
CHAPTER - ONE

Chapter 1

INTRODUCTION

1.1 INDIA'S TAX STRUCTURE

The Indian Constitution provides for the division of tax powers between the States and the Union¹. The division closely follows that established by the Government of India Act, 1935. Local authorities are considered to fall under the aegis of their respective state governments and thus have no explicit share in the allocation of tax powers. Under the quasi-federal character of the constitution, fairly wide powers are vested in the states, but residual tax powers belong to the Union. The principle adopted for this classification is that, taxes which have an inter-state base are levied by the Union, while those with a local base are levied by the states. The residuary powers belong to the Union.

Taxes within Union jurisdiction, enumerated in List I, Seventh Schedule of the Constitution, are as under :

Taxes on income other than agricultural income, corporation tax, customs duties, excise duties except



on alcoholic liquors or narcotics, estate and succession duties other than on agricultural land, taxes on the capital value of assets, except agricultural land, of individuals and companies, stamp duties on financial documents, terminal taxes on goods and passengers, taxes on railway freights and fares, taxes other than stamp duties on stock exchange and future market transactions, taxes on the sale or purchase of newspapers and on advertisements therein, taxes on the sale or purchase of goods in the course of interstate trade, all taxes not enumerated in the state list or concurrent List.

Taxes within the jurisdiction of the states are enumerated in List II, Seventh Schedule, as under :

Land revenue, taxes on the sale and purchase of goods, except newspapers, taxes on agricultural income, taxes on lands and buildings, succession and estate duties in respect of agricultural land, excise on alcoholic liquors and narcotics, taxes on the entry of goods into a local area, taxes on mineral rights, subject to any limitations imposed by Parliament, taxes on the consumption or sale of electricity, taxes on vehicles, animals and boats stamp duties, except those specified in the union

List, taxes on goods and passengers carried by road or inland water wages, taxes on luxuries including entertainments, betting and gambling, tolls, taxes on professions, trades and callings and employment capitation taxes, and taxes and advertisements other than advertisements in newspapers.

The Union Government has exclusive power to impose taxes which are not specifically mentioned in the state or Concurrent Lists. The union and the state Governments have concurrent powers to fix the principles on which taxes on motor vehicles shall be levied and to impose stamp duties on non-judicial stamps. The property of the union is exempted from state taxation and the property and income of the state are exempted from union taxation. The Parliament may, however, pass legislation for taxation by the union of any trading or business activities of a state which are not part of the ordinary functions of the Government. States may delegate part of their taxation power to the Central Government as has happened in the case of agricultural land being included in the purview of the Estate Duty Act in many states. Parliament has exclusive power to tax sales or purchases of goods in the course of inter state trade.

Although no taxes are constitutionally reserved for local authorities, the states may assign any of the taxes on the state List, either in whole or in part, to local bodies such delegation enables state Governments to exercise a degree of supervision and control over the affairs of local bodies. The taxes traditionally assigned are property taxes, octroi and terminal taxes, taxes on professions, taxes on vehicles and animals, and more recently, entertainment duties¹.

Thus, the Indian Constitution, being federal in character, has indicated the nature and scope of functions of the union and state Governments and also the taxes allocated to them. At the same time, The framers of the constitution were aware that the allocation of financial resources did not correspond with the assigned functions and that the resource gap in the states might widen over the years. They provided for the devolution of resources from the center to the states. It was specifically for this purpose that Article 280 provides for the setting up of a Finance Commission by the President every five years or earlier.

1.2 TAX REVENUE

The tax-revenue in India has been rising almost continuously, both in absolute amount as also as a percentage of national income. Total amount of tax revenue on account of the Centre, States and Union Territories which was around Rs.627 crores in 1950-51 rose to Rs.1,350 crores in 1960-61 to Rs.4,735 crores in 1970-71, to Rs.21,997 crores in 1981-82 and further to 35,280 crores in 1984-85. As a percentage of total revenue, it remained around 80 in all these years. In terms of the percentage of national income at current prices, it was 6.6 in 1950-51, 10.2 in 1960-61 11.8 in 1970-71, 14.9 in 1980-81 and 22 in 1984-85 thus showing a rising trend. As between direct and indirect taxation, the tax structure has undergone significant changes during the post-Independence period². Between 1950-51 and 1984-85 direct taxes increased by 24 times but indirect taxes increased by 68 times. The ratio of direct to indirect taxes was 35 : 65 in 1950-51 which changed to 16 : 84 in 1984-85. This fact shows how indirect taxes have increased both in volume and in importance. The burden of financing Government activity in the country is increasingly borne by the middle and lower income groups; in other

words, the Indian tax structure is becoming highly regressive.

Of all the sources of financing revenue expenditure, tax revenue has provided the largest part of finance. The total revenue expenditure in 1950-51 was Rs.731 crores. Of this, tax revenue financed as much as 86 percent. In 1960-61, of the total expenditure at Rs.1,634 crores, tax revenue provided 82 percent of the finance. In 1970-71 this source financed expenditure of Rs.5,666 crores.

1.3 EVOLUTION OF AGRICULTURAL TAXES IN INDIA

This part attempts to trace briefly the evolution of land revenue and agricultural income tax in India.

1.3.1 LAND REVENUE

1.3.1.1 Ancient India

In the writings of Manu references are found that the main source of state revenue was a share of the gross produce of all land varying according to the quality of soil and the amount of labour necessary to cultivate it. In normal times the share varied between one twelfth and one sixth, but was liable to rise even to one fourth in times of war or other public calamity.

In the vedic period there was individual ownership of land and a compulsory levy called 'Bali' was realised by the king, in kind (grain or cattle) as a part of gross agricultural product. The great Epic Mahabharat mention, 'Bali' to be one-sixth of the gross produce³.

The most comprehensive and detailed account of ancient land revenue system is found in Kautilya's Arthashastra (323 B.C.). During the reign of Chandragupta Maurya, land revenue was fixed at one-sixth of gross agricultural product. A number of other levies were also imposed⁴. The Mauryan land revenue system was based on the measurement of each field and soil classification of each survey number according to the quality of the soil in various grades. The details of the field and the crops grown were kept by the officials. This system seems to have much semblance with the present system prevailing in India.

Settlement operations in the Gupta period were more systematized. The records of rights were prepared and kept systematically. Land was surveyed, measured and divided into holdings called 'Pratyayas' with their boundaries properly demarcated. The land revenue system continued on traditional lines in the post Gupta period

The land revenue system as was prevalent in Northern India, was more or less replicated in south also with certain local variations as to details. The assessment varied according to crops. All kinds of profit and income earned within the village from agriculture, orchards, trees, handicrafts, trade and professions were subject to rural taxation⁵.

Thus, under Hindu period the state claimed usually 1/6 of the produce as land revenue and in emergencies 1/4 or even 1/3 of the share. The revenue was normally paid in kinds and realized by revenue agents. The common practice was to do 'Survey' followed by 'Settlement' and preparation of record of rights so that assessments may be easily calculated.

1.3.1.2 Mediaeval period

Muslim rule

The period of Muslim rulers like Allauddin Khilji, Muhammad Tughlug, Firuz Tughluq (1351-1388) brought about no significant change in the indigenous revenue system and administration. The indigenous Hindu land revenue system was practically taken over by the Muslim rulers and was accepted by the people as traditional. All work of assessment and collection of land revenue

was in the hands of Hindu officials.

In Muslim period, the claim of land revenue varied from $1/3$ to $1/2$. In this period the method of enforcing the standard of cultivation and cruel methods for the realization of arrears were much in practice⁶. The collection was done by intermediaries and not directly by government officials. These intermediaries were

- i) Chiefs, i.e. ruling Hindu chiefs,
- ii) Headmen of the village,
- iii) Revenue farmers,
- iv) Assignees, i.e. Jagirdars.

There is nothing important about Mughal land revenue system prior to the reign of Akbar. Sher Shah (1540-45), however, brought about notable improvement in the method of assessment of land revenue. Standard yields of each staple crops were calculated or estimated separately for three classes of land good, middling and inferior. Then the average of these figures (standard yields) was derived and one third of the average was realized as revenue from each unit of area which was paid in kind by the cultivators.

Akbar the Great (1556-1603 A.D.) adopted Sher Shah's system as the basis of his own scheme. He brought about 'settlement' under the joint supervision of Todar Mal and Muzaffar Khan Turabati. Standardization of units of measurement was also brought about. The land revenue was fixed with regard to the productive capacity of different lands. The states share was claimed as one third of the Mahsul. Akbar instituted the period of the previous 10 years (1570-1579) A.D.) and the decennial average was fixed as the state demand of revenue.

The various system of revenue i.e.

- i) Gallabaksh,
- ii) Zabti and,
- iii) Nasaq, were in practice. On the whole, Zabti or regulation system was more common and widely adopted in the kingdom of Akbar⁷. It was in operation from west to East of India and also in the south.

During the reigns of the later Mughals, the level of assessment was raised from one-third to one-half of the gross produce or even more. Unlike the Zabti system of Akbar. nasaq or summary assessment became the rule and rental system gradually gained ground particularly in the reign of Aurangzeb, Shah Jehan

raised the demand from 1/3 to 1/2 and in Aurangzeb's time 1/2 became the standard. But with the death of Aurangzeb the system thoroughly collapsed and it required half a century for it to reclaim its recognition under administration of early British Governor Generals of India.

British rule

The East India company after the acquisition of 'diwani' of Bengal, Bihar and Orissa in 1765 appointed supervisors or collectors for the purpose of determining the amount of land held by zamindars and the rent which the cultivators should pay to them. But this system failed and therefore, collectors were abolished and Indian local collectors were entrusted with this task under the supervision of six provincial committees. Warren Hastings, however, abolished the committees and appointed a Metropolitan Committee of Revenue in their place.

Lord Cornwallis made detailed enquiries about the real jurisdiction, rights and privileges of zamindars, talukadars and jagirdars and the amounts which they were required to pay. Ultimately in 1793, the East India company decided in favour of a permanent settlement of land revenue in Bengal, Bihar and Orissa. The

permanent assessments were fixed at about ten-elevenths of the rents received by the zamindars, But the amount of land revenue which the zamindars were required to pay to the Government was based on rough estimates of lump assessments paid in the past which were adopted as the basis for permanent settlement⁸.

Towards the beginning of 19th century, the mahalwari system known as periodical settlement was adopted in north-western regions of Agra and Oudh and later extended to punjab and Central Provinces, The villagers were held jointly and severally responsible for the payment of revenue. The land revenue was initially fixed at 83 percent of the rental of the estate. In some portions of Madras, the company entered into direct settlement of land revenue with individual farmers, as it was not possible to make settlements with the whole villages. This gave rise to 'Ryotwari' system which was later extended to Bombay and other neighbouring areas. The land revenue was fixed at 45-55 percent of the gross produce. Mahalwari and Ryotwari systems depended on detailed surveys of fields and soil classification and the assessment was fixed for a definite period ranging from 15 to 40 years⁹.

1.3.1.3 Land revenue system since Independence

The British pattern of settlement and assessment of land revenue broadly continued in India even after Independence though the development of the different systems was not on the same lines in all the states. With independence and the merger of princely states, disparity widened very much as there were no complete and regular settlements or re-settlements and previous settlements had become overdue for revision in some of the states.

With the implementation of land reform measures in the country since Independence, intermediaries have been eliminated in most cases, and the former tenants are gradually becoming the occupants of land and directly responsible to the State Governments for payment of revenue. Thus the zamindari system has faded away and with it the permanent settlement of land revenue and large tracts of the country have now fallen under Ryotwari system. The tax realized from the farmer tenants is almost the same as the rent which they used to pay previously to the intermediaries¹⁰.

With the implementation of land reforms, the orthodox Ryotwari settlement is of more than usual

significance today, since all the other systems are tending to converge with it and the future of the Ryotwari settlement may be regarded as the future of the land revenue system of India as a whole¹¹.

Different bases of land revenue

Different states have adopted different bases of land revenue¹².

- i) Net assets or economic rents, is the basis of assessment in Punjab, Haryana, Uttar Pradesh, Madhya Pradesh, in some parts of Bihar, Orissa and W. Bengal.
- ii) In Tamil Nadu and Andhra Pradesh, the assessment is based on the 'net produce' or annual value of the produce.
- iii) Gross produce is the basis of assessment in Assam and the maximum limit of assessment for any tract, has been fixed at 10 percent of the value of gross produce of that tract.
- iv) In Maharashtra, Rajasthan, Gujarat, Karnatak and in certain other parts of the country the assessment is based on the rental value of land. The maximum limit of agricultural assessment was fixed at

35 percent of the rental value of land. An assessment remains in force, normally for 30 years or longer till it is revised. In 1956 gross yield was adopted as the basis for determining the standard rates of assessment in place of rental value. However no new settlement have been made since the last thirty years or so,

Except in Tamil Nadu and Andhra Pradesh, the main emphasis in all the above states is on rental value.

Rate of assessment

In those states where the basis of assessment is net produce or net assets, the range of land revenue rates vary from 25 percent to 50 percent. The taxes vary from one tenth to one fifth of the gross produce in the state like Assam where the basis is gross produce, In areas where zamindari system has been done away with, 100 percent of the settled rental value is normally the rate since 'rent' to zamindars is known the 'land revenue' to the government. In some states there are statutory provisions for suspension or remission of land revenue during the period of calamities like floods, famine etc.

With the emergence of independent India and the merger of the 'Native States', inter regional disparity

in the land revenue system got further widened. Few of the erstwhile 'Native States had a properly organised system of land revenue, Large areas had remain unsurveyed and unsettled. Land reform introduced after independence complicated the picture further.

To ensure a degree of uniformity in the land revenue system even within a state and to bring it up to date, re-settlements were called for. While this was undertaken in some states, it could not be carried out fully in all parts as it was both expensive and time consuming. Mostly, the assessments are now many decades old. Sporadic attempts were made by some states. (e.g. Kerala) to achieve at least some uniformity by levying a flat basic rates.

Meanwhile, to meet the growing and urgent needs of finance, the states started levying surcharges and cesses based on land revenue, intended to introduce a measure of progression in land revenue. In some states cesses on crops were also levied particularly on crops of high value¹³. Hariyana is the first state to abolish the land revenue in the state.

Land revenue administration

The administrative set up for the collection of land revenue has a uniform pattern with minor variations in all the states of Indian union. Each state has a Board of Revenue as the supreme revenue authority. In Punjab, there is a Financial Commissioner and in Maharashtra the Revenue Tribunal who perform the same work as is performed by the Board of Revenue in other States. All cases of appeals, revision, etc. are decided by the Board of Revenue States are divided into divisions and, or districts with Commissioners and/or collectors as the chief officers of their areas. The districts are further divided into sub divisions under the subdivisional officer. The Tehsils or talukas remain under the charge of a Tehsildar with one or two Naib Tehsildars to assist him. Below this hierarchy are the village officers, who actually collect the land revenue, prepare accounts and keep records. They are called as 'lambardars' or 'patils', 'patwaris' or village accountants'. However, recently the lambardari system has been abolished and the patwaris have been entrusted with the duty of collection of land revenue.

1.3.2 AGRICULTURAL INCOME TAX

1.3.2.1 Agricultural income-tax in the 19th century

Income-tax, first made its appearance in India in the year 1860 to make up the financial deficiency on account of heavy expenditure incurred in the suppression of the Mutiny of 1857. When the Crown took over the administration from the East India company in 1858 James Wilson was appointed as the First Finance Minister of the Viceroy's Council. He was responsible for introduction of agricultural income-tax in the country.

The tax was, however, suspended for some time in 1865, but was reimposed in 1869. The general exemption limit of income tax was raised to Rs.1,000 in 1872 but the tax was discontinued from the next year. It was reintroduced in 1878 to meet financial exigencies. Thus the income from agriculture was taxed from 1860 to 1865 and again from 1869 to 1873. The exemption people of India enjoyed from 1865 to 1869 and from 1873 to 1878 was in common with all other incomes. However, there was no agricultural income tax during the period 1886 to 1935.

The Indian Taxation Enquiry Committee of 1925 considered the broader aspects of land revenue, and

observed that there was no historical or theoretical justification for the continued exemption from the income-tax of income derived from agriculture eventhough there were certain administrative and political objections to the removal of this exemption¹⁴.

1.3.2.2 Agricultural income-tax since 1935

But the position remained the same until the attainment of Provincial Autonomy in 1937 with the passing of the Government of India Act 1935 a separate provincial levy on agricultural incomes became possible for the first time as the taxation of agricultural incomes was included in the provincial list. The separation of the two types of income and the allocation of agricultural income-tax to the states have remained unchanged since then, as the constitution of the Republic of India has adopted these provisions of 1935 Act, so far as this tax is concerned.

The states under permanently settled area took the initiative to levy this tax because in those states the yield from land revenue was small and inelastic. Bihar was the first state to introduce this tax in 1938 and a legislation to that effect was passed. Assam and Bengal passed Agricultural Income tax Acts in 1939

and 1944 respectively so as to derive income from large tea plantation and other companies in these states. Orissa enacted the legislation in 1947. Uttar Pradesh in 1948, Travencore-cochin and Hyderabad in 1950, Rajstan and Bhopal in 1953, and Madras and Mysore in 1955.

Uttar Pradesh replaced the 1948 Act by passing the Uttar pradesh Large Land Holdings Tax Act 1957, which imposed the tax on large land holdings in the state. The new agricultural Income-tax Act of Mysore was passed in 1957, which applied only to the incomes derived from commercial crops. Maharashtra has introduced the tax since 1962 with an exemption limit as high as Rs.36,000. In 1960 Kerala raised the exemption limit to Rs.3,600 for the entire state. Tamil Nadu amended the agricultural Income-tax Act of 1955 so as to widen the tax base.

A number of states in India have not levied this tax. Andhra Pradesh, Gujarat, Haryana, Madhya Pradesh (excluding Bhopal, Vindhya Pradesh and Siroj regions) Punjab and Rajastan are among them. To this category may be included all the union territories with the exception of Tripura. Andhra Pradesh repealed the

Hyderabad Agricultural Income-tax Act, 1950 and has imposed a surcharge on land revenue in its place. Rajasthan abolished the tax in 1960 and substituted surcharge on land revenue. Uttar Pradesh has passed necessary legislation for repealing the Large Land Holdings Tax Act, 1957. The important reasons for the repeal of legislation in the latter were

- i) decline in the number of assesseees and income assessed as a result of the abolition of intermediaries and the consequent break-up of large estates and
- ii) The imposition of a ceiling on land holdings in the state¹⁵.

1.4 FRAMEWORK OF THE STUDY

1.4.1 OBJECTIVES

In spite of the fact that annual tax proceeds of the union as well as state governments have been on the increase, the requirements of plan finance in every successive five-year plan have been so heavy that the governments at both the levels have been compelled to deepen and widen their tax network. There are obvious limits to intensifying the existing tax burden and hence

the governments have to be constantly on a look out for untapped and underutilised sources of revenue. Agricultural sector comes forth conspicuously in this context. It is an undertaxed sector and it has great potentialities for revenue generation. Notwithstanding this, the sector has been largely kept outside the tax network. It is, therefore, interesting to study the pros and cons of this phenomenon. The present study is devoted to an examination of this issue on the basis primarily of available official information. Specific objectives of the study are as under :

- 1) to take an historical account of agricultural taxation in India.
- 2) to take stock of the controversial views on agricultural taxation.
- 3) to review the progress of direct taxes on agriculture during the post-independence period and
- 4) to know the trend in indirect taxes on agriculture during the post-independence period.

1.4.2 HYPOTHESIS

Eventhough India continues to derive a large chunk of her national income from the agricultural

sector. She has not fully exploited this sector for generating revenue required for developmental programmes. Agriculture has the potentialities of contributing substantial revenue to the state exchequer.

1.4.3 METHODOLOGY

The entire work is based on the secondary data available from various official and non-official sources. Government reports and books and articles of experts have been extensively used to put the relevant facts in juxtaposition and in a concise manner in order to derive meaningful conclusions. Bibliography at the end of this volume lists the major sources of information.

1.4.4 SCHEME OF STUDY

The introduction chapter provides very briefly a backdrop of agricultural taxation in India through ancient, mediaeval and modern period.

Chapter 2 deals with controversy over agricultural taxation in India the basis of view expressed in various committee reports, publications of experts and Government publications.

Chapters 3 and 4 scan through direct taxes on agriculture and deal with land revenue in the former and agricultural income tax in the latter. Both the chapters bring out the trends on all India basis as also analyse the statewise picture.

Chapter 5 also deals with direct taxes other than land revenue and agricultural income tax. It takes only a cursory review of the state of other direct taxes. Chapter 6 pertains to indirect taxes on agriculture with particular reference to their incidence. Chapter 7, the last one, is devoted to presentation of important suggestions for improving the system of agricultural taxation in the interest of generating adequate tax resources from the agricultural sector to meet the requirements of developmental planning in India.

R E F E R E N C E S

1. Constitution of India, Seventh schedule, List 1 - Union List, List 2 - State List. See also the extensive discussion of the constitutional division of tax power in Government of India.

Report of the Taxation Enquiry Commission, New Delhi, Ministry of Finance, 1953-54, Vol. I, ^{pp.} 8-14, and in
Cutt James, Taxation and Economic Development in India,
Frederick A. Praeger Publishers, New York, 1969,
PP. 1-8

2. Government of India, Report of the Indian Taxation Enquiry Committee, 1924-25, Vol. I, Superintendent, Govt. Press, Madras 1926, P. 39.
3. Angrish, A.C., Direct Taxation of Agriculture in India, Somaiya Publications Pvt. Ltd., Bombay, 1972, P. 4.
4. Ibid, P. 4.
5. Ibid, P. 6.
6. Moreland, W.H., Cambridge History of India, Vol. IV, P 449 Quoted by Angrish, A.C., Op. Cit., PP. 6;7.
7. Angrish, A.C., Op. Cit, P. 9.

8. Ibid, P.12.
9. Dutt, R.C., The Economic History of India, Delhi, Government of India Press, 1960, Vol. I, PP. 110-139.
10. Government of India, Ministry of Finance, Report of the Taxation Enquiry Commission, 1953-54. Vol. III, Delhi, 1955, P 285.
11. Ibid, P.212.
12. Ibid, P.185-186.
13. Government of India, Ministry of Finance "Report of the committee on Taxation of Agriculture Wealth and income". October, 1972.
14. Report of the Indian Taxation Enquiry Committee, 1924-25, Vol. I, Op. Cit, P, 431.
15. Government of India, Economic and Statistical Adviser, Ministry of Food and Agriculture, Agricultural Legislation in India, Vol. IX, P XV, Quoted by Angrish, A.C. Op. Cit. P. 26-27.