# CHAPTER- TWO

## Chapter 2

### DEBATE ON AGRICULTURAL TAXATION

Eventhough contribution of agricultural sector to India's national income has declined during the planning period, the sector still continues to be the important one for the national economy. This leading sector of the economy is all the while expected to contribute substantially to the national exchequer through direct and indirect taxation. But, centrary to the expectations, the tax burden on agricultural sector has not been on par with that on the non-agricultural sector; the agricultural sector is grossly undertaxed should the sector be taxed heavily has remained an issue of constant debate and different sections of the society are at cross roads on this issue. This chapter, therefore, purports to present an overview regarding the following aspects :

(1) level and burden of agricultural taxation vis-a-vis non-agricultural taxation;

(2) viewpoints on agticultural taxation.

### 2.1 LEVEL AND BURDEN OF AGRICULTURAL TAXATION IN INDIA

The incidence of land revenue in relation to the productivity of land is not uniform over different parts of the country. The Committee on Taxation and Agricultural Wealth and Income, 1972, observed that "land revenue as a proportion of the net domestic product from agriculture during the period 1967-70 was on an average barely 1 percent. Again this proportion varies from 0.23 percent in Orissa and 0.24 percent in Punjab to 1.34 percent in Rajasthan"[1]. A similar camparision between different districts shows even wider range of variation. The reason for this is that land revenue settlement has been done under different systems and at different times in different parts of the country. Here two things can easily be concluded that the agriculturist pay a very small portion of their income as land revenue and the burden of land revenue tax is not uniform all over the country. It is a fact that the prosperous part of the agricultural sector is now definitely under-taxed. And as agricultural incomes grow the incidence of land revenue in relation to the productivity of land declines.

The total tax burden of the agricultural and non-agricultural sectors in relation to the National Income from the particular sector can well be compared with the help of Table 2.1.

The data from Table 2.1 reveals that in 1951-52 the agricultural sector contributed only 4.2 percent of its income in taxes as against 8.4 percent contributed by the non-agricultural sector. This percentage increased to 13.2 and 22.0 in 1961-62 and 1971-72 respectively for the non-agricultural sector whereas the corresponding percentage for the agricultural sector was 6.3 and 10.2. These data show that the non-agriculturists contributed almost twice the percentage of their income in taxes as compared to the agriculturists. The non-agriculturists also

Table 2.1

Total tax burden of the agricultural and non-agricultural sectors

| | Agricultural Sector | | | | Non-Agricultural Sector | | | |
|---|---|---|---|---|---|---|---|---|
| Year | National income from agril sector | Total Taxes | 3 as percentage of 2 | Marginal Tax Rate | National income from non-agril. sector | Total Taxes | 7 as percentage of 6 | Marginal Tax Rate |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 1951-52 | 5,020 | 215.67 | 4.2 | - | 5,080 | 430.88 | 8.4 | - |
| 1961-62 | 6,960 | 439.82 | 6.3 | 11.5 | 7,910 | 1,046.77 | 13.2 | 21.7 |
| 1971-72 | 14,197 | 1,461.89 | 10.2 | 14.1 | 18,101 | 3,997.00 | 22.0 | 28.9 |

Source :

Bhargava, P.K. and Srivastava, G.S., Tax Burden on Indian Agriculture, Bulletin for International Fiscal Documentation, Vol.28, No. 2-3, 1974.

carried a relatively greater burden of additional taxation. During the decade 1951-52 to 1961-62 the non-agriculturists contributed 21.7 percent of their additional income in taxes as against 11.5 percent contributed by the agriculturists. Similarly, during the decade 1961-62 to 1971-72 the non-agriculturists contributed 28.9 percent of their additional income in taxes as compared to 14.1 percent contributed by the agriculturists. Thus, the non-agriculturists carried almost two-third of the burden of additional taxation of planned economic development during 1951-71. These data amply demonstrate that the disparity in the tax burden between the agricultural and non-agricultural sector has continued to grow and in future years as the agricultural sector becomes more prosperous the disparity will become even wider. This view is subscribed to by the studies of A.M. Khusro, K.N. Raj, Ved. P. Gandhi, E.T. Mathew, I.S. Gulati and Taxation Enquiry Commission (1953-1954). All of them made a strong case for further taxation of agriculture.

## 2.2 VIEWPOINTS ON AGRICULTURAL TAXATION

Agricultural sector has since long been subject to taxation no doubt. The issue at stake is should it be taxed on par with the non-agricultural sector. This issue attained special significance during post Independence period because of need for additional resource mobilisation to meet the financial demands of successively larger sized Five Year Plans on the one hand and growth of the agricultural sector on the other hand. It has remained a burning issue throughout the planning period. Contents of the debate would certainly be enlightening in understanding the pros and cons of the problem in question.

### 2.2.1 CASE FOR MORE TAX BURDEN

Is Indian agriculture under taxed ? Following facts and arguments have been put forward to support the view that agriculture is undertaxed and to make a case for enhancement of agricultural taxation.

#### 2.2.1.1 <u>Equity point of view</u>

As early as 1924-25 The Indian Taxation Enquiry Committee felt that "On grounds of equity there is no reason why the surplus of the larger land holder should be exempted"[2]. The Wanchoo Committee Report (1971) also felt that, to prevent tax evasion and for equity and distributive justice the agricultural income should be subjected to a uniform tax more or less on par with the tax on other income so as to eliminate the scope for evasion of direct taxes imposed by the Union Government. The Committee has accordingly suggested that in the interest of uniformity and stability the Central Government should assume the power to leavy and administer a tax on agricultural income[3]. The abolition or reduction of agricultural taxation would increase the existing inequity in the distribution of the tax burden, Results of study of the incidence of direct taxes on upper classes of the agricultural and non-agricultural sector would make this point clea

The upper group of the agricultural sector has paid 1 to 2 percent of its income in taxes during the period 1951-52 through 1965-66 while the corresponding group in the non-agricultural sector has paid about 17 to 25 percent over the same period. This indicates that the upper income group of the agricultural sector is very much undertaxed. This also shows inequity between these two sectors which needs to be rectified in the interest of distributive justic by raising the tax burden on the different income groups of the agricultural sector especially its upper income group.

### 2.2.1.2 Benefits from Public Expenditure

The amount of public expenditure is continuously increasing on agricultural sector whereas the contribution of cultivators to total expenditure in the form of agricultural taxation is showing a declining tendency. Table 2.2 shows that in the First plan 44.5 percent of the total public sector outlay was incurred on agriculture, community development, irrigation and power. During the second plan this percentage declined to 30.6 but rose to 35.0 and 39.4 during the Third and Fourth Plans. Again during the Fifth Plan this percentage declined to 20.5, rose to 25.3 during the Sixth Plan and remained at 22.1 percent in the Seventh Plan. Although the expenditure on agriculture and allied field in terms of the percentage of total public sector outlay declined in the second, to seventh plans as compared to the First Plan, the expenditure in absolute terms increased from Rs.873 crores in the First Plan to Rs.36627 crores in the Seventh Plan. This huge expenditure reflecting development efforts has provided large benefits to the agriculturists particularly the richer class of the cultivators. But their contribution by way of taxes is not increasing pari passu. Hence agriculture should be taxed at higher rates.

Table 2.2

Expenditure on agriculture and allied activities as percentage of total Public Sector outlay

(Crores of Rupees)

| Period | Agricultured Community Development | Irrigation and power | Total 1 + 2 | Total Public sector outlay | Col. 3 as percentage of Col.4 |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| First Plan (1951-56) | 290 (14.8) | 583 (29.7) | 873 | 1,960 | 44.5 |
| Second Plan (1956-61) | 549 (11.8) | 882 (18.9) | 1,431 | 4,672 | 30.6 |
| Third Plan (1961-66) | 1,089 (12.7) | 1,917 (22.4) | 3,006 | 8,577 | 35.0 |
| Fourth Plan (1969-74) | 2,728 (17.2) | 3,535 (22.2) | 6,262 | 15,902 | 39.4 |
| Fifth Plan (1974-78) | 4,644 (11.8) | 3,440 (8.7) | 8,084 | 39,287 | 20.5 |
| Sixth Plan (1980-85) | 12,539 (12.8) | 12,160 (12.5) | 24,699 | 97,500 | 25.3 |
| Seventh Plan (1985-90) | 19,648 (10.9) | 16,979 (9.4) | 36,627 | 1,80,000 | 22.1 |

Note : Figures in brackets show percentage to total public sector outlay.

Source :

(1) Bhargava P.K., Taxation of Agriculture in India, Vora and Co. Publishers Pvt. Ltd., Bombay, 1976.

(2) Planning Commission Seventh Five Year Plan 1985-90, Vol. I PP. 23-25.

(3) Planning Commission The Sixth Five Year Plan 1980-85 Vol. I P. 34.

### 2.2.1.3 Subsidies from the government

The agricultural sector has also continued to receive subsidies from the government for various purposes. The government has given subsidies to the farmers for the contruction and repair at wells and irrigation tanks, installation of pumpsets, tube-wells etc. subsidies are also given for use of improved seeds and plant protection chemical fertilizers soil conservation and consdidation of holdings. The Government also gives loans to the farmers for short term agricultural operations and long term improvements, and subsidy of 2 percent on the takavi loans. The co-operative credit is also normally available to the farmers at concessional rates of interest depending upon the duration of loans. The Indian farmer also gets electricity at a concessional rate Irrigation water rates at present are not fixed on any scientific criterion and, therefore, the State Governments have been incurring huge losses on various irrigation projects. This is in fact a kind of concealed subsidy to the farmers.

As large farmers reap greater benefit from these subsidies, they can, as a matter of quid pro quo, share additional burden of agricultural taxation.

2.2.1.4 Regressive elements in agricultural taxation

The second major defect of land revenue, an important land tax, is assessed at a flat rate per hecture and hence it has regressive effects. In some states attempts have been made to introduce an element of progression by levying a progressive surcharge on land revenue but the progressive element introduced is small and its net effect is negligible. Levy of electricity and water rates also exhibit the regressive character. Consequently, larger farmers are more benefited. Bringing in progressiveness in these levies is highly desirable.

2.2.1.5 Financing development plans

There is yet one more reason why higher agricultural taxation is suggested. Atmost from the very beginning the implementation of India's Five Year Plans has suffered on account of inadequate domestic resources. One of the reasons for the failure of the government to raise adequate domestic resources is that it has not effectively tapped savings in agriculture. It is generally argued that while the government has been investing increasingly larger amounts in agriculture it has not made a parallel effort to tax away a substantial portion of the increase in the income of the farmers. This is particularly true in the case of the large farmers whose incomes have risen considerably as a direct consequence of the process of economic growth.

2.2.1.6 Counterweight on inflation

Higher taxes on agricultural sector would force the agriculturists to sell bigger portion of their produce in the market thus resulting into increased marketed agricultural surplus. The availability of this agricultural surplus would decrease the intensity of price rise in urban areas. As a result, rate of inflation can be controlled to a great extent.

2.2.1.7 Inequalities in rural incomes

The facilities for the development of agriculture and rural areas have been largely availed by large farmers. Therefore, modern amenities like tractors, threshers, tubewells are mostly owned by large farmers. Besides this facilities of credit, high yielding varieties of seeds, manures, improved techniques of production etc. provided by the government are also availed by large farmers in greater proportion than the area they possess. As a result of this inequitable distribution of scaree supplies useful for increasing production, the disparities in the distribution of income and wealth have increased rapidly in rural areas. Therefore, there is a strong case for taxing the incomes of large farmers. It will not only reduces inequalities in the distribution of income and wealth in rural areas but may provide substantial revenue for financing development plans.

### 2.2.1.8 Plugging evasion of non-agricultural income tax

Agricultural taxation is essential to avoid neo-absentee landlordism. In most of the developing countries agricultural incomes are either not taxed or, if at all taxed, the exemption limit is very high. This has given rise to a new system of land tenure, i.e., neo-absentee landlordism, because income earned in non-agricultural sector is shown as incomes earned from agriculture to avoid income and corporation taxes, But unless the person or company engaged in non-agricultural sector has his or its own land it is not possible for him or it to do so. Hence big industrialits,professionals film stars, politicians, etc. purchase land not for the sake of making good harvests but in order to exploit legal loopholes to evade tax on non-agricultural incomes. Taxation of agricultural income at reasonable rate would be helpful in plugging the loopholes for tax evasion and produce larger revenue receipts.

In sum the tax-paying capacity of the agricultural sector throughout the era of planned economic development has considerably increased and fiscal wisdom is required on the part of the state governments to effectively raise additional resources from the agriculturists, especially from the large landholders. Any delay on the part of the state governments in tapping resources from the agricultural sector would postpone the development of the country and the agricultural sector itself.

## 2.2.2 CASE AGAINST MORE TAX BURDEN

The plea for bringing the tax burden of agricultural sector in consonance with that of the non-agricultural sector is strongly resisted by certain sections of the society who defend their case on following lines.

### 2.2.2.1 States' fear

Under the Constitution, the power to tax agricultural income vests exclusively in the states and the Central Government does not possess any power to tax agricultural incomes. Hence integrated taxation of all incomes on uniform basis by the Centre would require a major constitutional amendment. States are gererally opposed to such amendment partly for the fear that they may not get the full benefit of the additional revenue accruing from integrated tax on agricultural and non-agricultural incomes. More importantly, the states are against surrendering the right to tax agricultural income since they view that it is encroachment on their limited powers of taxation and an infringement of their autonomy[4].

### 2.2.2.2 Resistance by farmer's lobby

The powerful agricultural lobby all along opposed every move to raise additonal resources from agriculture on following grounds. First, the new agricultural strategy has had its direct impact so for on only a part of farming sector. At this stage it is wiser to encourage it through all possible ways particularly through a preferential treatment in the form of taxes.

Secondly a good port of the untaxed incomes of the more affluent, farmers is certainly being invested in the accumulation of farm capital of the financing of the inputs of scientific agriculture. In other words, to the extent that the farmers could finance from their internal resources part of their own requirements of capital or working expenses, the need for the state providing for this purpose out of its resources for development finance is reduced.

Thirdly, the affluent sections of the farming community are coming under the net of excise taxation which covers a wide range of manufactured goods now entering into the consumption patterns of the rural rich. Consequently, the contribution of rural sector to the revenue of the statee throughly indirect taxation is steadily growing.

Finally, though there has been considerable improvement in the agricultural production of the country during recent years, we do not yet appear to have reached the stage when tax could be imposed an agriculture without the risk of hampering its further growth.

2.2.2.3 Attitude, of the rural power structure

The rural power structure in India is made up of a coalition of rich farmers and rural politicians who have almost a stranglehold of the ruling party in the state and/or center. does not permit any major policy change in agricultural taxation or in agriculture for that matter. The governments too are not inclined to distrub them for fear of losing their coveted positions through general elections if anything unpleasant to the rural masses is decided since the ruralites form an assured vote bank for returning them to the power.

2.2.2.4 Problems in tax collection

The collection of tax on agricultural income will in itself become a gigantic task. The illiterate farmer will not be able to maintain an accurate account of his expenditure and income. The income-tax and revenue department staff will doubtlessly harass him and currupt practices may develop. The cost of collection may work out to be disproportionately high and the government may not be able to collect any large amount of net revenue if tax is imposed on agriculture[5].

2.2.2.5 Predominance of small holdings

The Agricultural censuses in India have vividly revealed the tendency of growing marginalisation of Indian agriculture through the planning era, small and marginal farmrs predominate. As such, the diminishing size of agricultural holdings has limited the scope of state governments to derive substantial income from agricultural income-tax.

In short, the opponents of higher burden of agricultural taxation are mainly the medium and large landowners and politicians. The farmer section is perhaps interested in exploiting the cover of political umbrella available to it in the interest of enjoying the income from the land as best as they can. The politicians are concerned more with their power and prestige on the strength of the votes of the ruralites and hence do not wish to cause any economic damage to the rural elites in particulars and masses in general. The opposition, therefore, is an outcome of systematic efforts to guard vested interests.

## 2.3 VIEWPOINTS OF OFFICIAL COMMITTEES

The Government of India has from time to time appointed committees to enquire into the issue of either the tax system as a whole or agricultural taxation in particular. As representative of the viewpoints of official committees following four reports are referred to.

### 2.3.1 Indian Taxation Enquiry Committee (1924-25)

The Indian Taxation Enquiry Committee of 1924-25 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 incomes derived from agriculture[6]. While realising that there were certain administrative and political objections to the removal of this exemption, the committee maintained that, "there was ample justification for the proposal that incomes from agriculture should be taken into account for the purpose of determining the rate at which the tax on the other income of the same person should be assessed if it should prove administratively feasible and practically worthwhile"[7].

## 2.3.2 Taxation Enquiry Commission (1953-54)

After, Independence the first taxation Enquiry Commission with Dr. John Matthai as chairman was appointed in April, 1953, to examine the various problems of the tax system in India. It submitted its report in Frbruary 1955. In connection with the incidence of agricultural taxation the commission foudd that

(1) although the level of urban taxation is on the whole higher at all stages of income than rural taxation, the disparity is not so marked in the case of middle and lower range of income;

(2) Urban indirect taxation is some what more progressive than rural taxation;

(3) there is a greater room for increased taxation of higher rural income than in the case of urban incomes;

(4) the incidence of land revenue is not appreciable any more and

(5) the large area of the non-monetised sector in the rural

economy is at once on index to the limits of taxation to this field if it should otherwise be considered desirable.

In the field of state taxation the commission gave detailed attention to the agricultural taxation also and made certain for reaching recommendations[8]. In this connection the commission recommended that it is both necessary and feasible to aim of a minimum degree of uniformity in more basic matters like the nature of tenure, manner of initial fixation of assessment, method of revision of assessment, place of land revenue vis-a-vis the income-tax. The commission felt that once the assessment levels had been standardised, land revenue should be revised once in ten years with reference to changes in the price level but a change of price of 25 percent in either direction should not call for any adjustment in the land revenue demand. The commission further recommended that, an agricultural income-tax on the higher agricultural incomes should be adopted by all the states and all agricultural incomes above ₨.3,000 a year should be made liable to the agricultural income-tax. The eventual aim should be to merge agricultural income with non-agricultural income and to levy income tax on the whole lot as one. In connection with irrigation and betterment charges the commission were of opinion that the maximum levy should not exceed 50 percent of the increase in value of land due to irrigation and its recovery should be spread over a reasonably long period.

2.3.3 Direct Taxes Enquiry Committee, 1971 (Wanchoo Committee)

Direct Taxes Enquiry Committee was appointed in 1971 under the chairmanship of Justice K.N. Wanchoo to examine the prevent system of direct taxation in India. In connection with the problems of taxing agricultural income the committee noted that"levies pertaining to agricultural income or holdings have boffling variations from state to state and there is no uniformity regarding the tax base or the rate structure. There is also a great inequity between the incidence of tax on agricultural income and that on non-agricultural one"[9]. The committee recommends that "uniform and progressive taxation of agricultural income is urgently necessary for the purpose of ensuring that agricultural income ceases to offer any scope for tax evasion and also on grounds of equity and distributive justice[10]. The Committee rebuts the argument that a tax on agricultural income will act as a disincentive to increase output. In the view of Wanchoo Committee agricultural income should be subjected to an uniform tax which should be more or less on par with tax on non-agricultural income so that the tax assesses do not have an incentive to ascribe their income from one source to the other[11]. Agricultural income tax, however is a state subject. A complete integration of agricultural and non-agricultural income for levying income tax would require an amendment of the constitution. Wanchoo Committee suggests that for this purpose either Entry 82 of the union List and Entry 46 of the state List should be amended suitably, or the states may authorise the Union Government, under

Article 252 to impose income tax on agricultural incomes as well[12]. Still another alternative would be to amend Article 269 by including taxes on agricultural income in the list of taxes leviel and collected by the Union, but assigned entirely to the states. It is, however maintained that the states are opposed to a constitutional amendement. According to the committee there is a large scale concentration of agricultural income in a few hands and therefore with a reasonable exemption limit, there is no fear of imposing any hardship on those sections which cannot bear that burden. The Committee also took note of the fact that there would be difficulties regarding maintenance of accounts in this sector But it feels that the problem will be sufficiently mitigated by exempting the lower incomes and the remaining incomes can be assessed on the basis of local information regarding crops and prices.

### 2.3.4 A Committee on Taxation of Agricultural Wealth and Income, 1972 (Raj Committee)

A Committee on Taxation of Agricultural Wealth and Income was appointed under the chairmanship of Dr.K.N. Raj in February, 1972- The committee submitted its unanimous report in October, 1972. It noted that a rational system of direct taxation of agriculture should satisfy certain criteria. The tax system should be progressive in nature and should not cause an unduly heavy burden on the farmer. At the same time, the treatment on farm incomes should be on par with non-agricultural incomes for the purposes of assessing tax liability. The new tax system should remove the lack of uniformity in agricultural tax incidence in different parts of the country as also between different areas in the same state. To this end, therefore, it should be based upon agricultural productivity and prices and should be able to reflect changes in both. The system should also conform to the principle of progressiveness. The Committee noted that agricultural wealth can be taxed directly by integrating taxation of agricultural and non-agricultural wealth, without any constitutional amendment; the central Government can levy such a tax.

The major recommendations of Raj Committee[13] are as follows :

(1) A progressive Agricultural Holding Tax should be imposed on agriculturists who have no other assessable income.

(2) In the case of assessees having non-agricultural taxable income, income from agriculture should be included in the total income for the purpose of calculating income tax.

(3) Income from livestock, fisheries, poultry, dairy farming, etc. should be subject to tax.

(4) An integrated taxation of agricultural property through wealth tax should be introduced.

(5) Capital gains tax on transfer of agricultural lands should be imposed.

## I Agricultural Holding Tax (AHT)

The Raj Committee found two basic defects in the present land revenue system, viz.

(a) the incidence of land revenue in relation to the productivity of land was not uniform over different parts of the country, the reason being that land revenue settlement had been done under different systems and at different times in different parts of the country. and

(b) land revenue was assessed at a flat rate per hectare and hence was not progressive. It was to overcome these two defects and make the agricultural sector contribute its fair and equitable share towards raising resources for further economic development that the Raj Committee recommended the AHT[14]. This new tax proposal takes into account the differences in the productivity of land all over the country on the basis of certain objective criteria and uniform procedures, and reflects broadly the degree of progression applicable to other sector of the economy.

### (i) Computation of AHT :

The AHT is a tax on the net rateable value of an agricultural land holdings; or in simple terms, it is a tax on net farm business income. The simple formula for computing the actual tax liability under the AHT is :

AHT = $\frac{X}{2}$ % of the net rateable value of a holding in which

X = Number of thousand rupees.

Net Rateable value = gross rateable value minus the development allowance (which is 20% of the rateable value, subject to a maximum of Rs.1,000).

The Committee gave the following example to illustrate the computation of AHT..

Suppose the rateable value of an agricultural holding is Rs.10,000 and the development allowance is Rs.1,000. The AHT should be calculated as follows :

| | | |
|---|---|---|
| Gross Rateable value | = | Rs. 10,000 |
| Development Allowance | = | Rs. 1,000 |
| Net Rateable Value | = | Rs. 9,000 |
| X | = | 9 |
| AHT | = | $\frac{x}{2}$ % X Rs.9,000 |
| | = | $\frac{9}{2} \times \frac{1}{100}$ X Rs.9,000 |
| | = | Rs. 405 |

If the gross rateable value of agricultural holding is Rs.20,000 and its net rateable value is Rs.19,000 the AHT will be

= $\frac{19}{2} \times \frac{1}{100}$ X Rs.19,000

= Rs. 1,805

As the incidence of the AHT decreases progressively on small holdings the formula should be applied to rateable values upto Rs.600 only. For holding of rateable value below Rs.600 AHT may be fixed at a flat rate of Rs.1 per holding.

(ii) <u>Computation of the rateable value of agricultural holding</u>

For the purpose of calculating the net rateable value of agricultural holding the Raj Committee suggested;

(a) The division of the whole country into a sufficiently large number of soil-climatically homogeneous districts/tracts

(b) Preparation of norms of output of different crops per hectare for each year on the basis of estimates of yield for the previous 10 years and the valuation of the norms of output at the relevant average harvest prices of the preceding three years. This would give the value of the gross output of different crops.

(C) From the above value, paid-out costs of cultivation (Other than expenses on irrigation and depreciation of assets) varying between 40 and 60 percent of the gross value should be deducted. We would get the rateable value of a hectare of land growing different crops in different districts/tracts.

(d) For each district/ tract, there would be a schedule of rateable value of land per hectare under different crops. The schedule should be prepared for each year and included in the legislation of the year in question.

(e) From the above rateable value of land, we should deduct the expenses of irrigation (i.e. actual rates for irrigated crops from public sources and at 20 percent of the rateable value of the crops irrigated from the private sources). We would then get the rateable value of the assessable agricultural holding.

(iii) Basic of assessment and implementation

The AHT is to be imposed on operational holdings. The basis of assessment will be the family, and not the individual, consisting of husaband, wife and minor children, this is to prevent large-scale tax avoidance.

The Raj Committee recommended the implementation of the AHT in two phases. First, replacement of the present land revenue by the AHT on all operational holdings with rateable value of Rs.5,000 or more and second, extension of the AHT to all other operational holdings with rateable value below Rs.5,000. The Raj Committee estimated that the additional resources likely to be raised from AHT would range between Rs.150-200 crores per year. The salient features of the AHT may be summarised as follows :

(1) The assessment of AHT will be done on the basis of certain objective criteria and procedures that will be uniform throughout India and will ensure equity in its incidence.

(ii) The AHT takes into account the differences in productivity of land all over the country.

(iii) The tax is progressive as it falls heavity on holdings with larger rateable value.

(iv) AHT is assessed on operational holdings, (and not on owned holdings) and protects the tenancy rights on land.

(v) The AHT takes the family as the basic unit of assessment For trusts, joint stock companies and other non-family holdings there are special rates and procedures.

(vi) The year of assessment is the same throughout the country. Viz. 1st July to 30th June.

II <u>Partial integration of agricultural and non-agricultural incomes</u>

Another major recommendation of the Raj Committee was the aggregation of both agricultural and non-agricultural incomes for the purpose of income-tax. Integration would also help to check evasion through the cevice of camouflaging taxable incomes as gains from agriculture. As the proposal was not a tax on agricultural income by the centre, it would not require any constitutional amendment. The Raj Committee recemmended integration of agricultural and non-agricultural incomes only if any assessee had taxable income exceeding the minimum exemption lifor for income-tax. In determining the rate of tax on non-agricultural income, the agricultural income and non-agricultural income would be combined in the following manner and order :

(1) the initla exemption allowed out of non-agricultural income.

(ii) Agricultural inccme and

(iii) balance of non-agricultural income[15].

It is interesting to observe here that the Wanchoo Committee had recommended complete integration of agricultural and non-agricultural incomes. The Central Government however, accepted the Raj Committee's recommendation and incorporated in the Finance Act of 1973.

## III Integrated Taxation of Agricultural Property through wealth Tax

The Raj Committee recommended that the AHT should be supplemented with a tax on agricultural property and a tax on capital gains arising out of transactions in such property. Valuation of farm land for wealth-tax purposes should, generally, be made through the method of income-capitalisation. A simple and adequate method would be to take 4 to 6 times the rateable value of a holding averaged over a period of years. Two radical suggestions were made by the Raj Committee which different from the recommendations of the Wanchoo Committee on the same subject. First, the Raj Committee proposed to do away with all exemptions, except that the basic exemption should be raised to Rs.1.5 lakhs. Second, wealth tax should be levied on family basis.

## IV Integrated Taxation of Capital gains on Agricultural Assets through Income-Tax

Raj Committee recommended that the definition of the capital asset be so widened as to permit taxation of capital gains from transfer of all agricultural land irrespective of their location. Gains from transaction in assets held for not more than a year should be treated its ordina ry income and taxed accordingly.

## 2.4 OPINIONS OF INDIVIDUAL EXPERTS

Many eminent economists strongly favour imposition of agricultural tax on the rich farmers. The economists from several metropolitan cities considered levy of such a tax imperative from the national perspective. It was agreed that political will both at the centre and state level was necessary to overcome various pressure groups and other hurdles in levying tax. A minority of the experts however, saw no case for imposition of agricultural tax at this juncture when there was need to push up food-grains production. One of the views expressed was that even if such a tax was resorted to, the yields would be very low due to practical difficulties.

According to I Z Bhatty,[16], Director General, National Council of Applied Economic Research, New Delhi, the agricultural incomes which are high enough ought to bear some tax. According to him, the Agricultural Holding Tax, originally proposed by the Raj Committee and subseqnetly modified was certainly a possibility. If for practical reasons further modifications are necessary this would also be tried out.

In the view of Nirmal Chandra[17] of the Indian Institute of Management, Calcutta, because of the strong lobby of rich farmers no party of the left, right or Centre was likely to impose a meaningful tax on agricultural incomes.

According to Amiya Bagchi[18] from the Centre for studies in Social Sciences, Calcutta, it was possible to levy tax on agricultural incomes but felt a tax on agricultural property or holdings should be there to check evasion.

G. Thimayya[19] from the Institute of Economic and social change, Bangalore favours the levy of agricultural tax. The state Governments which were very close to the Kulak lobbies were not in a position to levy the tax. Therefore, the centre with the consent of the state should levy tax on agricultural income and distribute itas grants proportionate to the collection in respective states.

R. Radhakrishna[20], Director, Centre for Economic and social studies (CESS), Hyderabad, rightly observes that one-tenth of the rich rural households accounted for more than one third of the total rural household income and their contribution to direct tax revenue was negligible. He said, despite the recommendation by the planning Commission the States, for political reasons, avoided taxing rich farmers who have benefited substantially from the massive development outlays. In this situation the centre must either take away the agricultural income-tax from the ambit of the states or cut down subsidy on fertilizers and levy indirect taxes on tractors, diesels and electric pumps purchased by rich farmers. There was no case for treating them leniently so for as direct taxations was concerned.

According to M.R. Pai[21] of Forum of Free Enterprise, Bombay, there was already on agricultural income-tax by state governments on plantation crops; it was not desirable at this stage to introduce agricultural income tax for a number of reasons one of which was enormous corruption and harassment it would lead to.

On the basis of his study Ved P. Gandhi[22] observes that though open taxes on Indian Farmers have tended to decline since 1963-64, concealed taxes have remained more or less the same. Both the open and the concealed subsidies have tended to increase, the total subsidies as a percentage of total taxes went up from 17 in 1960-61 to 93 in 1966-67. Gandhi favours integration of agricultural taxation with the general taxation system. Since the benefit accruing from the integration would tend to exceed the additional cost that may have to be incurred for such integration.

According to D.T. Lakdawala[23], the major direct taxes on agriculture are land revenue and agricultural income-tax, but none of them satisfy the conditions expected of a direct tax. A direct tax must normally be real income elastic, it should be price elastic and it should be progressive. Land revenue as operating hitherto has not been designed to fulfil any of these objectives. Of all the important tax resource land revenue has proved to be the most inelastic. The burden of land revenue, once oppressive has greatly slumped as a result of extension in cultivation, a rise in agricultural productivity and price increase. Once the mainstay of state revenues, it has lost its place to sales tax, excises taxation. It became in practice a regressive tax. There will have to be a new land resettlement if land revenue has to be organised into a productive, progressive and elastic tax and there would have to be some arrangement for periodic revisions. According to him, it is evident that large agricultural income inequalities exist. Indirect taxation can hardly prove sufficiently progressive to act as a powerful redistrinatice agency. It may have unwelcome price-raising effects. Reliance, therefore has to be placed on direct agricultural taxation as the main fiscal method to reduce agricultural inequalities. The choice is between some sort of land revenue and some sort of agricultural income-tax or an optimum combination of both.

From the study of I.S. Gulati[24] it is observed that within the agricultural sector, the lower income groups are relatively overtaxed as compared to the upper income groups. According to him, land revenue is a tax proportional to acreage hence it tends to be regressive to income in nature. Apart from this intra-sectoral interclass and intra-sectoral intraclass inequity, the land revenue system is inequitous inter-soilwise.

P.C. Jain[25] and D.N. Dwivedi[26] have shown that the burden of land revenue is greater on less fertile lands than on fertile lands and on unirrigated lands than on irrigation lands.

Land revenue system has not been able to tap increased taxable capacity which has resulted from higher prices and Green Revolution.

A.M. Khusro[27]. put forth his proposal so as to accomplish two equally important objectives mobilising additional resources and bringing about on improvement in the existing land revenue system. According to him, the taxable capacity of the agricultural sector has increased and he, therefore, suggested an increase in tax burden on the sector on the ground of revenue mobilisation and intra sectoral and inter sectoral equity. It is firmly belived that land revenue is regressive in nature because it is a proportional tax-tax per unit of land.

A three-tiev land revenues system was suggested by Khusro keeping in view that land should be the main basis of tax in order to prevent evasion. There should be a noticeable degree of progression, the tax system should be as simple as possible and the tax system should make avoidance impossible or at least difficult through sub-division of landholding and revenue has been favoured to agricultural income-tax because, firstly, land revenue is difficult to evade as it is obviously visible and secondly, since the marginal rate of taxation is zero, it encourages increases in productivity.

## 2.5 GOVERNMENTS' RESPONSE TO RAJ COMMITTEE REPORT

The union Government, through its 1973-74 budget, partially integrated agricultural income with non-agricultural income for the purpose of income-tax. Agricultural income derived by a tax payer is now taken into account in determining the rate of the tax payable by him on his non-agricultural income. But State Governments have hardly made any serious attempt to act on the suggestions of the Raj Committee. Only two States, Viz., Haryana and Himachal Pradesh have implemented the AHT, but they too have done so in a modified form. The other two recommendations which were meant to supplement the AHT, i.e. a tax on agricultural property and a tax on capital gains arising out of transactions in such property, have been taken notice of. The Madhya Pradesh Government no doubt passed the 'Agricultural Immovable Property Tax Act' in 1974, providing for a levy ranging from 30 to 50 paise per Rs.100 applicable to lands the market value of which exceeds Rs.20,000. The measure was expected to fetch Rs.6.5 crores annually to the state exchequer. But owing to the strong opposition of the rich farmers lobby the tax was abolished in March, 1975.

Apart from the fear of displeasing the rural electrorate most state Governments were of the view that the recommendation of Raj Committee were cumbersome and complicated and involved a lot of administrative difficulties. The states which already had agricultural income tax are reluctant to replace. it by an AHT. Rajastan was of the view that it would incur losses if it replaced the existing land revenue system by the AHT. Kerala thought that the recommendations did not have much relevance to the state since the agricultural sector in the state was taxed to the maximum.

Tamil Nadu's reaction was that the report was mainly for those states which had not done any survey or assessment of lanc revenue and not for the state like Tamil Nadu which had an effective land revenue system. The Punjab Government too opted for the easier alternative of increasing the basid land revenue rates by merging land revenue surcharges into a single progressive levy.

It will thus be seen that the task of restructuring of system of land taxation as envisaged by the Raj Committee remains by and large un-accomplished.

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