SUMMARY, CONCLUSIONS AND POLICY IMPLICATIONS

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Taxes are not only the major sources of revenue for the governments but also effective instruments of social and economic change. Therefore a good tax system is essential in every modern society. Every sector should contribute to the state exchequer according to its ability. Agricultural sector is no exception.

But taxation of agricultural sector is a delicate issue in Kerala. This is so in spite of the fact that agriculture is a prominent sector contributing about 17.2 per cent of the Net Domestic Product. Agricultural sector still employs a large section of the work force in the state. Cropping pattern has changed a lot; food crops largely giving way for cash crops signifying large-scale commercialisation of the sector. Successive governments have spent a lot of money on agriculture through five-year plans. State government is passing through a very difficult, crisis like financial situation; the very existence of Kerala model of development is being threatened by resource crunch.

An impartial study on agricultural taxation in Kerala, stressing on the tax performance of the agricultural sector; measuring the tax burden borne by the sector; and assessing the taxable capacity is essential before taking a decision stand on the taxation of agricultural sector in the state. Therefore this study was undertaken with the specific objectives of

(i) analysing the revenue structure of the State Government of Kerala,

(ii) examining the performance of the agricultural taxation in Kerala and to compare it with other states,
(iii) assessing the existing tax burden of the agricultural sector and to measure the taxable capacity of the sector,

(iv) examining the cost of collection of agricultural taxes and efficiency in tax collection, and

(v) analysing the impact of the introduction of compounding on agricultural income tax.,

Secondary and primary data were used to conduct the study. Appropriate tools were used to analyse and interpret the data. There are very strong arguments for the increased taxing of agricultural sector in India. Similarly, there are very strong opponents of increased taxation of agricultural sector. Second chapter looks into them and also reviews some of the important related/similar studies at the national level, states' level and in Kerala.

8.2 Major Findings of the Study

Each objective was taken up and analysed in a separate chapter. Therefore third chapter dealt with the structure of revenue of the state government and had the following findings:

(1) Revenue structure showed that share of taxes in total revenue increased and shares of non-tax revenue declined significantly between 1957-58 and 2000-01.

(2) Share of state's own tax in the total revenue increased, share of central taxes has a marginal increase, share of state's non-tax revenue fell sharply so also the share of central non-tax revenue. Share of Agricultural taxes in Total revenue decreased.
(3) Relative share of state and centre remained almost same 74.5:25.47 and 74.35: 24.15 in 1957-58 and 2000-01 respectively.

(4) Share of state’s own tax revenue in total tax revenue increased considerably and share of central taxes in Total Tax declined. State’s own revenue constituted about 90.49 per cent of own revenue in 2001. Thus, it is clear that Total Tax, own revenue and State’s Own Tax dominated total revenue of the state and their share increased.

(5) Total tax and state’s own tax had highest positive income elasticity on the years of National Emergency.

(6) Kerala’s tax performance is one among the best in Indian states. Kerala’s revenue mobilization is always above all states’ averages.

(7) But, Kerala’s share of central resources (tax and non-tax) is below the all states’ averages.

(8) Sales tax constitute about 74.01 per cent of the state’s own tax revenue in 2000-01. Sales tax always held dominant position followed by excise duty, other important taxes are motor vehicles tax, stamp duty and registration fee.

Fourth chapter analysed the performance of the direct taxes of the Agricultural sector in the state. There are only two direct agricultural taxes. They are land revenue and agricultural income tax. Each of them was separately analysed and also studied by taking them together under the name Agricultural taxes (AGT). Major findings are given below:

(1) Agricultural Income Tax has a declining growth rate. Share of Agricultural Income Tax in Total Revenue, Total Tax, State’s Own
Tax, Own revenue etc. came down. Income elasticity was negative in recent years and importance of agricultural income in determining the Agricultural Income Tax is declining.

(2) Land revenue showed increasing growth rate. Per hectare and per holding land revenue increased. Land revenue as percentage of adjusted agricultural income declined. So is the share of land revenue to Total Revenue, Total Tax, State’s Own Tax and Own revenue.

(3) Direct taxes of agricultural sector together had an average growth rate of 7.98 per cent between 1961 and 2001. Per cultivator Agricultural Taxes increased. But ratio of per cultivator Agricultural taxes to per cultivator income decreased. Share of Agricultural Income Tax, Land revenue and in short, Agricultural Taxes declined in state’s own tax revenue. Share of direct agricultural taxes in Total Tax fell sharply. Share of Agricultural taxes in Own Revenue also decreased.

(4) Resource mobilization from the agricultural sector through direct taxes was decreasing comparatively.

(5) Direct taxes of agricultural sector had negative income elasticity during the years of emergency. This can be due to the less harassment of small farmers during Emergency.

(6) Kerala’s dependence on agricultural sector for revenue, though negligent is the highest among the south Indian states and only second to Assam among the major Indian states.

Third objective of assessing the taxable capacity and measuring the tax burden of the agricultural sector was done in the fifth chapter. Taxable capacity was assessed by computing the net income of the cultivators of a few major crops
in the state. Taxable capacity was assessed also by conducting a family survey and constructing a composite capacity index reflecting the consumer articles possessed, asset position of the family, expenditure on telephone, electricity etc. Tax income ratio was worked out to measure the tax burden. There was a comparison of the tax income ratio of different cultivators to assess the intra-sectoral equity/inequality in taxation. Tax income ratio of different cultivators was compared with that of a few salaried people of different income groups to compare the inter-sectoral tax burden. The study has the following results:

(1) At the existing tax laws tax income ratio of the rubber cultivator ranged between 0.0026 and 0.0036. If the area of holding is two hectares, net income of a rubber cultivator is Rs. 77823.6/- per year if price is Rs. 33.94/- per kg. If area of holding is more than two hectares and price of rubber is high net income would be larger and can be considered as under taxed.

(2) Tax income ratio of a coconut cultivator is between 0.0078 and 0.0099. Net income of a coconut cultivator having two hectares of land is Rs.25737/-. This is his annual family income if the price of coconut is only Rs.3.66/- per nut. Unless the size of holding and prices are very high, scope for further increase in tax on coconut should be ruled out.

(3) Tax income ratio of a tea estate owner is between 0.0015 and 0.0018 and a tea cultivator is between 0.0013 and 0.0014. If the price of tea is Rs.50.25/- per kg, net returns from two hectares of tea garden would be Rs.132464.00/- and Rs.142520/- for estate owner and cultivator respectively. This shows that as size of holding increases untapped tax potential also increases at the existing level of tax.
(4) Tax income ratio of coffee cultivator is 0.004 and the net income of a cultivator having two hectares would be Rs 49932.42/- at price Rs.45.53/- per kg. So if area of holding is not large enough and price is not reasonable it will be difficult to collect more tax from the coffee cultivator.

(5) Tax income ratio of a cardamom cultivator ranges between 0.00069 and 0.0016 at the price of Rs.400/- per kg. Net income of the cardamom cultivator having two hectares of holding is Rs.173200.00/- in the third year of cultivation and increases to Rs.288000.00/ and then declines to Rs.120000/- in the 10th year of cultivation. There is definitely untaxed potential here.

(6) Tax income ratio of a cashew cultivator is 0.008 and his net income from two hectares of cultivation is Rs.24849.44/-.. Unless size of holding and prices rise considerably cashew cultivator cannot be taxed more.

(7) Tax income ratio of a pepper cultivator is 0.018 and his net income from two hectares of cultivation at price Rs.73.78/- per kg would be Rs.11410/-. Unless the area of holding is huge and prices very high there is no scope for further taxation of pepper cultivator.

(8) There is huge inequality among different cultivators of different crops in paying tax. Cashew cultivator is paying 44 per cent of the tax paid by pepper cultivator who pays the highest tax. Coconut cultivator is paying 43.3 per cent of the pepper cultivator. Coffee cultivator pays 22 per cent of what pepper cultivator pays, rubber cultivator pays 18 per cent of the pepper cultivator, tea estates pay 10 per cent of pepper cultivator and tea cultivator pays 7 per cent and cardamom cultivator
pays just 2.7 per cent of what pepper cultivator pays. So there are some among the agriculturists, who can pay more direct taxes.

(9) Capacity index constructed for 473 families (195 agricultural, 122 both spouses employed, 152 single spouse employed) showed that:

(a) Of the ten top families, one was an agricultural one
(b) Of the next ten top families, there was one agricultural family.
(c) Of the next ten top families, three were agricultural families.
So this showed that out of the 30 top families, 5 were agricultural.
(d) Of the top 10 per cent of the 473 families 9 were agricultural families.
(e) Of the top 20 per cent of the 473 families, 19 were agricultural.

This means that 2.9 per cent of the agricultural families (642) belong to the top 20 per cent of the whole (1308) families.

(10) These agricultural families must have annual income ranging from Rs.15000/- to above Rs.200000/-. These families were paying only nominal direct taxes, that is, about 6.6 per cent of what a salaried household pay as tax.

(11) It was also seen that only a very minor portion of the total agricultural families belong to this category, out of the 642 families surveyed only 19, i.e., about 2.9 per cent of the agricultural families belong to the top category of the society. This came about 1.5 per cent of the total population (1308).
(12) This is corroborated by the size of holding of the families. 98.1 per cent of the sample had less than 4 hectares of land. More than 89 per cent had less than 2 hectares of land. Secondary data also showed that 83.5 per cent of the holdings were of the size less than 3 hectares.

(13) Therefore, the lack of buoyancy in tax collection from agricultural sector was due to the existence of large number of small and marginal farmers in the state and tax exemption given to 3 hectares of holding (and then raising it to 5 hectares irrespective of the crop cultivated) exempted even richer sections of the agricultural sector from paying Agricultural Income Tax. That was why even when prices of agricultural products increased in the mid nineties (till 1998-99) agricultural income tax collection was not increasing correspondingly. The fall in the prices since then added fuel to the fire.

Analysis of the cost of collection of tax and assessment of the functioning of the tax offices were done in chapter six and had the following conclusions:

(1) Administrative cost of land revenue is not identifiable as the village offices, which have a lot of other functions, are collecting it. The extra cost incurred for the collection of land revenue is negligible. Compliance cost, efficiency cost and social cost also are bound to be low for land revenue.

(2) Administrative cost of Agricultural Income Tax is very high. Many of the offices are not viable in the sense that their cost of collection is more than what they collect as tax. Even those offices whose revenue is more than cost, on the average are incurring 76.94 per cent of their revenue as cost. If total revenue of Agricultural Income Tax offices alone is taken, excluding that of the Assistant Commissioner's offices,
total revenue is less than total cost i.e., revenue on the average is only 82.97 per cent of the cost. If all the offices are considered they spend 72.34 per cent of the revenue as cost of collection.

(3) In the early 1990s, the cost ranged between 15.6 and 39.6 per cent of the revenue.

(4) Of the total administrative cost, 98.06 per cent were on wages and salaries. Modern technology is not made use of in tax collection.

(5) Total arrears of Agricultural Income Tax was on the increase; 13.29 per cent of arrear collection was stayed by court; 0.94 by the government; and 9.73 per cent by the officials. 68.62 per cent are in the stage of revenue recovery. This was the case of offices, which handled the tax returns of the individual cultivators.

(6) Arrears of large companies and firms (who were very few in number) were more than the individual cultivators who were very large in number. Of these, 27.47 per cent were stayed by court, 31.49 per cent by tax officials and tribunals. This shows that these assesses have the wherewithal for getting a stay. 45.12 per cent of the arrears here were at the stage of revenue recovery.

Analysis of the impact of the introduction of compounding and subsequent changes were made in Chapter VII and arrived at the following conclusions:

(1) The Agricultural Income Tax act 1991, which introduced the compounding of agricultural income for tax purpose had many provisions which were opposed to the recommendations of the Committee on Taxation of Agricultural Wealth and Income, 1972 (Raj
committee) and the Committee for Restructuring Agricultural Income Tax laws, 1988 (Kaleeswaran committee).

(2) The introduction of compounding had affected the agricultural income tax collection; growth rate fell considerably in the nineties. Share of Agricultural Income Tax in Total Revenue, Total Tax, State’s Own Tax and Own revenue fell sharply to $\frac{1}{2}$ (half) of what it was before the introduction of compounding.

(3) The cost of collection of Agricultural Income Tax had manifold increase in relation to the tax collected in the nineties and many offices are not economically viable.

(4) Agricultural Income Tax became less income elastic in the nineties. There is no one to one relation between Agricultural Income Tax and net cropped area.

(5) Agricultural Income Tax was not influenced by price trends in the nineties.

(6) Agricultural Income Tax was not affected by changes in cost of cultivation.

(7) Agricultural Income Tax was not affected by deterioration in terms of trade of the agricultural commodities.

(8) Farmers are not resorting to fake partitions to evade Agricultural Income Tax.

(9) The Act had definitely reduced the harassment of farmers by the tax officials.
8.3 Policy Implications

The findings of the study has the following implications:

(1) Fall in the share of non-tax revenue (both central Aid and state’s own non tax revenue) in the total revenue calls for concentrated attempt at this front.

(2) The fact that the contribution of the Central share of revenue to the state is less than the all states average, calls for increasing the effort for getting the due share from the Centre either by presenting the case more effectively before the Finance Commission, Planning Commission or by political pressure at the ministerial level.

(3) The sharp fall in the contribution of the direct taxes of the agricultural sector in spite of the commercialisation and growth of the sector should induce the planners and policy makers to find out methods to tax the untapped tax potential of the rich agriculturists while leaving the marginal and small farmers, who are the vast majority, unaffected.

(4) The intra-sectoral and inter-sectoral in equality in tax also calls for this. Care should be taken to leave the small and marginal farmers from further increases in tax burden as they are already paying their due share. There should be graded tax rates as acreage of land holding increases.

(5) Agricultural Income tax has a huge collection cost. Many of the offices are not economically viable in the sense that administrative cost is greater than the revenue collection. That is, there exist many redundant offices.
(6) Offices handling the tax returns of the agricultural firms and companies have relatively less collection cost in relation to the revenue collected.

(7) The intervention of courts and stay given by them do affect the agricultural income tax collection.

(8) Direct Government intervention is negligible; but the interventions of tribunals, higher officials like Deputy Commissioner, Assistant Commissioner of Tax also affect Agricultural Income tax collection.

(9) Modern technology is not used in the tax collection as more than 98 per cent of the expenditure is on wage bill of the administrative staff.

(10) The introduction of Compounding has not only did not improve Agricultural Income Tax collection but also was damaging it. But it has reduced harassment of the farmers; it has also reduced the enthusiasm of the tax officials in Agricultural Income Tax collection.

(11) Direct taxes on agriculture do not seem to be responsive to agricultural income, cost and prices paid by the farmers, deterioration in the terms of trade of the farmers and change in the net cropped area of the farmers. So a better effort on the part of the tax officials can fetch larger revenue.

8.4 Suggestions

(i) In order to attain buoyancy in tax collection from agricultural sector, tax policy should concentrate more on the richer sections of the sector. This is because a very large section of the sector is composed of small and marginal farmers. The net annual income of a pepper cultivator who has two hectares of land is Rs.11410/- . This is the family income and he is
paying 1.8 per cent of his income as tax and what more can be expected from him. But, the net income of a cardamom cultivator who has one hectare of holding is Rs.144000/- per year (when the plant matures) and is paying 0.00069 per cent of income as tax. He has excess ability to pay tax. Therefore, tax policy should focus on such affluent sections. This is essential in reducing inequality not only in tax but also in income.

Agricultural Income Tax as it exists now is incapable of obtaining this result. It has led to huge cost of collection. Therefore, it should be done away with for land holding less than 20 hectares. Let there be one officer attached to the Department of Commercial and Agricultural Income taxes to deal with the arrear files in each district. Let the Assistant Commissioners at Kozhikode and Ernakulam continue with the returns of companies and firms. The exemption and deductions given to them should be rationalized. Officers confide that companies are permitted to show any amount as cost of cultivation. Some spent Rs.600,000/- for harvesting a crop, which yielded only Rs.400,000/- as returns. Such absurd accounts should be out rightly rejected. It should be made mandatory for certain crops to show positive results if prices are reasonable. Depreciation allowed to luxury vehicles of the owners is unnecessary and this leads to tax evasion. The administrative system should be vibrant to respond to price fluctuations. Offices should be computerised and explanation be asked if a tax payee among the companies is not paying the tax in one year and tax official should get satisfied on the reasons. There should be periodic evaluation of the offices by higher officers. This would not lead to harassment as companies and firms have their resources to withstand it.
For holdings below 20 hectares a rationalised land revenue system be introduced. Families having less than two hectares of land cultivating crops other than tea, cardamom and rubber should have the present rate of land tax. Holdings above two hectares must have progressive but moderate rates of land revenue. There are about 104,773 holdings with a land size between two and five hectares of land. They hold about 2,849,90 hectares of land. There are 8,880 land holdings between the size group of 5 and 10 hectares holding about 57,649 hectares of land. There are 2,187 land holdings between 10 and 20 hectares holding about 27,358 hectares of land. These land holdings could be progressively taxed, considering also the crop cultivated. Together with this, plantations like rubber, cardamom and tea between five and 20 hectares should have a plantation tax, as was the practice before 1991. This will definitely fetch higher revenue for the state exchequer without much burden to cultivators and without increasing the administrative cost considerably. The taluk offices, where there should be one officer responsible to collect only land revenue, could collect this. Tax arrear should fetch penal interest.

(ii) There should be more research on the compliance cost, efficiency cost and social cost of Agricultural Income Tax in the state.

(iii) A very important defect of the agricultural system in Kerala is that, though there are different agencies like Rubber Board, Spices Board, Directorate of Extension at the Kerala Agricultural University, no none conducts realistic study on the cost of cultivation of different crops in the state. Therefore, either these agencies should systematically conduct study on the cost of cultivation and productivity of different crops or there should be a separate agency for this. This is very
essential not only for formulating tax policy but also to assess the credit requirements, indebtedness of the farmers and economic viability of cultivation of each crop.

(iv) There has not been any serious attempt at analysing the tax potential of the agriculturists in recent times. The last attempt at All India level was the Committee on Taxation of Agricultural Wealth and Income in 1972 (Raj Committee), and at the state level it was the Committee for Restructuring Agricultural Income Tax Laws in 1988. So there should be a new attempt at analysing the tax potential of the agricultural sector in the state and at the national level.