenditure. The 1973-74 study indicates a much more progressive pattern of indirect taxation than the earlier studies. In the Ministry of Finance study for 1963-64 the incidence of all indirect taxes for the rural sector was 8.02 percent to all households and 16.60 percent in urban sector. In the 1973-74 study for the rural sector it was 8.03 percent and for urban sector it was 17.96 percent. This shows that incidence of indirect taxes is more in urban sector than rural sector.

6.9 CONCLUSION

The highlights of two major studies on incidence of indirect taxes as presented in the preceding section lead to the overall inference that the rural population, majority of which is the agricultural ^{class}, shouldered lesser burden of indirect taxes imposed both by the centre and the states. In the absence of studies regarding agricultural sector independently, results pertaining to the rural sector have to be accepted as near to reality.

REFERENCES

- 1 Government of India, Ministry of Finance, Department of Revenue. Report of the Indirect Taxation Enquiry Committee, Part II, January, 1978. P. 88.
- 2 Ibid., P. 89
- 3 Chelliah, Raja J. and Lal Ram No. Incidence of Indirect Taxation in India, 1973-74. National Institute of public Finance and Policy, 1978.
- 4 Ibid., Op. P. 94.