CHAPTER VII

CONCLUSION
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The focus of our study is an analysis of the place of agricultural taxation in the economy of the State. In order to have such an analysis, we thought that it was necessary first to have an idea of the State's agricultural sector. The first chapter deals with the salient features of agriculture and its place in the State's economy. In the course of our analysis, the following broad characteristics of the sector emerge:

i) In Orissa 79 percent of the population is engaged in agricultural pursuits.

ii) Orissa's agriculture is characterised by low level of productivity, low farm income and fluctuation in the agricultural output owing to its dependence on the monsoon.

iii) Although significant developments have taken place in some spheres since independence, access to opportunities to have even a bare minimum standard of living in Orissa is one of the lowest in the country.

iv) We notice a high magnitude of self-employment and a high incidence of poverty. The co-existence of these two would seem to indicate the uneconomic character of the 'own account' enterprise.

The per capita income in the agricultural sector of the State in 1979-80 comes to Rs. 353 at 1973-71 prices as against Rs. 435 for the whole State and Rs. 667 for India. It is against this background of Orissa's agricultural sector that we have analysed the agricultural tax system of the State.
In the second chapter, the focus is on the general features of agricultural taxes in Orissa. We also briefly look at a few aspects of land tax in India in recent times. The main taxes on agricultural sectors are the land tax, agricultural income tax, cess on land, and water rates. The nature, rates and revenues from these taxes have been analysed in this chapter. We find that:

1) The relative importance of land revenue has greatly declined in recent times partly as a result of inflation, but mainly due to the introduction of many new levies and extension of other existing ones. But land revenue still continues to be an important tax on agriculture.

2) The contribution of land revenue to the total revenues of the State has remained almost static (at 2.6 percent) during the decade 1970-71 to 1979-80.

3) The assessment of land revenue is based, in addition to the area of the land, also on the "net produce" of the land. One-third of the net produce is assessed as tax. There has, however, been no regular revision of the assessment during the last few decades. Consequently, the assessments do not seem to be very much related to the present-day conditions prevailing in agriculture.

4) The contribution of agricultural income tax too, to the total revenues of the State Government has been very negligible. The agricultural income tax contributes less than two percent of the total state tax revenues and less than one
percent of the aggregate revenue receipts of the State.

We have examined in Chapter III, "Economy and Efficiency of Agricultural Taxation in Orissa", that is, whether these taxes are 'cost effective', whether they are in conformity with the principles of economy or not.

Every tax has a cost of collection. It is important that the cost of collection should be the minimum possible. It is highly uneconomic to impose taxes which cost more in collecting them than the revenue they yield, and which, therefore, impose an unnecessary public burden in the form of additional administrative expenses. A distortionary effect on the economy is likely to occur owing to a wasteful use of public funds on administrative expenditures to collect revenues which yield much less than the amount incurred on these expenditures.

Our analysis has shown that:

1) Throughout the period, 1970-71 to 1979-80 the cost of collection of agricultural taxes exceeded the receipts from collection. R/C that is, the Revenue-Cost ratio ranges between 0.45 to 0.49 during the period 1970-71 to 1979-80. It would imply that hardly 49 percent of the cost is covered by the receipts and that 51 percent of the cost of collection of the agricultural taxes is met from some other sources of public revenues.
ii) In our analysis the net benefit accruing to the State Government from agricultural taxes is negative throughout the period. And this negative benefit to the State Government also shows an increasing trend over the period. The net benefit to the State Government which was (-) Rs. 2,0844 thousands in the year 1970-71 increased to (-) Rs. 6,9305 thousands in the year 1979-80; indicating thereby a net loss to the State treasury to the extent of the above mentioned amounts.

iii) The cost-revenue ratio, \( \left( \frac{C}{R} \times 100 \right) \), which gives us the proportion of cost incurred for 100 rupees worth of revenue collected from tax also gives us scope for distress. It is seen that the Government of Orissa was spending Rs. 219.64 as cost of collecting Rs. 100 worth of agricultural taxes in the year 1970-71 and this figure slightly came down to Rs. 204.06 in the year 1979-80.

iv) Further, we also calculated the growth rates of revenue from, and cost of collection of, agricultural taxes. The growth rates of both revenue and costs were of the order of 15 percent, thus showing no improvement in the efficiency or economy in the administration of these taxes.

v) The overall picture of the agricultural taxes (land revenue and agricultural income tax) that emerges from our study is that while the growth rates of revenue and the cost of collecting it have moved in the same proportion over the period, the net benefit in terms of net revenue to the State exchequer, from these taxes has been negative.
vi) Thus from whatever angle, one looks at it, agricultural taxes do not seem to conform to the principles of economy.

The next chapter on inter-district variations in land revenue seeks to study the differences observed in the distribution of the burden of land revenue between the different districts of the State.

In Section I of this chapter we analyse the problem by relating the per capita tax burden to the per capita agricultural income. In Section II, we analyse the inter-group distribution of land revenue burden between the same size landholdings-size groups in the different districts of the State.

From our analysis of the relation between the per capita land tax burden and the per capita agricultural income, the following conclusions emerge:

1) For Orissa as a whole, farmers paid 1.19 percent of their per capita income as land revenue in the year 1979-80.

2) If land revenue as a percentage of per capita income falling between 1 percent and 1.50 percent is taken as the average range, then farmers in four districts paid (on the average) land revenue within this range (Koraput, Phulbani, Mayurbhanj and Keonjhar), five districts paid land revenue above this range and other four districts paid land revenue below the range (Puri, Ganjam, Cuttack and Balasore).
iii) The burden of land revenue both in absolute as well as relative terms varies within and also between per capita income group.

iv) There is no evidence that the burden of land tax increases along with the increase in the level of per capita income.

v) The ratio of per capita tax to per capita income varies from 0.55 in Cuttack to 2.47 in Sambalpur districts.

We have also analysed the variations in the distribution of the burden of land revenue between the various districts of Orissa with respect to Net Area Sown and Yield rate per hectare. The cumulative values of the above variables have been calculated with respect to those of the tax revenue contribution of the different districts of the State. The results obtained confirm the earlier finding of much variation in the burden between the different districts of the State.

In Section II of the Chapter, we studied the variations in the burden of land revenue between the same size-class of land holdings over and above 2 hectares, with the help of three indices, namely (i) the index of land tax per hectare (ILTH), (ii) the index of the concentration of land (ICL) over and above two (2) hectares and (iii) the ratio of these two indices which gives us the index of the land tax burden on farmers of different land holding size-groups (LB).
Our findings from this exercise are as follows:

i) There is much variation in the burden of land revenue for the same size-group of holding in the different districts of the State.

ii) The lowest burden is found in the prosperous districts of Balasore and Cuttack, while highest burden is found in the comparatively less prosperous district of Dhenkanal.

iii) The range of variations in the burden of land revenue is narrow between Kalahandi, Ganjam and Cuttack, but fairly wide between Dhenkanal and Cuttack.

One might adduce some reasons for getting such a picture about the distribution of the burden of land-tax in the State. First, since the initial settlements were made, conditions have changed significantly in terms of crop pattern, provision of irrigation facilities, quality and quantity of other inputs and prices of both inputs and outputs etc. Therefore, the past settlement, however, rational they might have been under the then existing conditions have little relevance under the present conditions.

Secondly, the system of land revenue appears to have been designed for a static and subsistence agriculture. That seems to be a reason why the system has remained almost inelastic and inflexible with respect to change in prices and production over the years.
We have also analysed the comparative incidence of the tax system on the agricultural and non-agricultural sectors of Orissa's economy. We have allocated the total burden of various taxes between the two sectors on the basis of the data on the consumption expenditure of the two sectors. To do so, we have used the data furnished in the 28th Round of the Report of the National Sample Survey.

Since indirect taxes are proportional, the tax varies directly with expenditure. Hence, we have divided the tax burden between the two sectors in the same ratio as the expenditures on the taxed commodities or services. To arrive at the ratio we multiplied the total rural/urban consumption expenditure by the expenditure on the commodity taxed as a proportion of the total rural/urban consumption expenditure.

The following findings emerge from our analysis:

Our findings support the generally accepted view that the incidence of the taxes on the agricultural sector is relatively low as compared to the non-agricultural sector.

1) The popular view that the incidence of indirect taxes is heavier on the non-agricultural sector than on the agricultural is also supported by our findings of Orissa. As compared to the agricultural sector, the per capita tax in the non-agricultural sector is nearly 7 times higher during the year 1970-71 to 1979-80; on the other hand, the per capita income in the non-agricultural sector is only about two and half
times higher than that of the agricultural sector in all the years except 1975 to 1977, when the difference was somewhat reduced due to a bumper agricultural production in these years.

ii) The second important results of our enquiry about the incidence of taxation is that the burden of direct taxes on non-agricultural sector of Orissa is greater than the burden of indirect taxes. While the agricultural sector paid about 1 percent of their income by way of direct taxes, the non-agricultural sector paid near about 11 percent of their income in such taxes in the year 1979-80.

Thus, the significance of land tax as an item of revenue contribution to the exchequer and an item of burden on the agriculturist has undergone very substantial changes from time of its introduction. First, there have been vast changes in the agricultural economy, including the big upward movements in agricultural prices in relation to which, land revenue has shrunk in dimension. Further, the present burden of land revenue as brought out in our analysis is, one may say, quite inequitable and arbitrary. One reason for this may be that the present settlement is outdated and does not reflect the tax paying capacity of the farmers. The first standard settlements were made in the second half of the 19th century and have not been fully revised for a long period. It is not surprising, therefore, if we find the present system of land revenue to be 'inequitable' and 'arbitrary'.
Further, the present system of land revenue is inelastic and inflexible in relation to changes in production and prices.

It is always possible to devise a suitable system of land taxation where the existing weakness can be removed.

Taking into account the above factors, it is possible to suggest the following considerations for evolving a suitable system of land taxation: i) it should yield a reasonable amount of net revenue to the Government; ii) it needs to be fixed in relation to the tax paying capacity of the farmers; iii) it should, as far as possible, satisfy the condition of equity, both on inter-sectoral and inter-district basis; iv) the system should have an element of built-in-flexibility so that revenue would increased with increase in production and prices.

Given the basic objectives, the following elements may be mentioned as desirable for being incorporated in a satisfactory policy of land revenue: i) small farmers at the subsistence level need to be exempted from the payment of taxes. For this purpose, the subsistence requirement may have to be properly defined; ii) it may be advisable to have a rate structure such that it would not impose an unwieldy burden on the agriculturists, but at the same time would bring within the tax net as large a number of agriculturists as are able to pay the tax without undue distress; iii) the standard settlements should be periodically revised every five to seven years so as to make
the system elastic with respect to changing economic conditions.

It may be advisable to consider the possibility of delegating the administration of this tax to village panchayats. The tax may be levied by the State in order to ensure uniformity of rates in the State as a whole, but the collection and utilization of the revenues from it may be completely transferred to the village panchayats. This might help to minimise if not, to completely eliminate the inefficiency and dis-economy in its administration, and to ensure a fair degree of equity in the distribution of its burden.