REVIEW OF LITERATURE ON AGRICULTURAL TAXATION

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2.1 Introduction

The question of taxing agricultural sector is a contentious issue in almost all the countries especially in the developing ones, where agriculture is still a predominant sector supplying a considerable share to the Gross Domestic Product (GDP) and providing employment and livelihood to a major chunk of the population. Politicians and economists participated and debated passionately about the pros and cons, methods and systems, effects and incidence of taxing the farm sector.

There are not many studies on the agricultural taxation in Kerala as such. We, in this chapter review the available studies in the area of agricultural taxation in India, other states and in Kerala.

First we would take up a few studies that strongly went into the pros and cons of taxing agricultural sector. This is followed by a review of the important studies on agricultural taxation at All India level, at different states’ level and then in Kerala. A review of the reports of a few committees appointed by the Governments of India and Kerala is also made. As far as possible chronological order is followed in reviewing the works.

2.2 Why Tax Agricultural Sector?

Taxing the agricultural sector properly was a topic of debate in India even in the 1980s that Yojana (1983), the official publication of Ministry of Information and Broadcasting, Government of India set aside two issues to bring out the opinion of different social scientists like V K R V Rao, C H Hanumantha Rao,
D T Lakdawala and A S Kahlon on the topic. Many economists participated in the debate and here we would present a few of them and then give the arguments in nutshell.

According to Rao (1983) there is a strong case of taxing the agricultural sector. His main arguments are given below. There are large number of large farmers whose income exceed the income of non agriculturists who pay income tax. The surplus generated in areas where Green Revolution occurred is frittered away in conspicuous consumption. It is therefore necessary to mop up a part of these surpluses by the Govt. through taxation. For better utilisation of land proper taxation of agriculture is necessary. Progressive taxation of agricultural land or agricultural income can be expected to bring down the land values; such a taxation could also help mobilize for the exchequer a part of the unearned incomes or capital gains from land. Therefore case for taxation of agriculture rests not so much on grounds of revenue as on consideration of equity and other economic effects.

Raj (1973) was a strong proponent of the taxation of the agricultural sector.

Srivastava (1970) summarizes the arguments for augmenting the taxation of agricultural sector in India in the following words:

(i) Five Year Plans have been agricultural oriented and a lot of money has been spent on it but taxation of agriculture has never materialized to any significant degree.

(ii) Vast expenditure is needed for the large number of schemes being taken up for agricultural development

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(iii) Agriculture in India has got modernized to a large extent and there is taxable capacity as productivity has increased.

(iv) Inter-sectoral terms of trade have moved up in favour of the agriculture and hence there is untapped taxable capacity in agricultural sector.

(v) Rural sector is under taxed. A comparative study of the rates of taxation of farm incomes and non farm incomes reveals the patently inequitable situation in Indian income taxation.

(vi) Under the existing tax system, the poor farmer is relatively more taxed than the well-to-do farmers. This is because direct taxes in agricultural sector are only nominal.

(vii) The agricultural sector is under taxed in respect of indirect taxes also. The Taxation Enquiry Commission (1953-54) confirms this view.

(viii) Additional taxation of the corporate sector would reduce the national savings as the marginal propensity to save (MPS) of the corporate sector is high and the MPS of the rural sector is low.

(ix) According to the NSS people in the agricultural sector do save as much as 2.7 per cent of their income and spend as much as 10.36 per cent of the consumption expenditure on items other than food such as ceremonials, intoxicants, refreshments, tobacco, pan, etc. Indian farmers would not, therefore, be put to a great burden if their incomes are taxed.

(x) Increased agricultural taxation would increase market arrivals.

(xi) Farm taxation would promote economic stability and bring more and more areas under monetised sector.
The strongest votary of the agriculturist was Rao (1983) and he describes attempts at increased imposition of tax on agriculture as a will of the wisp. His views are presented below: Agriculture is also paying to the state and central exchequer; only thing is that the tax is not direct. Only people with an income (in 1983) above Rs 30000/- and odd are paying personal income tax (legal exemption plus deductions). Many of the agriculturists do not have a net income of Rs 15000/- per year let alone Rs 30000/-. Consider the financial returns from Agricultural Income Tax and balance it against the magnitude of the effort involved in. The effort would be colossal; very difficult to determine the cost of production and assess the net income from agriculture.

Agriculture is largely an individual business where family labour and owned capital including land play important role in the generation of income; the problem of depreciation and capital replacement are more intractable; there is large fluctuation in annual income and lack of monthly periodicity in receipts and production, transportation and marketing of output are so integrally mixed up, it is very difficult to plan an Agricultural Income Tax. That is why any attempt at taxing agricultural sector end up in an indirect tax.

Even if a direct tax is imposed, unless the exemption is lowered, concessions allowed are limited and direct accounting is replaced by some sort of a rough and ready average with discretionary powers for deviations from the averages, it can’t work. Even if it does, the administrative work involved over the large area covered by rural India, the harassments it will stimulate and corruption it will induce will not be worth the meagre financial return it will net.

No political party want to get on the wrong side of the agricultural producers. Small, marginal and even medium farmers who are not affected by Agricultural

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Income Tax are ganging up with the large farmers to resist such a move because farmers are developing into a class.

Indian farmers feel sore at what they think is the step-motherly treatment they are getting, in not getting all the concessions they feel entitled to by virtue of the recognised national role they are playing for the economic growth of the country. There is also a genuine grievance for the farmers that the terms of trade is turning against them.

Market economies and cost-price-ratios are ceasing to have any relevance in regard to inputs like water, energy and credit provided by the state or a state agency; and public investment in agriculture is not getting commercial returns for government or funds for recycling into fresh investment, even though they may have their justification in social-cost benefit theories and balance of payments considerations. Our economics is much too mixed up with politics and populism, and it would be a Herculean task to put across the farming population the rationale of a direct tax on agricultural income.

There are other economists and social scientists like Lakadawala (1983)\textsuperscript{5}, Jain (1975)\textsuperscript{6}, Kahlon (1983)\textsuperscript{7} and a host of others who joined the debate and are on either side. The only conclusion that one should draw is that the question of taxing agricultural sector was a controversial issue and debated strongly in India and unanimity eludes even today.

Next we would pass on to the review of some of the earlier studies on the taxation of agricultural sector at All India level.

\textsuperscript{5} D.T.Lakadawala, "Why not tax income from Agriculture?-a symposium" \textit{Yojana} 26 (24) (February 16-18, 1983)

\textsuperscript{6} Anilkumar Jain, \textit{Taxation of income in India - An Empirical Study since 1939} (New Delhi: The Macmillan Company of India Ltd., 1975)

\textsuperscript{7} A.S. Kahlon, "Why not tax income from Agriculture?-a symposium" \textit{Yojana} 26 (24) (February 16-18, 1983).
2.3 Studies at All India Level

Taxation Enquiry Commission (1953-54)\(^8\) had looked into the taxation of agricultural sector in India and concluded that tax burden of agricultural sector was on the decline, rural sector is comparatively less taxed and suggested the taxation of unearned increments in the value of land and other property.

According to Raj (1959)\(^9\) rural sector is lightly taxed compared to urban sector. The agricultural income between Rs. 1200/- and Rs.3000/- is not subjected to progressive taxation. But increased taxation of agricultural sector should not adversely affect the incentives to produce or market more. The following suggestions are made for this.

(a) A doubling of land tax on holdings above 5 acres.

(b) A tax on agricultural rent, the incidence of which falls on the rent receivers and fixed at 1/10 of the gross produce of the tenants, and

(c) A surcharge on holdings above five acres under commercial crops.

These would guarantee an income of Rs.300/- crores per annum. Agricultural taxation is a must to decrease the propensity to consume in the rural sector. Revenue from agricultural taxation has shrunk in real terms and it is now about 0.75 per cent of the total value of agricultural output. The article narrates the limitations of the present agricultural tax system, the merits of Agricultural Holdings Tax (AHT) and answers the criticisms levelled against it.

Gulati\(^10\) (1960) found that agricultural sector contributed only 5.2 per cent of its income as against 8.6 per cent by the non agricultural sector in 1952-53 and it

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was 6.8 and 10.8 in 1957-58 respectively for the two sectors. So there is a case for agriculture bearing more tax burden.

There is a disparity between the lower income groups of the agriculture and non agricultural sectors. But the lower expenditure groups in agricultural sector is not under taxed. He advocated higher taxes for richer agriculturists as they are favourably placed in comparison to the counterparts in non agricultural sector. He is strongly against Agricultural Income Tax (AIT) as a separate tax; is for rationalisation of land revenue and introduction of surcharge on commercial crops. Betterment taxes at progressive rates can fetch considerable revenue.

Khusro (1963; 1967)\textsuperscript{11} and Please (1968)\textsuperscript{12} give proposals to introduce elasticity and progressiveness in the existing land revenue rate structure.

Joshi \textit{et al} (1968)\textsuperscript{13} bring out the importance of land revenue till 1960-61. Land revenue always remained passive and has not subserved the case of development finance. Upper class agriculturalists could be taxed more. In a case study of Bihar, they found that taxes on agricultural sector played only a very minor role in the state’s tax structure. Pattern of rural income, low rates of taxation and large cale evasion were responsible for this.

They have analysed the performance of agricultural taxes of Travancore-Cochin and later Kerala. Most of the Agricultural Income Tax was from plantation crops in the state and this tax plays an important role as a source of revenue.


According to Gandhi (1968)\textsuperscript{14} tax burden of agriculture sector was comparatively very low and is decreasing and interclass inequality in tax burden existed between agricultural and non-agricultural sectors.

Mathew (1968)\textsuperscript{15} conducted a study for 1958-59, with three objectives:

(a) An estimation of the burden of taxation of agricultural sector taking all direct and indirect taxes of both Central and State Governments.

(b) A comparison of agricultural and non-agricultural sector’s contribution to government revenue.

(c) An examination of agricultural taxation in relation to national goals and appraisal of the existing system of agricultural taxation and make some policy recommendations.

Agriculture is comparatively less taxed. Tax burden was fairly well distributed among different income groups within non-agricultural sector but not so in agriculture sector; higher income groups are under taxed. Direct taxes are less progressive in agriculture sector. There is much evasion of Agricultural Income Tax. So agriculture has to be taxed more and suggested measures to improve agricultural taxation in India.

Sharma’s (1970)\textsuperscript{16} edited work gives a detailed account of different tax systems existed in different parts of India from 200 BC to 1708 AD.

Srivastava (1970)\textsuperscript{17} first of all looks at the agrarian structure that exited in India in 1960. Then he evaluates the main direct taxes of agriculture in India. Following proposals are given to raise tax collection from agricultural sector:

\textsuperscript{15} E.T. Mathew, \textit{Agricultural Taxation and Economic Development in India} (Bombay: Asia Publishing House, 1968).
\textsuperscript{16} Ram Sharan Sharma, \textit{Land Revenue In India-Historical Studies} (Delhi: Motilal Banarsidas, 1970).
(i) Substitution of land revenue with Agricultural Income Tax is dismissed as imprudent as Agricultural Income Tax can't fetch as much revenue as land revenue.

(ii) Combine Agricultural Income Tax with low flat rates of land tax.

(iii) Exempt farmers with 5 acres or less from land revenue (71 per cent of the farmers) and fix a progressive tax for others.

(iv) Merge Agricultural Income Tax with general income tax. But this has the following difficulties: (1) Agricultural Income Tax is a state subject and state governments will not agree to compromise on their fiscal autonomy (2) constitutional formalities are tedious.

(v) It is possible to introduce in kind-taxation, as in China, South Korea and Taiwan. Taxation in kind will lead to bring non-monetized transaction and sectors to tax net. It helps the government to share a major part of the speculative profits (due to price rise). Taxation in kind can influence the composition of crop production through tax inducements or deterrents. This helps the government to have a stock of products and to exercise control over the distribution and prices of agricultural products.

Angrish (1972) suggests a rationalised scheme of direct agricultural taxes for India. He also is of the opinion that land revenue and Agricultural Income Tax are not progressive and elastic. Middle and high income classes in the agricultural sector posses taxable capacity. Land revenue and Agricultural Income Tax are inequitable and unproductive and there is inter-sectoral and inter class inequity. He also measured the tax burden of land revenue and Agricultural Income Tax on

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agriculture for the years 1951-52 and 1968-69. Both were declining. He estimated land revenue as per cent of state agricultural income. It was 0.58 in Kerala in 1960-61 when all states average was 1.57.

Krishna (1972)\(^{19}\) wanted to replace outmoded land revenue system with Agricultural Income Tax to cover 'upper class' farmers who are under taxed.

Reddy (1972)\(^{20}\) makes an attempt: (a) to study the position of benefit received by and the costs incurred in the agricultural sector so that net position is clear (b) to compare the net position of A (agricultural sector) with N (non agricultural sector) (c) to explain the pros and cons of Agricultural Income Tax and to find a better alternative. The study was for the period of 1955-56, 1960-61, 1965-66 and 1968-69. Per capita tax incidence was low for A. But per capita tax measured as per cent of per capita income was higher for A than for N.

So he concludes that the per capita tax incidence is low in A due to poor economic capacity. A receives higher per capita benefits. There is equity in tax between the lower income groups of A and N sectors, till 1960-61. Thereafter, poor among A pays less than those in N. But when additional costs on education and health services were taken note of, along with their low level of income, they bear higher tax burden than their counterparts in N sector.

Upper income groups in A pay less compared to those in N; but the inequity is not very sharp.

Most authentic and authoritative study of taxation of agricultural wealth and income in India is the one conducted by the Committee appointed by the Government of India in 1972 under the chairmanship of K N Raj. The ‘Raj

\(^{19}\) Raj Krishna, “Intersectoral Equity and Agricultural Taxation in India” Economic and Political Weekly, (7)( special number,1972)

Committee' Report (1972)\textsuperscript{21} is therefore a basic text on taxation of agricultural sector in India. The report, submitted in October 1972, gives an insight into the then existing systems of direct taxation of agricultural sector and issues associated in its 6 chapters spread over 169 and odd pages.

Since we want to make a comparative study of this report and the report of the Kaaleeswaran committee and to assess the impact of these reports on the Kerala Agricultural Income Tax Act 1991 we attempt here a detailed analysis of the Report.

The report wants that agricultural sector be properly taxed and a proper system should be devised to ensure that there is progression in taxation in the agricultural sector. The existing land revenue systems did not have the element of progression. In spite of the ceilings on land holdings as a result of land reforms there is still large incomes earned from agriculture that must be subjected to progressive tax. The Committee recommended the introduction of Agricultural Holdings Tax (AHT) as an effective method of taxing agricultural sector.

The basis of Agricultural Holdings Tax be operated land not owned land as type of crop, type of cultivation etc is decided by the farmer and not by the owner; data on them are also is available from the operator.

Family (father, mother and children) must be considered as the basic unit of assessment. There should be a mechanism to integrate agricultural and non-agricultural income as large section of the agricultural population turn to non agricultural sector as a result of land ceilings. The existing wealth tax has its limitations. States should have the responsibility for the levy and collection of a tax as local conditions that affect income from agriculture differ and a tax at the national level is extremely difficult to be implemented. The computation of actual

income from farming with any degree of precision is extremely difficult, as farmers do not maintain proper records/accounts. Therefore, it is likely that there be large-scale evasion and also harassment of farmers by tax officials.

Progressive surcharge on existing land revenue would not serve the purpose of increased taxation of the sector as there is no uniformity in the principles and procedures followed in land revenue assessments in different states and in different areas within the same state.

So the Committee suggests Agricultural Holdings Tax which it claims to be a rational system and which assures the following: (i) take into account the differences in productivity on land depending upon the particular crop grown in a region (ii) incidence would be uniform in different parts of the country, and (iii) reflects changes in productivity and prices over a period of time.

Agricultural Holdings Tax has the following features:

(i) The country should be divided into a sufficiently large number of soil-climatically homogeneous districts/tracts so that differences having any significant influence on productivity are taken into account;

(ii) For each such division norms of output of different crops per hectare for each year should be worked out, on the basis of estimates of yield for the previous 10 years; these should be valued at the relevant average harvest prices of the preceding three years. The State Governments should notify the markets and post-harvest marketing periods relating to each crop in each division and arrange to collect, record and publish the relevant prices on a regular basis;

(iii) The norms so derived would provide the norms of the value of output per hectare of different crops of different districts/tracts;
(iv) From the value of the gross output of the crops arrived at allowance should be made for the paid out costs of cultivation other than expenses of irrigation and also for depreciation of assets (other than livestock);

(v) The value arrived at in the above manner would be the rateable value of a hectare of land, growing different crops in different districts;

(vi) If in a given year, the average output of a crop in a district is less than half the average output of earlier 10 years, the rateable value of land under such a crop should be taken as zero. Relief may be allowed for crop failures in part or parts of a district/tract after enquiry by an appropriate authority;

(vii) To simplify the computation, crops under a district/ tract may be suitably grouped under a few crop groups;

(viii) For each district there will be a schedule of rateable value of land per hectare under different crops/crop-groups. The schedule should be revised every year taking into account, the crop yields of the preceding 10 years, the harvest prices of the preceding three years. The schedule of rateable value of lands under different crops in each district should be prepared on this basis every year and included in the legislation of the year in question. The construction of the schedule for each district in a state will be primarily the responsibility of the state government concerned;

(ix) The rateable value of an assessable land holding will be computed from the rateable values of land under the crops actually grown (harvested) on it during the year of assessment after deducting the expenses of irrigation. The method for computing the rateable value and deductions allowable are discussed in detail in Chapter 3 of the Report.
(x) Development allowance of 20 per cent of the rateable value subject to a maximum of Rs1000/- be allowed;

(xi) The actual tax liability be computed by following a formula $X/2$ per cent, where $X$ is the rateable value minus development allowance;

Holdings with rateable value of Rs.600/- or above be taxed at $x/2$ rate; below that at Re.1/- per holding. Agricultural Holdings Tax should be levied on operational holdings and on a family a basis.

Agricultural Holdings Tax should be implemented in two stages: first replace land revenue by Agricultural Holdings Tax on holdings with rateable value of Rs. 5,000/- or more and in the second stage other holdings with rateable value below Rs.5,000/-. 

Assessment year be from July 1st to June 30. Recovery of tax be in instalments in the following year.

Holdings owned by trusts should be apportioned among the beneficiaries in the proportion, in which income of the trust is enjoyed by them and respective shares aggregated with the holdings of the families to which the beneficiaries belong. Where the share of the beneficiaries is indeterminate Agricultural Holdings Tax should be at a minimum of 20 per cent of rateable value.

There should be no concessional treatment for charitable or religious trust.

In the case of co-operatives if the land is identifiable as legally belonging to individual members, such lands should be treated as land belonging to the family to which these members belong. Where such lands are not identifiable, they may be deemed to be operated by the members in equal parts and each such part treated as a component of the agricultural holdings of the respective members.

Companies may be assessed on the same as family holdings subject to a minimum of 20 per cent of the rateable value of their operational holdings.
Plantation companies be assessed as per the existing Agricultural Income Tax laws. However, to the extent the area operated by them is used for growing non-plantation crops, these companies should be subjected to Agricultural Holdings Tax like any other agricultural company.

There should be an All India Committee on Agricultural Holdings Tax to ensure uniform and objective application of the Agricultural Holdings Tax with the following members (i) A non official economist (ii) An official with experience of Revenue Administration at the state level, and (iii) a technical officer who is or has been a Director of Agriculture in a state.

The committee should make a post facto review of the operation of Agricultural Holdings Tax and report to the Planning Commission and National Development Council.

Expected revenue of Rs. 200/- crores per annum if all holdings of rateable value of Rs. 5,000/- or above are brought into Agricultural Holdings Tax and an additional Rs. 200/- crores if Rs. 2,500/- above are brought into Agricultural Holdings Tax.

To check evasion of tax and bring about equality in taxation partially integrate agricultural income with non-agricultural income and apply the rate of tax applicable to non-agricultural incomes. There are different methods for achieving this partial integration.

Agricultural Holdings Tax should be supplemented with a tax on agricultural property and a tax on capital gains arising out of transactions in such property.

Income from live stock breeding and poultry and dairy farming be subjected to income tax

Irrigation water must be priced to meet the cost of providing it.
Raj (1973)\textsuperscript{22} examines some of the issues and problems that agricultural taxation raises and makes the following observations:

- A country mainly agricultural should tax it.
- Land revenue forced farmers to produce also for market in British India.
- Japan extracted a large part of resource for industrialisation from agriculture. So did Soviet Union and China. Land revenue in India shrunk in real terms to almost insignificant proportion from 5 per cent of the total value of agricultural output in the turn of the century to \(\frac{3}{4} (0.75\text{ per cent})\) in early 1970s.
- What can be expected at the most is to mobilize resources from this sector to make available the inputs required for accelerating the growth of agricultural output.
- When the distribution of land is very unequal the external economies created by public expenditure on development are likely to widen rather than narrow the disparities. Shift in terms of trade in favour of agriculture has similar effects. So a significant degree of progression should be introduced in the taxation of agriculture.
- Indirect taxation of agriculture is not sufficient as the additional income requirement is high and the indirect taxes would push up wages and other costs.
- Simplest method to raise additional revenue from agriculture is to levy surcharges on land revenue. But the difficulty is that land revenue does not adequately reflect differences in productivity.
- Land revenue in some states is 10 times larger than in some other states.

\textsuperscript{22}K.N Raj, Direct Taxation of Agriculture Op.Cit.
• In any case, land revenue failed to provide progression into the taxation of agriculture.

• So income from agriculture should be taxed. But assessment of agricultural income presents formidable difficulties leading to either evasion or harassment.

• Apart from the tax collected from the larger plantation in states, revenue from other agriculturists is negligible. This is not because that they do not have the stipulated income. So an attractive method of direct taxation of agriculture is to be developed. There are different methods for taxing agricultural sector.

All the suggested alternatives have their limitations. All the alternatives proposed link the tax to the potential productivity rather than to the actual income. Potential productivity depends on a variety of factors such as type of soil, climate, water and crop-mix.

Agricultural Holdings Tax is a viable alternative according to Raj. Agricultural Holdings Tax (AHT) takes into account all the above, and depending on the crop-mix of each land, productivity can be ascertained. Once the classification of soil on the basis of climate and water availability is done, crop-mix alone need to be known to get the average productivity of the land. Chemical nutrients can make up for the drawbacks in soil fertility so crop mix is the most important factor. He points out the problems of Agricultural Holdings Tax:

Classification of land, which is heterogeneous, is difficult. Another problem relates to the non-availability of records relating to operational holdings. There is difference between ownership holding and operational holding. The question is whether the tax should be on operational holding or on ownership holding. The
working paper also suggests the changes that could be incorporated to solve the problems of the proposed Agricultural Holding Tax.

There should be partial integration of agricultural income with non-agricultural income to avoid tax evasion in non-agricultural income.

There will be resistance even from non-agricultural sectors to Agricultural Holdings Tax as this takes nuclear family as the unit of tax. So family income is taxed not the individual income as it is the case in personal income tax.

Bird (1970)²² had studied Indian agricultural tax system. According to him Land revenue and Agricultural Income Tax are the only significant taxes on the sector and yield around 1 per cent of agricultural income and less than 5 per cent of total revenue. The situation is not expected to improve.

Jain (1975)²⁴ observes that tax burden of agricultural sector is much less compared to non agricultural sector; tax paid by agricultural sector is just 0.7 per cent of agricultural income in 1972. This is in spite of the fact that the agriculture benefited much from Five Year Plans and price moved in favour of the agricultural sector. So agriculture should bear more tax burden; there is no justification for a preferential treatment of the agriculture sector.

Lakdawala (1975)²⁵ suggests four ways to increase the contribution of agricultural sector to the state revenue:

(a) through export taxes (b) taxes on inputs (c) indirect taxes, and (d) direct taxes. The two direct taxes of agricultural sector, land revenue and Agricultural


Income Tax, have a lot of drawbacks. There has to be a new land resettlement if the land revenue is to be organised better; there should be periodic revision and an optimum combination of land revenue and Agricultural Income Tax must be brought about.

He doubts about the effectiveness of Agricultural Holdings Tax. Integration of agricultural and non agricultural income for tax purposes would create more problems. According to him, a new direct tax on agriculture has to be devised.

Bhargava (1976) critically analysed various taxes that were levied on agricultural sector and suggests measures to improve the tax system. Rural households spend about 2.9 per cent of total expenditure on tax as against the All India average of 3.6 and 5.9 per cent for the urban households. So the structure of agricultural taxation must be improved.

Prasad (1987) studied the agricultural tax systems of different states. He wants that more revenue be collected from agriculture, as there is a perceptible increase in the taxable capacity of the sector; and a large volume of expenditure is incurred on agricultural sector through the Five Year Plans. Land revenue in relation to total tax revenue varies from 3.27 for Andhra Pradesh to 0.01 for Maharashtra in 1980-81; and Agricultural Income Tax between 9.5 for Assam and 0.01 for Maharashtra. Land revenue is inelastic and it neither encourages nor discourages the agricultural sector. Agricultural Income Tax is not equitable.

The Tax Reform Committee (1992) recommended that agricultural income above Rs. 25,000/- accruing to non-agriculturalist assessees should be brought under the tax net. To quote, "the provisions for the taxation of agricultural income

by the Central Government that we have recommended would not affect those agriculturalists who (a) have agricultural income not exceeding Rs. 25,000/- per year, or (b) have non-agricultural income not exceeding Rs. 28,000/-.

This means that agriculturalists who have only agricultural income or who have also non-agricultural income but have agricultural income not exceeding Rs. 25,000/- will be left out. Thus, the tax will fall mainly on the larger non-agricultural assesseees, whose agricultural incomes exceed Rs. 25,000/-.

Sury (1997)\textsuperscript{29} evaluates the taxation of agricultural income in India. According to him only 6 states have Agricultural Income Tax of which 3 confine it to plantation crops. Even land revenue, which formed the mainstay of states’ own tax revenue during pre-independent years and even in the early post-independence period, has receded into insignificance over the years.

The near absence of direct taxation of the agricultural sector is partly due to the preponderance of big landlords and other vested interests in state legislatures. It shows how the rural rich have effectively resisted additional tax burden upon themselves. The absence or inadequacy of tax on agricultural income is an example of the insufficient use of taxation powers given to the states. Again, the unequal tax treatment of similar incomes, though from different sources, violates the principle of horizontal equity.

It is well known that the benefits of green revolution are unevenly distributed, creating an affluent elite group in rural areas. It is this class which does not pay its due to the national exchequer, and they should be taxed more and revenue so raised may be earmarked for ameliorating the economic conditions of the downtrodden in villages.

\textsuperscript{29}M.M. Sury, \textit{Indian Tax System} (Delhi: Indian Tax Institute, 1997).
2.4 Studies at the States’ Level.

There are a number of studies on the level of taxation of agricultural sector in different states in India. We take a few of them which are relevant to this study.

Rao (1966)\textsuperscript{30} studied the agricultural taxes in Andhra Pradesh taking Telungana, Rayalaseema and Delta separately for different size-groups of holdings, land and crops and for owner cultivator and rentiers. Changes in tax incidence over the period 1939-1959 are studied on the basis of a survey of 300 cultivators.

The study showed that there was disparity in tax burden among the three regions, Telungana paying the most with 7.15 per cent of net output followed by others paying just 4.8 per cent each.

Impact of land revenue also was highest for Telungana. Tax on commercial crops was less than food crops; irrigated food crops were taxed less than non irrigated food crops. Tax burden had been declining due to increase in prices and also change in physical productivity.

Dwivedi (1973)\textsuperscript{31} dealt with agricultural taxation in Uttar Pradesh. Tax burden on agricultural sector increased from 2.29 per cent of income in 1951-52 to 5.87 per cent in 1966-67, and that of non agricultural sector from 4.03 per cent to 11.25 per cent. Per capita tax burden increased from 1.87 to 5.87 and from 4.79 per cent to 11.25 per cent for the respective sectors.

There is excess capacity in agricultural sector and there is scope for additional taxation. More than 50 per cent of the total capacity lies with the farmers having holdings above 20 acres.

\textsuperscript{30} C.H. Hanumantha Rao, Taxation of Agricultural Land in Andhra Pradesh (Bombay: Asia Publishing House, 1966)
\textsuperscript{31} D.N Dwivedi, Problems and Prospects of Agricultural Taxation in Uttar Pradesh (Delhi: Peoples Publishing House, 1973)
Jain (1974)\textsuperscript{32} studied the case of Haryana. He made a comparative regional analysis in terms of size groups of holdings on the basis of a survey for the years 1965-66 and also on the basis of the secondary data for the period 1950-51 to 1967-68.

Pathak and Patel (1968)\textsuperscript{33} studied Gujarat situation for three years 1961-62 to 1963-64. Tax as per centage of per capita income increased from 8.92 to 11.96 and from 17.38 to 20.38 for agriculture and non-agriculture sectors respectively for the above period.

Villages in different districts have different tax burden. Land taxation (L.R) is vertically and horizontally inequitable. There was price advantage for the agriculture sector during the period.

Lindauer and Singh (1979)\textsuperscript{34} give a historical view of the land taxation and its impact on land tenures in Punjab – different taxes on land that existed from 1881-82 are analysed. They examine the pre independence and post independence effect of land tax.

Thimmaiah (1979)\textsuperscript{35} estimates the revenue potential and revenue efforts of four southern states and Pondicherry covering the period of the Fourth Five Year Plan, i.e., between 1969-70 and 1973-74. The study had not confined to the tax potential and tax effort but revenue potential and revenue effort.

\textsuperscript{32} P.C.Jain, *Agricultural Taxation in Haryana* (Haryana: Kurukshetra University Press, 1974).


Gupta (1983)\textsuperscript{36} makes an attempt to examine the re-distributional effects of both taxation and expenditure policies in Punjab which in terms of per capita income has been the fastest growing state in India since 1967-68.

Agricultural sector is bearing less burden than non agricultural sector between 1968 and 1977. Per capita benefits accruing from developmental expenditure have been greater for agricultural sector.

The taxable capacity of A sector is larger than that of N sector. Upper classes possessed a large taxable capacity in the two sectors, though it was higher for the upper classes in A sector than in N sector. This suggests that there is a strong case for additional taxation of upper classes in A sector.

Agricultural taxation in Punjab was studied by Arneja (1987)\textsuperscript{37}. The period under study was from 1967-68 to 1978-79. Per capita tax burden of agriculture sector increased from 3.11 per cent to 6.55 and those of non agriculture sector from 8.58 per cent to 12.76 per cent. Rich farmers with large holdings are less taxed. He puts forward ways to rationalise agricultural taxation in the state.

Chatterjee (1997)\textsuperscript{38} has studied Agricultural Income Tax in West Bengal. He reviews the tax in other Indian states and brings out the features. There are two types of assessees in Bengal;

(a) Tea companies (b) individuals and Hindu undivided families.

Income from tea was subjected to both union tax on non agricultural income and the state tax on agriculture. 40 per cent of the business income from tea was made taxable under the former 60 per cent under the latter. In the case of tea, the central income tax officials were to determine the whole income including the


\textsuperscript{37}J.S.Arneja, \textit{Agricultural Taxation in Punjab} (Jalandhar: A.B.S.Publication, 1987).

portion treated as agriculture income and the state used to collect the tax on this assessed income. West Bengal government tried to tax the entire income from plantation and the case is in the Supreme Court.

The state has a particular way of assessing the agricultural income for tax purpose. Fifty per cent of the gross income is considered as cost of production. This reduced the number of the assessees considerably. Rates were very high varied between 5 and 60 per cent and were not revised occasionally.

In respect of both the annual rate of growth and the percentage contribution in own tax revenue over time, the performance of Agricultural Income Tax was very unsatisfactory. Collection was subjected to severe fluctuations over time. Collection depended mainly on plantations. Huge standard deductions and fall in the size of holding are the reasons for the poor performance. Accumulation of huge arrears is due to court intervention.

Various suggestions are given for improving collection from non-plantation sector of the agriculture.

2.5 Studies on Kerala Agricultural Taxation

Government of Travancore-Cochin appointed a Committee in 1956 (Government of Kerala 1959)\(^3\) under the chairmanship of G Parameswran Pillai to study Agricultural Income Tax and sales tax. The committee was supposed to study the implications of Agricultural Income Tax.

The committee had tried to measure the Agricultural Income Tax and super tax demanded on the different types of agricultural produce for 1954-55 and 1955-56. It had estimated the total tax collected in T-C since 1950-51 to 1954-55.

The committee was of the opinion that the distinction between agricultural and non agricultural income cannot be eliminated and that agricultural income should continue to be an integral part of the financial structure of the state. Proposed levy of surcharge on agricultural income cannot be accepted. The existing rates of Agricultural Income Tax and super tax had to continue. Exemption limit under Agricultural Income Tax should be the same as that of Income Tax Act. Cesses and taxes levied by local bodies have to be included among allowable expenditure. Earned income relief (to encourage cultivation) to the extent of 1/5 of the total income as in the case of income tax, to a maximum of Rs. 3000/- may be allowed. The committee was against the integration of agricultural and non agricultural income for purposes of income tax, as proposed by Indian Taxation Enquiry Committee 1953-54.

Taxation Enquiry Committee led by Thavaraj (1969) had gone fairly in detail into the land taxation in Kerala. It had unearthed the history and evolution of land tax in the three constituent units namely Travancore, Cochin and Malabar portion of Madrass, which later merged to form Kerala state. According to the Committee the tax burden was 4 per cent of the agricultural income in agricultural sector and 6.7 per cent of non-agricultural income. The Committee considered state taxes alone. The contribution of agricultural sector has not been commensurate with the benefits derived by it under the Five Year Plan.

Committee goes into each tax on land and points out the defects of each one. Basic land tax is neither equitable nor progressive. It recommended the adoption of capital value, which reflects all the dynamic changes in the environment, as the most flexible and progressive basis of land taxation if there is periodic revision of the capital value of land.

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There is no justification in taxing agricultural income on a lower scale than non-agricultural income and put forward new rate structure. It favoured integration of agricultural and non-agricultural income for purposes of taxation. The Committee had gone into the defects of the existing procedures of the assessment and identified the sources of under assessment.

Pillai and Mathew (1969)\textsuperscript{41} tried to measure the tax burden of both agricultural and non agricultural sectors in Kerala. It was a study based on a survey of 2016 households between 1967 May 1, and 1968 April 30.

There is near parity in the relative burden of taxation in agricultural and non agricultural sectors. But there exists differences in the burden on certain income groups in the two sectors, particularly in the lowest strata. The burden in agricultural sector was as high as 9.55 per cent of income for people having income below Rs. 600/\(- and 5.35 per cent in the non-agricultural sector. Highest income groups (Rs. 1200/- and above) pays only 5.22 per cent of income in agricultural sector and 4.99 per cent in non agricultural sector. Thus, the tax system reveals a regressive nature. Direct taxation plays a more important role in the non-agricultural sector while indirect taxation accounts for a large share for agricultural sector.

Agricultural labourers bear the highest burden 16.3 per cent of their income while cultivators pay 4.04 per cent, tenants 4.52 per cent and landlords 9.2 per cent. The reason for such a situation is the impact of general sales tax.

Gopalkrishnan (1984)\textsuperscript{42} observes that tax potential in agriculture in Kerala has not been exploited to any significant extent. The collections from Agricultural


Income Tax which accounted for about 14 per cent of state’s own tax revenues in 1957-58 has dropped to 4 per cent in 1979-80 and to 2 per cent in 1983-84 in spite of the fact that prices of agricultural commodities registered substantial increase during the period. He also observes that about 40 per cent of the sales tax revenue is associated with a few commercial crops like rubber, cardamom, pepper, tea, coffee and commodities like copra and coconut oil.

Government of Kerala constituted a committee on 17.11.1986 to study and make recommendations for restructuring Agricultural Income Tax laws on scientific lines, under the chairmanship of N. Kaaleeswaran (Government of Kerala 1988). The main recommendations of the committee are

(i) Compounding system of payment of Agricultural Income Tax is to be introduced for holdings up to 20 standard hectares. Compounding system of Agricultural Income Tax refers to calculating agricultural income on average basis and apply a tax rate to find out the tax to be paid by the agriculturist.

(ii) Holdings up to 3 standard hectares are to be exempted from the levy of Agricultural Income Tax.

(iii) Standardisation of land holding is recommended for the compounding system as in Table 2.1.

(iv) For holdings between 3 and 20 standard hectares a graded system of compounding is recommended. For holdings above 20 standard hectares and for companies, other corporate bodies and co-operative societies the income-based assessment is to continue. For those above 20 standard hectares the rate of tax should be that of the personal income tax.

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Table 2.1
Standardisation of Land Holding

<table>
<thead>
<tr>
<th>Crop</th>
<th>Hectare extent</th>
<th>Standard Hectares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rubber</td>
<td>1</td>
<td>1.5</td>
</tr>
<tr>
<td>Cardamom</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A zone</td>
<td>1</td>
<td>3.0</td>
</tr>
<tr>
<td>B</td>
<td>1</td>
<td>2.0</td>
</tr>
<tr>
<td>C</td>
<td>1</td>
<td>1.0</td>
</tr>
<tr>
<td>Tea</td>
<td>3</td>
<td>1.0</td>
</tr>
<tr>
<td>Coffee</td>
<td>1</td>
<td>1.0</td>
</tr>
<tr>
<td>Coconut</td>
<td>1</td>
<td>1.5</td>
</tr>
<tr>
<td>Cocoa</td>
<td>1</td>
<td>1.5</td>
</tr>
<tr>
<td>Areca nut</td>
<td>1</td>
<td>3.0</td>
</tr>
<tr>
<td>Pepper</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cinnamon</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cloves</td>
<td>1</td>
<td>2.5</td>
</tr>
<tr>
<td>Nutmeg</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cinchona</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sugarcane</td>
<td>3</td>
<td>1.0</td>
</tr>
</tbody>
</table>


(v) Re-plantation allowances are recommended.

(vi) Infilling expenses are recommended.

(vii) Re-plantation allowance is not allowable for the year when infilling charges are claimed.

(viii) Depreciation charges are to be allowed.

(ix) Specific provision for disallowance of excessive claims of expenditure is to be made.

(x) Supervisory charges, managerial expenses and general charges are to be limited to 10 per cent of the total proceeds.

(xi) When any partner or member of association of individuals or member of joint family or tenant is separately assessed on the income from this individual properties, the share of agricultural income received or receivable by him should also be included in his total agricultural income for the purpose of assessment and the tax levied and payable by him
which is already demanded as his share from such units shall be deducted or allowed as set off from the total tax payable by him.

(xii) Full deduction for Life insurance premium for Rs.6,000/-, 50 per cent on the next Rs. 6,000/- and 40 per cent on the next Rs. 6,000/- be allowed. This is allowed for investments in National Savings Certificates also.

(xiii) The compounding rates of tax are to be made applicable for the entire properties of Trust and other charitable institutions irrespective of the extent they hold.

(xiv) Trusts and other Charitable institutions are to get themselves registered as such with the Commissioner of Agricultural Income Tax.

(xv) Institutions, which do not have such registration, are to be treated as “company” for the purpose of tax.

(xvi) The holdings of individuals, firms both registered and unregistered, association of individuals, tenants-in-common, family consisting of husband, wife, children and other dependents, properties jointly purchased or under common management shall be grouped together for the purpose of assessment or exemption.

(xvii) In the case of mixed planting the principal crop should be taken for determining the standard area. The plants that stand in more than 50 per cent of the area is to be considered as the principal crop. No tax shall be payable for the subsidiary crops. This will promote intensive cultivation.

(xviii) The entire holding of the assessee situated both inside and outside the state are to be taken into account, irrespective of the fact that whether the entire area is cultivated or not or whether crops that are exempted or not are planted, but levy of tax will be limited to the properties situated in Kerala.
(xix) Once rates are fixed, revise it every five years. There need not be any inspection by the Agricultural Income Tax Officer. The rate of tax once determined shall be payable every year without change if there is no change in the extent of the holdings. While suggesting the rates of tax in compounding system the committee has taken into account, the position of crop and the income and expenditure. The need for periodic replanting and the absence of income during replanting period was taken into account while recommending the rates. So tax holiday for replanting purpose is not needed. But when the size of any holdings is expanded by new plantation, the new area will be assessed to tax under compounding system only when it starts yielding.

Kaleeswaran Committee expected that the compounding system to have the following merits:

(1) It will be very simple to understand and efficacious in implementation.

(2) There will be saving in cost of collection of tax compared to the present income based assessment, which requires detailed examination of the accounts and each item of expenditure. It also requires detailed and frequent inspections, which are very often disputed by the assesses.

(3) It benefits the cultivators by relieving them from the burden of maintaining accounts, vouchers or other subsidiary records, participation in the assessment proceedings by complying with the various statutory notices and also due to the fixity of the tax burden, and

(4) All the more the net revenue collection will not be affected.

The most important demerit of the system is the inelasticity of the tax revenue irrespective of the price and yield variation over time.
Bagchi and Rao (1987)\textsuperscript{44} observed that in the case of Agricultural Income Tax in Kerala, the revenue potential was undermined by successive enhancements of the exemption limits in money terms and also in area terms.

In an article, Thomas (1998)\textsuperscript{45}, President, Association of Central Travancore Agriculturist, makes a passionate demand for winding up Agricultural Income Tax in Kerala. According to him the bureaucracy uses the loopholes in the law to harass the farmers. The rate of Agricultural Income Tax is higher than the rate of the central income tax and does not allow the deduction enjoyed by the non agriculturists. According to him, cost of living index increased from 467 points in 1991-92 to 925 in 1998, the price of rubber increased from Rs. 19.75/- to Rs. 30/-, i.e., cost of living doubled while prices of rubber increased only by 50 per cent and the state government is not revising the tax rate considering this fact. Concessions given to the agriculturists by way of reduced tax rate of Agricultural Income Tax would not seriously undermine the finances of the state he argues, as Agricultural Income Tax contributes only 0.48 per cent of the tax revenue of the state. He also points out that 13 district offices of Agricultural Income Tax collects only 12.25 per cent of the Agricultural Income Tax the remaining 87.75 are collected by two offices in Ernakulam and Kozhikode. These offices handle the files of companies. So the individuals' contribution to Agricultural Income Tax come around 3 or 4 crores whereas 13 offices are to be maintained for this. So there will not be any serious revenue repercussions even if the Agricultural Income Tax on individuals are done away with considering the harassment the farmers are undergoing at the hands of the tax officials.

\textsuperscript{44} A. Bagchi and M.G.Rao, \textit{Review of Plan Financing in Kerala during the VI\textsuperscript{th} Plan} (New Delhi: NIPFAP, 1987).

2.6 Conclusion

The review of literature makes it clear that there are not many attempts to study the issues involved in the taxation of agricultural sector in Kerala. The existing attempts have contradictory conclusions: one concluding that the agricultural sector is taxed less than the non-agricultural sector (Thavaraj committee); another holding the view that agricultural sector is taxed more than the non-agricultural sector in the state (Matew and Pillai). One of the studies holds that agricultural sector is not taxed in accordance with the benefits enjoyed by that sector under the Five Year Plans.

Gopalakrishnan says that tax potential in agriculture is not properly exploited. Bagchi and Rao supported the view. But neither of them is able to substantiate the point with evidence. Agriculturists (Thomas) oppose Agricultural Income Tax on the ground of harassment of farmers by the tax officials and that the cost of collection is greater than the revenue from Agricultural Income Tax. This contention again is not proved beyond doubt.

Therefore existing studies raises more issues rather than solving them. Some of them lack conviction in their arguments or are peripheral in their rationale: some are outdated owing to the elapse of time. All the more there are many issues, which are not touched upon by any one of the study. All these justify this attempt.