EFFECTIVENESS OF THE ADMINISTRATIVE SYSTEM FOR AGRICULTURAL TAXES

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CHAPTER VI
EFFECTIVENESS OF THE ADMINISTRATIVE SYSTEM FOR AGRICULTURAL TAXES

6.1 Introduction

Efficiency in tax collection is an important aspect of the tax administration. Theories on efficiency in taxation explain how to raise tax revenue with a minimum of effort. Economy in taxation is one of the basic principles of taxation.

Adam Smith\(^1\) the first to introduce the canons of taxation considered economy in taxation as one of the four basic canons, others being equity, convenience and certainty. According to Otto Eckstein\(^2\), there are three principal qualities for a good tax system, namely certainty, enforceability and minimum compliance and collection cost.

An analysis of the economy in taxation naturally percolates to a study of the cost of collection of taxes. A discussion on the efficiency of the tax administrative system should include backlog of works in various offices, number of tax returns handled, each stage of the work etc. In this chapter, we concentrate on these aspects of the agricultural taxes in Kerala.

6.2 Costs of Tax Collection

Undoubtedly a good tax should involve a minimum cost. Taxing process should be efficient. The tax administration should not be wasteful and the compliance cost for the taxpayer should not be unnecessarily high. According to

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A.R. Prest\textsuperscript{3} administrative efficiency of the tax implies the minimization of the amount of real resources needed to administer any type of expenditure.

Every tax has cost attached to its collection and cost of collection comprises of administrative costs, compliance cost, operating cost, efficiency cost etc. In the following section we are considering the different cost concepts and their implications.

6.2.1 Administrative Cost

Administrative cost refers to the cost incurred on personnel and equipment required for the assessment and collection of taxes. A good tax system should provide desired quality of services at minimum cost.

Administrative cost can be reduced/minimized by the choice of appropriate technologies and administrative procedures. Increased computerization can reduce costs and provide more detailed information. Auditing of a limited number of selected returns should be so designed that it makes enforcement most effective. Administrative cost is obviously subject to large economies of scale. Similarly, more complex the tax structure, more difficult it is to be administered and less efficient the administrative system is likely to be and the administrative cost tend to increase.

6.2.2 Compliance Cost

Compliance cost refers to the cost incurred by the individuals in maintaining proper accounts/records, keeping/paying tax practitioners, time used to fill the relevant form or try to think ways of filling them in a way which are least disadvantageous to themselves (tax avoidance). This includes time, effort and

money used for proper tax planning. Thus, compliance cost means the time and trouble caused to the general body of taxpayers and their advisors.

As in the case of administrative cost, compliance cost also tends to increase with more complex tax structure. Therefore, there should be a proper balancing of equity considerations, which may call for a complex law and saving in compliance cost, which goes with simplification. Administrative cost together with compliance cost determine the operating cost.

According to Otto Ekstein, since the compliance costs to the tax payers and the collection costs to the government add nothing to the national output, resources should not be wasted on them.

6.2.3 Efficiency Cost

A tax interferes with economic decisions and can distort efficient choice. This distortion is burdensome to the taxed, while being of no help to the treasury. Efficient policy should therefore minimise this burden referred to as excess burden, dead weight loss or efficiency cost. According to Richard M. Bird changes in economic behaviour induced by taxation reduce the real level of well-being every bit as much as does the using up of real resources in collecting the taxes in the first place.

If taxes are to be related to ability to pay, they must be based on economic indices such as income, consumption or wealth. Equitable taxation must therefore be based on economic activity and as such inevitably influences economic choices.


\[^6\text{Otto Ekstein, Op. Cit., p.51.}\]
thereby causing an excess burden. The task of tax policy is to reach a compromise between both criteria. Among equally equitable taxes the more efficient one (with less efficiency cost) should clearly be used, but a less efficient one may be preferable if the trade off between equity and efficiency so indicates.

Optimal taxation is that which minimises excess burden and may comprise a complex set of taxes and rates.

6.2.4 Social Cost

A discussion on the cost of taxation would be inconclusive without a reference to the social costs. According to Ray M. Summerfeld social cost constitutes the mental and emotional strain associated with many tax decisions. It also includes the real cost of concealing income or sales (tax base) from tax authorities or in other words the expenses incurred for tax evasion. This cost of taxation has two aspects:

(a) the amount spent by individuals for evading taxes such as paying bribes or hiding the entire tax base;

(b) loss in the government revenue.

It is suggested that for every $1 in bribes received by tax officials, government lose $20 in tax revenue. The cost to tax payers of evading direct taxes in those countries was as low as 5 per cent of the tax evaded. Thus, the concept of cost includes wider issues such as a reduction in leisure, as a result of public

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efforts to avoid or evade tax payments, efficiency loss, decrease in social satisfaction, etc, i.e., the cost is not confined to administrative and compliance cost.

6.3 Cost of Agricultural Taxation in Kerala

The two taxes that are considered strictly as taxes on agriculture are Agricultural Income Tax and Land Revenue in Kerala. Here, we try to measure the cost of collection of these two taxes.

6.3.1 Land Revenue

The evolution and system of Land Revenue was discussed in detail in Chapter IV (Section 4.2.2). The features of the land revenue system in Kerala can be summarised as

(i) Land revenue is collected through the village offices in Kerala.

(ii) These village offices have a number of functions to perform and land tax collection does not get the required attention from the village offices.

(iii) Land tax collection can be increased if proper effort is employed even at the existing rate of taxation.

(iv) Effort involved and therefore the cost incurred in the collection of land revenue in each village office cannot be separated and this makes a study of cost of collection of land revenue impossible.

(v) Tax varies among Gramma panchayats, Municipal and Corporations areas.
The magnitude of responsibilities assigned to the village offices are so huge that the entire amount spent on them are meagre in terms of the services rendered to the people. Collection of land revenue is a very insignificant (though the amount collected in 2001-02 Rs 4358/- lakhs is not insignificant in a resource scarce state) duty performed by the village offices and the expenditure portion that can be assigned to the land tax collection will naturally be very little. What we want to state is that village office is an institution that is to exist with its manifold functions even if land tax is not collected through it. Therefore, we should conclude that land tax collection does not affect considerably the expenses incurred on village offices.

This is because there is no one in the village office specially assigned to collect land revenue. Tax is collected when the land owner goes to the village office to pay the tax; land owner goes to pay tax only when the ‘tax receipt’ is essential for activities such as getting a loan from the bank by pledging the land, to get a nativity certificate, to get a possession certificate, to get the number for a building constructed etc.

Thus, we know that the administrative cost of land revenue is not easily separable and it is low as collection is made with no extra effort, personnel or facilities.

Compliance cost also is the minimum as the tax is levied on the area of land held by the individuals and the village offices have the documents of land holdings. Therefore, the individuals need not go through the filing of returns and keeping and preparing documents to support the returns. Individuals can go to the village office as and when needed and pay the land tax. So there is no wastage of time. Actually, many individuals go to pay the land taxes occasionally in four or five years or even more. There isn’t anything to be proved for the assessment of
the tax. The village offices, which have the records of land possessed by each person in the village will fix the tax on the basis of the area owned by each individual and the person just need to pay. There is no scope for overestimation or under estimation of the tax to be paid. The only compliance cost, therefore, would be the transportation charge required for reaching the village office. Therefore we do not attempt to study the compliance cost also.

Efficiency cost also is very little as the rate of land tax is nominal and the agriculturists do not consider land tax as burdensome. So it does not affect the incentive to work or save. So land tax at present does not distort production or consumption in the economy.

The social cost also is very little. As the rate of land tax at present is negligible people are not concerned about tax evasion and the village officials cannot do much favour for helping the agriculturists to evade or avoid land tax.

6.3.2 Agricultural Income Tax

The evolution of the system of Agricultural Income Tax in Kerala was explained in Chapter IV (Section 4.2.1). There are at present two types of Agricultural Income Tax payers

(i) who can opt for compounding the income on the basis of the area of land holding and

(ii) who have to pay tax on the basis of their income earned from agriculture.

Therefore, in addition to administrative cost there is also compliance cost in the case of Agricultural Income Tax. In the case of the first type mentioned above collection cost may be minimum as the tax is based on the area of land held and
the ownership of land has valid documents and therefore there is little scope for arbitrariness. But the taxpayers have to prove the extent of each crop cultivated in each piece of land and change in the cropping pattern. This requires time and effort.

In the case of second stream of taxpayers, they have to keep proper accounts and records to support and prove their taxable capacity. They may require the help of experts to maintain proper accounts of cost of cultivation, price, net income, taxable income etc. Therefore, in this case, compliance cost would be high.

We do not attempt a measurement of compliance cost because of many difficulties such as

(i) lack of proper accounting practices of the farmers, majority of whom are ignorant
(ii) data on time and effort taken to file the returns are not available
(iii) Cost/opportunity cost of such time and effort are not properly quantifiable or measurable.

Similarly, Agricultural Income tax also has efficiency cost. Though supply of agricultural products are said to be inelastic, it is not perfectly inelastic. In the very short term, it may seem inelastic to price or income. But, there are many factors, which make production and supply elastic even in the short run. Use of fertilisers, intensive cultivation practices, etc. can be adjusted to price and income variation. The productivity of rubber was 1576/ha in 2000-01 when the price was less than Rs. 30/- per k.g. But it increased to 1592/ha in 2002-03\(^\text{10}\) (Trend, August

2003). This means that output is responsive to prices. This shows that output, cropping practices and patterns are influenced by the income generating capacity of farming. Therefore, we can logically conclude that Agricultural Income tax, which cuts into the income of the farmer, distorts production and farming practices.

But here too we do not attempt to quantify the efficiency cost of Agricultural Income Tax, again due to many difficulties such as

(i) there is no method to establish that there is a one to one relation between change in production and Agricultural Income Tax.

(ii) Agricultural production is influenced by many factors such as climate; price variation etc. and we cannot isolate the impact of Agricultural Income Tax from other influences on production.

Social cost of Agricultural Income Tax is said to be very high - as income from agriculture is not easy to be found out. High arbitrariness can be exercised so that the Agricultural Income Tax Officer can manipulate and harass the agriculturists who do not please them; the ignorance of the farmers, price fluctuation, output variation etc. add to the confusion.

It is also argued that if agriculturists are not taxed properly there will be large-scale tax evasion by businessmen and corrupt bureaucrats who consider agriculture as safe haven of tax evasion as they can show agriculture as the source of their earning. A quantification of social cost also is very difficult. So we desist from making such an attempt.

We agree that Agricultural Income Tax in its both forms does have all the above costs attached to it. But, we limit our study only to the administrative cost of Agricultural Income Tax.
Agricultural Income Tax in Kerala is collected through the Department of commercial taxes and agricultural income tax, i.e., Agricultural Income Tax does not have a separate department. The hierarchy of the department of Commercial and Agricultural Income tax is as follows.

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Commissioner of Taxes  ↓
Assistant commissioner  ↓
Deputy Commissioner      ↓
Agricultural Income Tax Officer  ↓
Agricultural Income Tax Inspectors  ↓
Jr. Supdt. Or H.D       ↓
  U.D Clark             ↓
  L.D Clark            ↓
  Typist               ↓
  Clerical Attender    ↓
  Peon                 ↓
  Daily Workers
```

The first three posts in the hierarchy, i.e., Commissioner of Taxes, Asst.Commissioner of Taxes and Deputy Commissioner, handle other taxes also. Therefore, irrespective of whether Agricultural Income Tax is collected or not they exist. We do not enlist the cost incurred on them as the cost on Agricultural Income Tax. This is also because there is no way to distribute the cost incurred on these offices among different taxes handled by them. But as it is clear at the end of the analysis, this has not affected the conclusion of our study.
Different offices (as mentioned in Chapter I (Section 1.4)) collect agricultural Income Tax. We can identify three types of offices that collect Agricultural Income Tax.

(i) AC Special (Assistant Commissioner): There are two of such offices in Kerala, one at Kochi and another at Kozhikode. These are offices that handle mostly the tax returns of companies and firms that are engaged in agricultural activities. At present AC Kozhikodu handles 77 returns and AC Ernakulam has 82 returns.

(ii) Agricultural Income Tax offices that handle only tax returns of agriculturists. There are 15 of them in Kerala. It is interesting to note that Idukki district, which is predominantly agricultural, does not have any such office at present. There were a few of them, which were recently closed down and the files transferred to the nearby offices of the third type discussed below.

(iii) The third type are offices that handle mainly sales tax returns, together with them a few of the files of Agricultural Income Tax are also handled by a clerk. Thus Agricultural Income Tax returns are handled together with sales tax files. Their main function is to collect sales tax. The clerk who handles Agricultural Income Tax returns will handle sales tax collection also since the number of Agricultural Income tax returns and assessees are very few in number.

Total cost of collection (Administrative Cost) includes wages and salaries including daily wages, telephone bills, postage charges, rent of the buildings (if functions in a rented houses; some of them functions in government buildings such as collectorate or in the buildings where sales tax offices also functions), stationary charges, etc.
The researcher has visited both of the Assistant Commissioners offices at Kozhikode and Ernakulam; all the 15 offices where agricultural income tax alone is collected and 9 (nine) offices where both Agricultural Income tax and Sales tax are collected. Altogether 26 offices were visited and tried to collect the data.

Since our objective is not to evaluate the performance of any single office and to keep the identity of the particular offices confidential we give 'numbers' to each of the above office to quantify the administrative cost of each of them.

Only four of the above offices keep data on the cost of collection of 1990-91 and the study of the change in the cost over the period is based on these offices.

Twelve (12) offices, (eleven Agricultural Income tax Offices and one Assistant Commissioner-special office) provided the cost data for 2002-03. Table 6.1 summarises the data collected from the concerned offices. The table shows that cost, as per cent of gross Agricultural Income Tax collection, varied between 18.62 and 343.4 per cent of the gross collection in 2002-03.

In six of the 12 offices, cost of collection is higher than the total revenue collected. Of the six offices where revenue is greater than cost of collection, cost on the average is more than 60 per cent of the revenue collected.

Some offices reported (not supported by data as they do not have the cost data of the previous years with them) that they had always cost of collection greater than the revenue collected there. Four offices, which had cost data for 1990-91 showed that their cost of collection ranged between 15 and 39.6 per cent of the revenue collected by them.
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<thead>
<tr>
<th>Year</th>
<th>1</th>
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<th>9</th>
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<th>12</th>
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<td>1991-92</td>
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<td>1996-97</td>
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<td>1997-98</td>
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<td>1998-99</td>
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<tr>
<td>1999-00</td>
<td>182.1</td>
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<td>2000-01</td>
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<td>2001-02</td>
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<tr>
<td>2002-03</td>
<td>72.5</td>
<td>71.0</td>
<td>18.6</td>
<td>88.2</td>
<td>67.2</td>
<td>85.8</td>
<td>206.0</td>
<td>126.8</td>
<td>237.9</td>
<td>222.2</td>
<td>343.4</td>
<td>294.5</td>
</tr>
</tbody>
</table>

Note: First six offices (with < mark) show that cost is less than the revenue and the rest (with > mark) show that cost is more than the revenue. Figures are cost of collection as percentages of revenue or tax collected in each office.
Source: Computed on the basis of the data collected from the files of the concerned offices.
One office had cost data for five years and it shows that cost of collection was around 40 per cent in 1991 and shot up to 182.11 per cent in 1999-00 and it declined to 72.52 per cent in 2002-03. Another office, which had cost data for 1992-93 and 2002-03 showed that the administrative cost rose from 187.36 per cent of revenue collected to 222.2 per cent during the period.

From the data collected from the agricultural income tax offices it is found that total tax revenue collected through the twelve offices, which were ready to disclose the data, amounted to Rs 112.451 lakhs in 2002-03 and the total administrative cost of those offices were Rs 81.351 lakhs in the same year. Thus it is clear that total revenue collected through the offices is more than cost of maintaining those offices. Therefore these offices can be said to be economically viable. But the fact is that the cost of collection of the tax is about 72.34 per cent of the revenue. But if we exclude the cost incurred and revenue collected in the Assistant Commissioner Office, total revenue is less than the total cost; revenue is only 82.97 per cent of the cost. This means that the Agricultural Income Tax offices in the state spend more on tax collection than what they collect as tax.

Table 6.1 shows that Agricultural Income tax offices do not have a uniform cost condition except that even in 1990-91 administrative cost was higher than 15 per cent of the Agricultural Income Tax collected through their offices.

6.4 Comparison of Administrative Cost with that of other taxes and other countries

In the following section we are trying to compare the administrative cost of agricultural income tax in Kerala with that of some other taxes in some countries at different periods of time. The countries selected for comparison are the U.S.A. and the U.K. The comparison is made with administrative cost of income tax, personal taxes and total tax revenue. After this we have compared the
There had been attempts at quantifying the cost of taxation at least in the developed countries. The table below tries to capture the results of some of the studies. Though different costs vary widely among different taxes and among countries the table gives a picture of the extent of cost involved in taxes.

Table 6.2
Different Costs of Collection in Different Countries for Different Taxes

<table>
<thead>
<tr>
<th>Administrative cost</th>
<th>Compliance cost</th>
<th>Efficiency cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 cent per dollar in the U.S.A in 1989 *</td>
<td>7 per cent of income tax revenue *</td>
<td>15 per cent per dollar *</td>
</tr>
<tr>
<td>45 cents per dollars 100 of revenue of income tax in the U.S.A.**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 per cent of revenue in the U.K. or 1.5 per cent of G.D.P. in the U.K.***</td>
<td>20 to 30 per cent of revenue in developed countries ***</td>
<td></td>
</tr>
<tr>
<td>Total operating cost of the direct personal taxes in the U.K. is 4 to 7 times the administrative cost ****</td>
<td></td>
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</table>


Musgrave says that the cost of federal administration for the tax collection was about $11 billion in USA in 1989. It comes about 1 cent per dollar collected as tax.

Summerfeld estimated the administrative cost of income tax in USA to be 45 cents for every 100 dollars collected as tax in 1970 and goes on to observe that federal income tax is one of the cheapest taxes to collect and the complexity of the tax makes compliance costs very high. According to him, the total cost of the income tax as well as any other tax is anyone’s guess.

According to Musgrave's compliance cost of personal income tax is about 7 per cent of total income tax revenue. The methodology used for the measurement
was simple. J Slemrod and N Sorum\textsuperscript{11} through a survey estimated that tax payers on the average spent 21.7 hours on tax compliance both for account keeping during the year and for the actual process of filing returns. Valuing this time at its average and after tax hourly wage, it was estimated that the average own-cost was $231. Adding to this, the average cost of professional advice of $44, the average cost per taxpayer was $275. The survey showed compliance cost to remain a fairly steady per cent of income thereafter. Applying the average to 97 million tax-paying units arrived at a total of $26 billion, which is equal to 7 per cent of total income tax revenue of $380 billion.

Musgraves, even while admitting the difficulty of estimating the magnitude of efficiency cost suggest an overall burden equal to perhaps 15 per cent of revenue for the average tax dollar and substantially higher for the marginal dollar.

Bird says that a study in the UK of the operating costs - public (administrative) and private (compliance), of the tax system found that this cost came about 4 per cent of revenues of 1.5 per cent of GDP\textsuperscript{12}.

Bird is also of the view that estimate of efficiency costs are subject to wider variations but opines that most economists agree that efficiency costs are likely to be at least 20 - 30 per cent of revenues collected\textsuperscript{13}

A.R.Prest quotes Sandford\textsuperscript{14} as estimating that the total cost of operating the system of direct personal taxes in UK was some 4 - 7 times as great as the public sector administration cost.


\textsuperscript{12} See also C.T.Sandford et al., \textit{Costs and Benefits of VAT (London: Heinemann Educational Books,1981),p.41.}

A close perusal of the table reveals that total cost of taxation is somewhere between 20 and 30 per cent of the total revenue collected in developed countries: 23 per cent in the USA and 29 per cent in the UK -if we take 25 per cent (the average of 20 and 30) as efficiency cost in the UK. It is also clear that compliance cost is much higher than administrative cost, about 7 times the administrative cost. Efficiency cost is still higher; it being double or more than double the administrative and compliance cost taken together.

The above observation about cost of taxation has a 'health warning' that cost of taxation vary widely among countries, among different taxes, among different periods of time, among different technologies and personnel used for tax administration and scale of taxation. It is also to be noted that these are two developed countries with developed technologies. Therefore the figures given are just sign- posts, which may help to understand the severity of different costs in tax mobilization. It may also help to understand and compare the cost of taxes in different countries and how it varies among different taxes.

In comparison to the costs of collection of different taxes in different countries administrative cost of Agricultural Income Tax in Kerala is very high. The lowest cost is 18.62 per cent of revenue collected and the highest is 343.4 per cent (Office no.11) in 2002-03. Administrative cost on the average was 152.84 per cent of revenue in the twelve offices in 2002-03.

Jose Sebastian's study of cost of collection of Sales tax in the south Indian states (Table 6.3) also shows that it was less than 2 per cent in all the states ever since 1980-81. Administrative cost of Sales tax in Karnataka was just one per cent of the revenue collected. In Tamil Nadu it was 1.32 and in Adhra Pradesh it was 2

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per cent of the revenue. The cost of collection of Sales tax in Kerala also shows a similar figure with less than 1.52 per cent in the same period.

Table 6.3
Cost of Collection of Sales Tax as Percentage of Gross Collection

<table>
<thead>
<tr>
<th>Years</th>
<th>Kerala</th>
<th>Tamilnadu</th>
<th>Karnataka</th>
<th>Andhra Pradesh</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>1.51</td>
<td>1.00</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>1981-82</td>
<td>1.52</td>
<td>1.00</td>
<td>1.25</td>
<td>2.00</td>
</tr>
<tr>
<td>1985-86</td>
<td>1.38</td>
<td>1.47</td>
<td>1.36</td>
<td>2.00</td>
</tr>
<tr>
<td>1990-91</td>
<td>1.42</td>
<td>1.38</td>
<td>1.00</td>
<td>2.00</td>
</tr>
<tr>
<td>1991-92</td>
<td>1.20</td>
<td>1.32</td>
<td>1.00</td>
<td>2.00</td>
</tr>
<tr>
<td>1992-93</td>
<td>1.50</td>
<td>NA</td>
<td>1.00</td>
<td>2.00</td>
</tr>
</tbody>
</table>


Cost of collection of Agricultural Income tax was above 15 per cent even in 1990-91. This shows that administrative cost of Agricultural Income tax was and continues to be very high in Kerala. The available data shows that the tendency of the administrative cost is to increase. Thus, the principle of economy in taxation is violated here.

The only consoling aspect is that half of the offices have cost of collection less than the revenue mobilised by those offices. The high administrative cost of Agricultural Income Tax questions the rationale of continuing with Agricultural Income Tax in Kerala as it is. But a very important theoretical issue is the question of equity in taxation. Though the contribution of Agricultural Income Tax to the exchequer is negligible and the cost of collection is very high it tries to tax a section of the well to do agriculturists.

When we add the compliance cost, efficiency cost and social cost to the administrative cost the total cost of Agricultural Income Tax may over run the so called social contentment. Therefore, there is scope of further research on these
aspects of total cost of Agricultural Income Tax before we categorically conclude as to how much damage Agricultural Income Tax is doing to the society at large.

6.5 Tax Administration

Although many offices were very reluctant to supply the data despite three or four visits to the offices, some were very cooperative. Many offices do not have the required data for many years. Many offices are functioning in rented buildings and were shifted from one building to another. Therefore, previous files (diary) were not traceable.

It is amazing to note that the offices do not follow a uniform pattern of file keeping. Many offices do not consolidate the details of the tax returns; all offices have a diary for one year giving the required data for the particular year. Data for previous years, if needed can be collected only from the diary of the concerned year. Very often, these files are dumped into the heap of files and are not traceable especially those of the first half of the nineties.

Here, we try to make an assessment only of the administration of the Agricultural Income Tax offices where agricultural income tax alone is collected.

There are some offices that maintain proper and consolidated register giving the details of number of assessees, tax payers, arrears in each year at each stage of action, cost of collection, etc. Those were very helpful in collecting the data. Some offices were very sceptical about the intention of the researcher, as to why data on arrears, cost of collection etc., are to be collected and it took a lot of time and persuasion to convince that the data would be used only for academic purpose and in any case mounting arrear is not due to the failure of the officer, cost situation is not of his making so and so forth. In spite of all these, there were some who did not disclose the details.
Simple arithmetical techniques like ratios, percentages, etc. are used to analyse the data. Here, we try to analyse the composition of the cost of collection, arrears at different stages of action, change in number of assesses, tax payers, etc. The analysis is on the basis of the data collected from 15 offices that deal only with agricultural income tax. It does not include Assistant Commissioner’s (special).

6.5.1 Tax Payers and Assesses

There is difference between tax payers and assesses as all assesses are not tax payers because some of those assessed may not have taxable capacity and thus be excluded paying tax. Here, we are trying to analyse the change in the number of taxpayers. This is based on the data provided by 5 of the above 15 offices. Only 5 of them keep data on the number of the taxpayers for the period under study. Other offices have data for only a few recent years. Table 6.4 summarises the data.

Table 6.4
Change in the Number of Tax Payers

<table>
<thead>
<tr>
<th>Year</th>
<th>Office 1</th>
<th>Office 2</th>
<th>Office 3</th>
<th>Office 4</th>
<th>Office 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989-90</td>
<td>897</td>
<td>760</td>
<td>424</td>
<td>1569</td>
<td>NA</td>
</tr>
<tr>
<td>1990-91</td>
<td>854</td>
<td>750</td>
<td>421</td>
<td>1490</td>
<td>341</td>
</tr>
<tr>
<td>2000-01</td>
<td>411</td>
<td>NA</td>
<td>396</td>
<td>587</td>
<td>503*</td>
</tr>
<tr>
<td>2001-02</td>
<td>409</td>
<td>583</td>
<td>392</td>
<td>581</td>
<td>503</td>
</tr>
</tbody>
</table>

Source: Compiled from the Office files.
* A nearby office was merged with this office and all the files from that office are brought to this office in 2000-01 financial year.

It is seen that there is a sharp fall in the taxpayers in all except one office. This office (fifth) had 341 taxpayers in 1990-91 before the introduction of compounding in Agricultural Income Tax and increased to 503 in 2000-01. But, this should be understood in the background of the fact that in 2000-01 financial
Simple arithmetical techniques like ratios, percentages, etc. are used to analyse the data. Here, we try to analyse the composition of the cost of collection, arrears at different stages of action, change in number of assesses, tax payers, etc. The analysis is on the basis of the data collected from 15 offices that deal only with agricultural income tax. It does not include Assistant Commissioner's (special).

6.5.1 Tax Payers and Assessees

There is difference between tax payers and assessees as all assessees are not tax payers because some of those assessed may not have taxable capacity and thus be excluded paying tax. Here, we are trying to analyse the change in the number of taxpayers. This is based on the data provided by 5 of the above 15 offices. Only 5 of them keep data on the number of the taxpayers for the period under study. Other offices have data for only a few recent years. Table 6.4 summarises the data.

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* A nearby office was merged with this office and all the files from that office are brought to this office in 2000-01 financial year.

It is seen that there is a sharp fall in the taxpayers in all except one office. This office (fifth) had 341 taxpayers in 1990-91 before the introduction of compounding in Agricultural Income Tax and increased to 503 in 2000-01. But, this should be understood in the background of the fact that in 2000-01 financial
year, another office was closed down and all the files transferred to this nearby office.

All other offices point to the fact that there is a sharp fall in the number of taxpayers. In the first office, the fall is from 897 taxpayers to 409 (less than half of the number in 1989-90) only 45.59 per cent of the original number exists. In office two, and three the decrease is not as sharp as in the first one. Now there are about 76.7 per cent and 92.45 per cent of the taxpayers (of 1989-90) in these offices. But, in the fourth office, there are only 37.03 per cent of the numbers of taxpayers in 1989-90 do exist in 2001-02. This shows that the number of taxpayers decreased sharply in the nineties.

Change in the number of assessees also confirms this conclusion. Only three offices keep data on the number of assessees for the period under study. Therefore, our analysis of the change in the number of assessees depends on the data collected from these offices. Table 6.5 shows change in the number of assessees.

<table>
<thead>
<tr>
<th>Year</th>
<th>Office 1</th>
<th>Office 2</th>
<th>Office 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989-90</td>
<td>2271</td>
<td>471</td>
<td>184</td>
</tr>
<tr>
<td>1990-91</td>
<td>2116</td>
<td>478</td>
<td>190</td>
</tr>
<tr>
<td>2000-01</td>
<td>1415</td>
<td>427</td>
<td>47</td>
</tr>
</tbody>
</table>

Source: Same as Table 6.4

Office 1 in Table 6.4 and 6.5 are the same, and office 3 in Table 6.4 and office 2 in Table 6.5 are the same. All the three offices witness a fall in the number of assessees. The fall was to 1415 in 2000-01 from 2271 in Office 1, i.e., only 62.31 per cent of the number in 1989. In office 2, fall is not very sharp; about 90.66 per cent assessees are still there. But, in the third office, fall is very sharp, i.e., only 25.54 per cent of the assessees are there now.
The fall in the number of assessees or taxpayers is not due to any negligence on the part of the tax officials. This is mainly due to the change in the tax laws year after year especially after the introduction of compounding. Fall in the agricultural prices, since 1998-99 had resulted in a lenient attitude towards agriculturists and rubber plantation up to 20 hectares were exempted from Agricultural Income Tax in 1999-00; coffee up to 20 hectares exempted in 2000-01 and all crops up to 5 hectares are exempted from Agricultural Income Tax since 2000-01. All these must have resulted in the falling number of assessees and taxpayers.

6.5.2 Arrear Accumulation

Difference between demand made on the assessees and tax payment of each year will be treated as arrear of the particular year. This 'arrear' will be at different stage of action such as assessment, some under process called not ripe for collection, some under remission, some might be written off after a few years of litigation. The extent of mounting arrears is a cause of concern. Here, we try to analyse the extent of arrears and the action taken on these arrears. Of the 26 offices visited 15 revealed the extent of the arrears and stages of action on them: 13 of these offices deal with individuals' files and two Assistant Commissioners' office handle returns of companies and firms.

Therefore our study takes two directions:

one, based on other 13 offices who deal mainly with individual assessees and

two, based on the 2 Assistant Commissioner's (special) offices, which deal chiefly on company returns

First we take up the 13 offices that deal with individual's tax return. Table 6.6 gives a picture of the arrears in 13 offices spread over the state.
Table 6.6
Arrear at Various Stages of Action in Agricultural Income Tax Offices that deal with Individual assessee

<table>
<thead>
<tr>
<th>Stages of Arrear</th>
<th>Arrears (Rs. Lakhs)</th>
<th>Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government stay</td>
<td>6.48</td>
<td>0.94</td>
</tr>
<tr>
<td>Court stay</td>
<td>91.61</td>
<td>13.29</td>
</tr>
<tr>
<td>Other stay</td>
<td>67.08</td>
<td>9.73</td>
</tr>
<tr>
<td>Revenue recovery</td>
<td>473.04</td>
<td>68.62</td>
</tr>
<tr>
<td>Other action</td>
<td>32.37</td>
<td>4.69</td>
</tr>
<tr>
<td>Total</td>
<td>689.29</td>
<td>**</td>
</tr>
</tbody>
</table>

Source: Same as Table 6.4

Total arrears in these offices are Rs.689.29/- lakhs. Of these, government has given stay for payment to Rs.6.48/- lakhs, i.e., 0.94 per cent of the total and payment of Rs.91.61/- lakhs stayed by courts. This is about 13.29 per cent of the total. Stay by others constitutes Rs.67.08/- lakhs i.e., 9.73 per cent of the total arrear. Other stay includes stay by tribunals, tax officials such as Assistant Commissioner of taxes, Deputy Commissioner of taxes, etc. About 68.62 per cent of the arrears have gone through all the formalities of assessment and is pending revenue recovery as assessee have refused to pay.

Thus the table is clear on a few aspects:

(i) More than 68 per cent of the arrears have completed all the process of assessment and are at the stage of revenue recovery

* ** The third column does not add up to 100 because the components of the table are not mutually exclusive in the sense that court, government and others intervene in each stage of assessment and provide stay. To make it clear we must go a bit further in the direction. The assessment process begins with the demand made by the Agricultural Income Tax office to pay the tax. The assessee approach the officer concerned and present their case. If there is disagreement they will approach government, Others such as Assistant and Deputy Commissioners of taxation, tribunals and court for slashing the assessment. These institutions intervene at different stages of the assessment. Therefore, amount under revenue recovery may fall under the court stay heading also. Therefore, third column can add up to more than 100, but in this case it does not because office files are not explicit in many aspects.
(ii) Government intervention and staying of tax payment is less than one (0.94) per cent of the total arrears.

(iii) Court intervention is the single largest (13.29 per cent) reason for accumulation arrear followed by stay by others which comprises offices like, Assistant Commissioner of taxes, Deputy Commissioner of taxes and Tribunals set up for tax purposes.

Therefore, we may conclude that Agricultural Income Tax offices do not overwhelmingly fail in their responsibility of assessment of tax. Mounting tax arrears are not due to the negligence of the offices concerned. But, the mounting of arrears to an extent is due to the arbitrary assessment made by the tax officials. Very often, the Agricultural Income Tax offices assess an excess amount on the cultivator and the legal process starts with it. This fact is made out clearly from the fact that about 84.24 per cent of the arrears are accumulated arrears from the past. Only 15.76 per cent are arrears from the current year assessment in 2002-2003. Arbitrary assessment had caused accumulation of arrears.

An analysis of the arrear position of the two Assistant Commissioner’s offices (special) in Kerala reveals interesting facts. They handle the returns of large firms, companies, trusts, etc. Table 6.7 reveals the arrear position in Assistant Commissioner’s offices (AC special) as on March 31, 2003.

<table>
<thead>
<tr>
<th>Stages of Arrear</th>
<th>Amount (Rs. Lakhs)</th>
<th>Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government stay</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Court stay</td>
<td>1026.92</td>
<td>27.47</td>
</tr>
<tr>
<td>Other stay</td>
<td>1177.21</td>
<td>31.49</td>
</tr>
<tr>
<td>Revenue recovery</td>
<td>1686.97</td>
<td>45.12</td>
</tr>
<tr>
<td>Total</td>
<td>3738.77</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Same as Table 6.4
Total arrear amount is Rs.3738.33/- lakhs. Court has stayed proceedings on 27.47 per cent of the arrear and others stayed 31.49 per cent. Revenue recovery has been ordered on 45.12 per cent of the arrears.

A comparison of Table 6.6 and 6.7 is interesting and revealing many facts. One should be careful in the comparison that Table 6.7 summarises the total arrears of the two Assistant Commissioners' offices dealing chiefly in big assesseees and Table 6.6 contains data about arrears of 13 offices handling individual files only and there are many others in that category. But, they have not provided the data. So we could not include them for the analysis. Therefore, arrear data of the 13 offices are not complete.

Tables show (6.6 and 6.7) that total arrear accumulated in the offices that assess small individual tax payers is only Rs.689.29/- lakhs where as the two offices that assess the big ones have a mounting arrear of Rs.3738.77/- lakhs. Government has not intervened to stay the arrears of the big ones, whereas in the case of small payers government has intervened to stay (0.94 per cent) of the arrears. This does not mean that there is no political intervention in the case of big assesseees. Government can intervene through the category of others, which include Assistant and Deputy Commissioners of taxation. It is interesting to note that stay given by such authorities in the case of ‘big ones’ constitute about 31.49 per cent of the total arrear and courts stay comes to 27.47 per cent, where as in the case of small assesseees the respective figures are 9.73 per cent and 13.29 per cent; the stay by court is more in the case of small assesseees than the stay by others, whereas in the case of ‘big assesseees’ stay by others is larger than by courts.

It is also revealing the fact that 68.62 per cent of the small assesseees arrears are at revenue recovery whereas only 45.12 per cent of the arrears of the big assesseees are at the stage of revenue recovery. This may be because of the fact
that big assessees having the facilities got a stay by approaching the authorities before the assessment reaches the stage of revenue recovery. That means they are able to get a stay.

Total arrears accumulated in (159 assessees) the two Assistant Commissioners offices are Rs.3738.77/- lakhs where as the total arrears of 13 other offices, which handle individual assessment, are just Rs.689.29/- lakhs. This is only about 18.43 per cent of the big assessees.

Can we say, in this context, that the Assistant Commissioners offices are less efficient than the other Agricultural Income Tax offices? The accumulating arrear in the Assistant Commissioners may be due two reasons:

(i) The assessees of the Assistant Commissioners office belong to the income streams of agricultural income tax, as their area of holding is more than 20 hectares. In the case of income assessment, there is the possibility of arbitrariness and disagreement between assessee and the tax officials. It can lead to litigation and mounting arrears.

(ii) The big assessees as we said have the wherewithal to interrupt the assessment process, through court and higher offices. This also might have resulted in the arrear accumulation.

So the accumulation of arrear is not a yardstick for measuring the efficiency of the concerned office or the officer. But only 45.12 per cent of the cases are at the stage of revenue recovery where as in the Agricultural Income Tax office, which handles individual assessees 68.62 per cent of the cases are at the stage of revenue recovery.
6.5.3 Tax Officials and Tax Collection

Another method for evaluating the performance of the tax office is to compare among the tax collection, cost of collection and arrear amount of the offices. Here, we assess the functioning of offices that collect Agricultural Income Tax only. The Assistant Commissioners' offices are not analysed here because Assistant Commissioners office Ernakulam functions as a part of the bigger Department of Agricultural Income Tax and Commercial Taxes and the separate data on Assistant Commissioners' office, that deals with agricultural income tax alone is not available. Offices that collect both Agricultural Income Tax and sales tax are also not studied for similar reasons.

Table 6.8 shows the staff strength of the 15 offices under study. This is the existing staff strength and not the sanctioned staff strength. There is difference between the two because as part of the downsizing of the Agricultural Income Tax offices many of the sanctioned officers are on deputation to other sections of the department. There are altogether 113 employees in these 15 offices, of which 18 are agricultural income tax officers, as there are two officers each in Pala, Kottayam and Kanjirappally.

Table 6.8
Staff Strength

<table>
<thead>
<tr>
<th>Name of the Post</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Income TaxO</td>
<td>18</td>
</tr>
<tr>
<td>Inspector</td>
<td>05</td>
</tr>
<tr>
<td>Head Clark</td>
<td>11</td>
</tr>
<tr>
<td>UDC</td>
<td>21</td>
</tr>
<tr>
<td>LDC</td>
<td>20</td>
</tr>
<tr>
<td>Typists</td>
<td>10</td>
</tr>
<tr>
<td>Peons</td>
<td>20</td>
</tr>
<tr>
<td>Clerical Attender</td>
<td>08</td>
</tr>
<tr>
<td>Total</td>
<td>113</td>
</tr>
</tbody>
</table>

Source: Same as 6.4
As said above, many posts are left vacant as the number of assessees and taxpayers have come down. In that respect, we may infer that there is an attempt from the part of the government to reduce the cost of collection.

Next we would try to analyse the expenses on the office including salary of the employees, tax collection in each office and arrears in each office. Of the 15 offices, only 11 have supplied the details on the composition of the cost of maintaining the offices. Others have given the total cost only. Therefore cost analysis is based on these 11 offices. All the offices have provided the tax collected through them.

Table 6.9 gives the total expenditure incurred on the maintenance of eleven Agricultural Income Tax offices in the state and their composition. Total cost is composed of wage, expenditure on postage and stationary charges, and travel allowances paid. There is another element of cost in many of the offices and which is not counted here. This is the rent to be paid for the building in which it is functioning. This is not accounted because in many cases, both sales tax and IT offices are working in the same building for which rent is paid and therefore it is not easy to apportion the rent paid for the Agricultural Income tax offices. In one case the office has a separate rented building and the rent constitutes about 0.02 per cent of the total cost incurred.

It is seen that 98.06 per cent of the cost is used for paying wages and salaries of the employees and only the rest is used for other expenses. This is an indicator of the fact that modern technologies such as computers and even telephones are not in common use in the Agricultural Income Tax offices. This causes unnecessary delays in the assessment process. Total salary bill ranges between 93.77 per cent and 99.69 per cent among the offices.
A comparison of the cost and revenue of the 11 offices show that the cost exceeds the revenue. Per capita cost is Rs.88209.59/- while revenue is just Rs.73191.59/-, i.e., revenue is just 82.97 per cent of the cost or cost is 120.5 per cent of the total revenue. Out of the eleven offices, six have larger costs and five have lower costs compared to the revenue. The lowest cost is 67.2 per cent of the revenue.

### 6.6 Conclusion

The analysis showed that the administrative cost of Agricultural Income Tax was very high. The cost of collection varied between 18.62 and 343.4 per cent of revenue collected in 2002-03 in different offices. Cost of collection was high even in 1990-91 when it was between 15.6 and 39.6 per cent of the revenue collected in different offices.
Total collection cost was less than the total revenue collected in the offices under study. But if we exclude the revenue and cost of Assistant Commissioners Offices (Special), which deal with the returns of the firms and companies, total cost is greater than the revenue mobilised through them. Revenue came about 82.97 per cent of the cost of collection. It is also found that out of the 12 offices, which were ready to disclose the data on revenue and cost, 6 had greater cost than the revenue.

Administrative cost of land tax is bound to be very low as land tax is collected through village offices, which have many other functions and land tax collection at present is only a minor function of the village offices. Offices do not spend much time and energy for land tax collection. It is also true that the Administrative cost element of land tax cannot be separated from the total cost of maintaining the village offices.

Arrear accumulation is on the increase. Revenue collection comes about 13.23 per cent of the accumulated arrear in the offices under study. A major part of the arrear accumulation is due to the intervention of the courts: about 13.29 per cent of the arrear in the Agricultural Income Tax offices that handles the individual cultivators and 27.47 per cent of the arrear of the offices that deal with the returns of firms and companies are due to court stay. Government stayed only about 0.94 per cent and stay by others such as Assistant Commissioner, Deputy Commissioner, Tribunals etc. came about 9.73 and 31.49 per cent of arrears respectively in the above offices in 2002-03.

There is an attempt at downsizing the Agricultural Income Tax offices in the state: many posts in the offices are not filled; many officers are on deputation to other offices; many offices are closed down and files transferred to the near by offices.
Ninety eight per cent (98.06) of the expenses on tax collection are on the salary of the staff, 1.92 per cent on stationary and postage and 0.02 per cent is on rent of the building.

On the basis of the data collected it is found that in the Agricultural Income Tax offices (excluding Assistant Commissioners Office) per officer tax collection was less than per officer expenditure on tax collection. Per officer tax revenue is just about 82.97 per cent of the per officer cost of collection.