CHAPTER 7

TAX STRUCTURE AND TAXATION POLICY

I Introductory

The Indian tax system had in the past been designed primarily to raise sufficient revenue for the expenditure of Government on administration and allied services. When the basic framework of Indian tax laws was formulated, economic growth was not a concern of the Government and the promotion of savings and investment was not, therefore, accepted as a goal of fiscal policy. After Independence (1947) and particularly since the inauguration of the Second Five Year Plan (1956), the tax mechanism was pushed into high gear to meet an enormous increase in the needs of the developing economy. Not only have rates been raised, but some taxes entirely new to the country have been introduced. However, in the search for additional resources and the attempt to mitigate disparities of income and wealth, the vital objective of the tax system

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2 Tax policy may also be used as an important tool for keeping the general level of prices from advancing too rapidly or in maintaining of high level of production and employment. (R.D. Allen and H.O. Brownlee, Economics of Public Finance, The World Press Ltd., Calcutta, 1952, p. 187).
which is to step up the rate of savings and investment not only in the Government sector but also in the private sector, in order to accelerate economic development, should not be given a secondary place.

The object of this chapter is to bring out how the capacity of the tea industry to develop has been checked by excessive fiscal levies by the Government of India and the Governments of the tea-growing States. In recent years, the profitability of the industry has declined to such a low level that quite a few tea plantations are on the point of closure.

An industry may be said to be sound and well-developed if it is able to generate its own resources to maintain its productive assets intact and is able to grow without expecting concessions or reliefs from the Government as special measures for development. To achieve this, it is necessary that the Government should follow a prudent policy in taxation without extracting from the industry beyond a safe level. When taxation exceeds the safe level, sufficient resources will not be available for a producer to undertake development and the producer will be left with no hope regarding his future even if he undertakes development with borrowed finances. In other words, it curbs incentive which is dangerous to the growth of the
industry and the nation's economy in the long-run. In the last analysis, all motives for effort resolve themselves into hopes of reward or fear of loss. Therefore, it is very important that the Government should provide economically favourable conditions so that the producer may feel that expansion and development are in his own interests.

II Central Taxes on Tea

Among the Central imposts on tea are the following:

(1) income tax,   (2) export duty,
(3) Central excise duty, (4) cess,
(5) Central sales tax, and (6) licence fees.

(1) Income Tax

According to the Indian Income Tax Rules, 40 per cent of the income derived from the sale of tea grown and manufactured by tea estates is subject to income tax. The remaining 60 per cent was not taxed until the principal tea-growing States began imposing agricultural income tax. On account of a number of representations, the Government made the concession in 1965 of charging

replanting costs to revenue expenditure and of granting a development allowance of 30 per cent of the cost of replanting.

For some time past, the tea industry has been asking the Government of India for a depreciation-cum-rehabilitation allowance in the place of development allowance. The claim of the industry to depreciation requires a fresh look. After a certain period (about 50 years, the yield from the tea bush begins to decline at a rapid rate and, therefore, the conventional notion that land does not depreciate cannot apply to a tree crop like tea. Apart from the tea bush becoming debilitated and useless after a time, soil also gets exhausted. It is true that from the very inception tea was treated as not entitled to depreciation, but that did not matter then because there was no agricultural income tax.

Government does not seem to appreciate the view that depreciation allowance is an ideal source for financing development expenditure as can be seen from the following observation of the Chairman of the Tea Board:

"As for the request of depreciation allowance on the tea bushes in particular, I may mention that a development allowance of 30 per cent of the cost of replanting is being granted to the
Tea Industry in addition to the entire cost of replanting being treated as a revenue expenditure. Moreover, there is a divergence of opinion among the different sections of the Industry itself as to whether development allowance or depreciation on bushes is more preferable. 4

To say that there is a divergence of opinion in tea planting circles regarding the desirability of depreciation allowance is not quite true. The existing development allowance can hardly be a substitute for depreciation allowance that the industry is asking for because the former is available only when replanting/extension actually takes place. Even the subsidy scheme for replantation recently announced by the Government suffers from the same defect as already pointed out (please see page 107). That is, an estate must have built up sufficient resources in order to be eligible to apply for development allowance.

(2) Export Duty

For the first time in the history of the Indian tea industry, an export duty of 2 annas per lb. was imposed on tea in February, 1947. The rate of the duty remained at this level till October 3, 1954, when it was raised to 7 annas per lb. The reason given for raising

the export duty was the abnormal rise in the price of tea. Government felt that a portion of the profits should be mopped up. The price of tea showed no tendency to fall throughout 1954 and also during the early months of 1955. Hence, the export duty was further raised to 10 annas per lb. from January 7, 1955, pending the introduction of a slab system which the Government thought was necessary so that at any time the rate of the duty may be related to the world price of tea directly. Automatic adjustment of the duty to the price of tea by resorting to a system of levy on ad valorem basis was considered to be administratively not feasible. The slab system was considered to be the next best.

From September 26, 1958, till February 28, 1959, the export duty was levied at an average rate of 57 paise per kg. From March 1, 1959, till February 28, 1961, the duty was 53 paise per kg. New rates were introduced on March 1, 1961, as a result of which the duty was reduced to 44 paise per kg.

The export duty on tea was abolished on March 1, 1963, because of the declining trend of India's share in the world market. But the duty was reimposed with effect
from June 6, 1966, when the rupee was devalued. The
tax credit scheme for exports of tea was withdrawn.
The reason given by the Government for reimposing the
duty was that excess profits arising on account of
devaluation should be mopped up.

It was piously hoped that devaluation of the rupee
would act as a panacea for the lagging tea exports and
that Indian teas would be competitive enough to regain
for India her position as free world's leading exporter
of tea. Immediately after devaluation, a little more
export enquiry was discernible, but, as soon as the trade
had time to reflect on the stiff export duty of Rs.2 per kg.,
it was found that only expensive teas were likely to
benefit. Plain and medium teas, on the other hand, not
only failed to benefit from devaluation but their
averages were, in fact, lower than those during the same
period in 1965.

On November 11, 1966, the Government revised the
export duty, changing it from the flat rate of Rs.2 per kg.
to an ad valorem-cum-slab rate. Instant tea was exempted
from export duty with effect from August 7, 1967. (1) Tea
in consumer pack, packed in metal container the aggregate
weight of which did not exceed one kg., was to be taxed
at 10 per cent ad valorem or Rs.2.76 per kg., whichever
was less. (ii) Tea in consumer pack, packed in containers other than metal containers the aggregate weight of which did not exceed one kg. in weight, was to be taxed at 15 per cent ad valorem or Rs.2.76 per kg., whichever was less.

With effect from October 1, 1968, a tax relief of 11 paisa in the export duty is granted. That is, the rebate on export duty is increased from 24 paisa to 35 paisa per kg. subject to a maximum of Rs.2.65 per kg.

The Budget for 1969-70 proposes a reduction in the export duty in the following manner:

(i) Package tea by 10 per cent ad valorem
(ii) Other teas by 5 per cent ad valorem plus 20 paisa per kg.

Effect of Devaluation and Export Duty on Indian Tea Exports

Exporters of tea were entitled to certain tax concessions prior to June 6, 1966 when the Indian rupee was devalued. These were: (i) general rebate of 10 per cent of the rate of income tax applicable in respect of income attributable to exports, and (ii) tax credit at the rate of 2 per cent of the value of exports to be adjusted against income tax liability, existing or arising in the
next 12 months. Where there was no such liability, an exporter was entitled to a refund payment in cash.

These tax incentives to which exports of tea were eligible worked out to about 2.88 per cent of the value of tea exported. No other tax assistance was given to tea, which like other traditional exports, was not supposed to require any major assistance, as the 1965-66 Report of the Ministry of Commerce put it.

When the rupee was devalued the Government decided to abolish all existing export promotion schemes and consequently the above incentives were withdrawn with effect from June 6, 1966. Not only that, but also an export duty at a flat rate of Rs.2 per kg. was levied on tea exports. The object of the levy, as explained by the then Commerce Minister, Mr. Manubhai Shah, was "partly to mop up the additional profits accruing from devaluation and partly to help the unit value of this important export item." It was hoped that the balance amount of extra rupee realization would leave a sufficient margin as a measure of incentive both for export and for the development of the industry as a whole. However, in reality, the levy discouraged exports particularly of the lower priced teas on which the incidence of the specific
duty was the highest. The Government realised the adverse effect of export duty, particularly on medium and lower quality teas. As a result on November 11, 1966, the policy with regard to export duty on tea was changed. In the new scheme the Government sought to combine the advantage of both an ad valorem and a specific duty by fixing the duty on a value slab basis. The scheme was as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate of Export Duty</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Tea the value of which does not exceed Rs.4 per kg.</td>
<td>80 paisa per kg.</td>
</tr>
<tr>
<td>(ii) Tea the value of which exceeds Rs.4 per kg. but does not exceed Rs.8 per kg.</td>
<td>80 paisa per kg. plus 10 paisa per kg. for every 60 paisa or part thereof in value in excess of Rs.4 per kg.</td>
</tr>
<tr>
<td>(iii) Tea the value of which exceeds Rs.8 per kg. but does not exceed Rs.12 per kg.</td>
<td>Rs.1.60 per kg. plus 15 paisa per kg. for every 50 paisa or part thereof in value in excess of Rs.8 per kg.</td>
</tr>
<tr>
<td>(iv) Tea the value of which exceeds Rs.12 per kg.</td>
<td>Rs.3 per kg.</td>
</tr>
</tbody>
</table>

The above scheme benefited the medium and lower quality teas. However, to the extent the modification enhanced the incidence on higher priced teas, the industry represented this system. It was also represented that Rs.3 per kg. on tea the value of which exceeds Rs.12 per kg. was far too high.
In the Budget of 1967-68, the excise duty on tea was increased and a corresponding reduction in export duty was made. The new rate of duty effective from May 25, 1967, was as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate of Export Duty</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Tea the value of which does not exceed Rs.8 per kg.</td>
<td>20 per cent ad valorem reduced by 24 paise per kg.</td>
</tr>
<tr>
<td>(ii) Tea the value of which exceeds Rs.8 per kg. but does not exceed Rs.10 per kg.</td>
<td>21 per cent ad valorem reduced by 24 paise per kg.</td>
</tr>
<tr>
<td>(iii) Tea the value of which exceeds Rs.10 per kg.</td>
<td>22½ per cent ad valorem reduced by 24 paise per kg. or Rs.2.76 per kg. whichever is less.</td>
</tr>
</tbody>
</table>

The industry has been complaining about the high rates of export duty particularly after the devaluation of the pound sterling and the Ceylonese rupee. On February 6, 1968, the Government of India announced a reduction in the export duty on tea. However, the relief pertained to quality teas the price of which exceeded Rs.8 per kg. The export duties on these teas which ranged from 21 per cent of 22½ per cent ad valorem less 24 paise per kg. were reduced to 20 per cent ad valorem less 24 paise per kg.

The producers of medium and low quality teas have a
grievance because no relief was given in respect of teas the prices of which were less than Rs.8. Such teas constitute about 85 per cent of the total tea exports of India. Even in respect of the remaining 15 per cent of tea exported, the relief is marginal, amounting to 1 to 1.5 per cent in the rates of export duty.

In order to examine the impact of export duty on tea, we shall examine the gains accruing to exporters before and after devaluation. In a study conducted by I.S. Gulati, the maximum gain arising from rupee devaluation to the Government was found to be more than 75 per cent for all varieties of tea exports. Thus the maximum gain accruing to the exporter after rupee devaluation did not exceed 25 per cent. However, the net gain arising from the rupee devaluation which the exporters of tea could appropriate to themselves after payment of both export duty and income tax was higher for all varieties of tea exported than the net gain accruing from the pre-devaluation tax incentives. Thus, the net gain from tax incentives before the rupee devaluation was Re.0.14, Re.0.17, Re.0.23 and Re.0.35 for varieties A, B, C and D respectively as can be seen from Table 32.

5 Economic and Political Weekly, Bombay, February 17, 1968, pp. 325-332.
That the net gain accruing from the rupee devaluation, even after the payment of export duty and income tax is found to be Re.0.70, Re.0.77, Re.0.90, and Re.1.72 per kg., respectively (Table 38).

Impact of Devaluation of the Pound Sterling and Ceylonese Rupee

The impact of the devaluation of the pound sterling and Ceylonese rupee on the net gains of tea exporters may now be analysed. The U.K. devalued the pound sterling in November, 1967, by 14.3 per cent. The result was that in terms of the Indian currency £ 1, instead of being officially equal to Rs.21, became equal to Rs.18. Indian teas became costlier. Thus a kg. of Indian tea which was being sold at Rs.6 would cost the buyer in London 3 sh. 10 d. The reduction of rupee gain on account of sterling devaluation after income tax set-off was Re.0.51, Re.0.61, Re.0.81 and Re.1.22 respectively. After one allows for the impact of sterling devaluation, the gains accruing to exporters of tea as a result of rupee devaluation were wiped out.

After devaluation of the pound sterling the industry put up a case for reduction in export duty to make Indian tea more competitive. However, no such reduction was
made till February 6, 1968, and then too it was only
a marginal relief in the case of teas whose price
exceeded Rs.8 per kg. It is significant that Pakistan
promptly abolished the export duty and Ceylon devalued
her currency, following the devaluation of the pound
sterling to the extent of 20 per cent. Ceylon being
the closest rival to India, in assessing the competitive
position of the Indian teas in the overseas markets,
the effect of devaluation by Ceylon especially the
excess devaluation by 5.7 per cent will have to be
provided for. At the same time, allowance must be made
for the simultaneous increase in export duty on tea
from 34 cents per lb. to 40 cents per lb. Ceylon's
excess devaluation by 5.7 per cent even though tempered
somewhat by the enhancement of export duty on tea
would still mean that tea exporters of Ceylon would be
in a position to reduce their external price not to
the full extent of 5.7 per cent, but by between 3.7 per
cent for the lowest priced variety to 4.9 per cent for
the highest priced variety. Indian tea prices were
already higher before Ceylon devalued her currency and
any further reduction in price by Ceylon would place
Indian tea at a great disadvantage as against Ceylon tea.
The reduction per kg. of rupee gain as a consequence of
the devaluation of the currency of Ceylon, after income
tax set-off would be Re.0.10, Re.0.13, Re.0.21, and Re.0.34 respectively for the four varieties of tea.
The net gain per kg. from rupee devaluation after allowing for reduction on account of the devaluation of the pounds sterling and the Ceylonese rupee would be + Re.0.09, +Re.0.03, - Re.0.12, and Re. + 0.16 respectively for the four varieties of tea (Table 32). If we compare this gain with the total gain per kg. from pre-devaluation (rupee) incentives (Re.0.14, Re.0.17, Re.0.23, and Re.0.35), it will be seen that Indian exporters stand to disadvantage. Not only the gain that accrued from rupee devaluation is completely wiped out, but the position is reversed. After allowing for devaluation of the currencies of Britain and Ceylon the position (net gain per kg. after devaluation over and above the pre-devaluation gain from incentives) in respect of the four varieties of tea would be Re.-0.05, Re.-0.14, Re.-0.11 and Re.-0.19 (Table 32).

Thus we find that the Indian exporters of tea were better placed after the devaluation of the Indian rupee. But the devaluation of the currencies of Britain and Ceylon completely reversed this position. The competitive position of Indian tea cannot be maintained unless there is a reduction in prices which is possible only through a substantial reduction or abolition of the export duty. As Prof. P.R. Brahmananda rightly observes,
"Devaluation would have been less of a gamble, or more in the nature of a more successful gamble, had we not undertaken fiscal action to offset any good that devaluation might have done."

The popular view that devaluation by itself was responsible for the decline in exports cannot be endorsed. In fact, the decline did not take place only after devaluation. Even in earlier periods, tea exports showed a declining trend. For example, exports for the 12-months period (July, 1965 to June, 1966) declined by 7.7 per cent as compared with the same period during the previous year, this decline being more than that after devaluation. This was despite the fact that there was no export duty during this period. This leads us to the conclusion that the devaluation of the rupee alone was not responsible for the decline in India's tea exports. There were many other causes at work like growing competition from abroad, higher prices of Indian tea, inadequate promotional efforts, low profitability of the industry, the impact of other beverages, etc.

(3) Central Excise Duty

An excise duty of 2 annas per lb. was first imposed by the Government of India in April, 1944. In March, 1948, the rate of duty was raised to 3 annas per lb. The same rate continued to be in force till April, 1953, when as a measure of relief to the industry, which was in financial difficulties on account of the slump in prices, the duty was reduced to one anna per lb. on tea packages containing 60 lbs. or over. To make up for the loss in revenue on this account, the duty on tea in packages containing less than 60 lbs. was raised to 4 annas per lb.

On September 28, 1958, the rate of the excise duty was fixed according to zones. The rates of the duty were as follows:

**Loose-Tea**

<table>
<thead>
<tr>
<th>Zone</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>4.5 paise per kg.</td>
</tr>
<tr>
<td>II</td>
<td>9</td>
</tr>
<tr>
<td>III</td>
<td>22</td>
</tr>
</tbody>
</table>

**Package Tea**

Package tea containing not more than 27 kgs. had to pay an additional duty of 46 paise.

While no refund of excise duty on loose tea would be
The following changes were effected on March 1, 1959:

<table>
<thead>
<tr>
<th>Zone</th>
<th>Loose-Tea</th>
<th>Rate of Export Duty</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>..</td>
<td>4.5 paise per kg.</td>
</tr>
<tr>
<td>II</td>
<td>..</td>
<td>9 &quot;</td>
</tr>
<tr>
<td>III (A)</td>
<td>..</td>
<td>18 &quot;</td>
</tr>
<tr>
<td>III (B)</td>
<td>..</td>
<td>27 &quot;</td>
</tr>
</tbody>
</table>

**Package Tea**

There was no change in the rate of the duty on package tea. Exports of package tea were eligible for refund of the additional levy of 46 paise. Exports of loose-tea were not eligible for similar refund.

An upward revision of the rates of excise duty was effected on March 1, 1961. The new rates were as follows:

<table>
<thead>
<tr>
<th>Zone</th>
<th>..</th>
<th>Rate of Export Duty</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>10 paise per kg.</td>
<td></td>
</tr>
<tr>
<td>II</td>
<td>15 &quot;</td>
<td></td>
</tr>
<tr>
<td>III (A)</td>
<td>25 &quot;</td>
<td></td>
</tr>
<tr>
<td>III (B)</td>
<td>35 &quot;</td>
<td></td>
</tr>
</tbody>
</table>

**Package Tea**

Packages of tea containing not more than 20 kgs.
net were taxed, in addition, at 40 paise. Exports of package tea were eligible for refund of the additional levy. No such concession was available for loose-tea.

Another upward revision was effected on April 24, 1962. The new rates in the different zones were as follows:

<table>
<thead>
<tr>
<th>Zone</th>
<th>Rate (in paise)</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>15</td>
</tr>
<tr>
<td>II</td>
<td>25</td>
</tr>
<tr>
<td>III</td>
<td>30</td>
</tr>
<tr>
<td>IV</td>
<td>35</td>
</tr>
<tr>
<td>V</td>
<td>45</td>
</tr>
</tbody>
</table>

Package tea was to bear an additional levy of 40 paise; but this amount was to be refunded when such tea was exported.

The excise duty at the rate of 15 paise per kg. was refundable at the point of export.

Under the Budget proposals for 1963-64, the system of refunding the excise duty at the rate of 15 paise

7 Refer Appendix 2 for districts included in each zone. This zonal system continues even now.
per kg. at the point of shipment was withdrawn. At the same time, a surcharge of 20 per cent on the existing excise duty was imposed. The rate of excise duty on package teas, however, remained unchanged at 40 paise per kg. and a rebate of the additional excise duty at 40 paise per kg. was also allowed on all package teas exported.

The new rates of the excise duty were as follows:

<table>
<thead>
<tr>
<th>Zone</th>
<th>..</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>18</td>
<td>paise</td>
</tr>
<tr>
<td>II</td>
<td>30</td>
<td>&quot;</td>
</tr>
<tr>
<td>III</td>
<td>36</td>
<td>&quot;</td>
</tr>
<tr>
<td>IV</td>
<td>42</td>
<td>&quot;</td>
</tr>
<tr>
<td>V</td>
<td>54</td>
<td>&quot;</td>
</tr>
</tbody>
</table>

On November 18, 1963, the excise duty on green tea produced in Zone I was reduced from 18 paise per kg. to 10 paise. The surcharge of 20 per cent remained unaltered.

The Budget for 1967-68 increased the excise duty on tea in general for all the zones. The new rates which came into force from May 25, 1967, are as follows:
Zone I
(a) Green tea • 12 paise
(b) Others • 30 it

Zone II • 48 it
Zone III • 60 it
Zone IV • 66 it
Zone V • 78 it

Note: The above rates are inclusive of the 20 per cent special excise duty.

The Ministry of Finance in a notification dated July 4, 1967, granted a concession in the rate of excise duty payable by co-operative and "bought leaf" tea factories. Co-operative factories are not to pay 10 per cent of the basic excise duty and the whole of the special excise duty, while other "bought leaf" factories are exempt only from the whole of the special excise duty. On account of the fall in the price of tea in 1968, the Government announced tax relief which came into force on October 1, 1968. The 20 per cent surcharge was abolished.

(4) Cess

Under section 25(1) of the Tea Act of 1953, a cess is levied on all teas produced in India. The proceeds are to be used for meeting the expenses of the Tea Board and the cost of measures mentioned in Section 10 of the Act.
(5) **Central Sales Tax**

This tax is levied on inter-State sales of tea. The rate of the tax was increased from 2 to 3 per cent with effect from July 1, 1966.

(6) **Licence Fee**

The Central Excise Authorities levy a fee on tea factories in the following manner:

<table>
<thead>
<tr>
<th>Description</th>
<th>Rs. per annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Power driven factories</td>
<td>100</td>
</tr>
<tr>
<td>(2) Non-power driven factories:</td>
<td></td>
</tr>
<tr>
<td>(i) For those whose annual production is below 200 lbs.</td>
<td>1</td>
</tr>
<tr>
<td>(ii) For those whose annual production is between 200 lbs. &amp; 1,000 lbs.</td>
<td>5</td>
</tr>
<tr>
<td>(iii) For those whose annual production is 1,000 lbs. and above</td>
<td>10</td>
</tr>
</tbody>
</table>

**III Taxes Imposed by State Governments**

Important among the taxes on tea levied by State Governments are (1) agricultural income tax, (2) West Bengal entry tax, (3) Kerala sales tax, (4) Assam passengers and goods tax, and (5) Kerala plantation land tax, and (6) West Bengal plantation land tax.
Besides these, there are a number of other levies which may be grouped under the head (7) "Other levies".

(1) **Agricultural Income Tax**

Agricultural income tax is in addition to the general income tax levied by the Central Government. It is levied on 60 per cent of the income of tea estates, the other 40 per cent being subject to Central income tax. The rate of the tax differs from State to State. The difference in rates puts the producers of those States where the rates are comparatively higher at a disadvantage as compared with their counterparts in other States.

The rates of agricultural income tax in force are given in Appendix 5.

(2) **West Bengal Entry Tax**

The West Bengal entry tax is a recent impost. In the second half of 1955, the Government of Bengal passed an Act called "West Bengal Taxes on Entry of Goods in Local Areas Act". The Act was meant for levying taxes on certain specified commodities which enter into specified areas of West Bengal. Tea was one of the commodities to be taxed. Originally, the tax was at the rate of one anna per lb. on all teas consigned to any
dealer within the municipal limits of Calcutta and the districts of 24-Parganas and Howrah. The rate has since been raised to 13.78 paise per kg. Thus, all teas entering Calcutta for auctions are being taxed whereas teas consigned to London for the London auctions or against private contracts escape payment of this levy.

(3) Kerala Sales Tax

On all the teas sold through Cochin auctions sales tax at 5 per cent ad valorem on prices realised has to be paid. In addition, a surcharge of 5 per cent of the sales tax is also collected.

(4) Assam Passengers and Goods Tax

A tax at the rate of 10 per cent of fare or freight is collected subject to a minimum payment of one paisa per lb. This new tax which came into effect from August 16, 1962, places the producers of Assam at a disadvantage.

(5) Kerala Plantation Land Tax

The plantation land tax in Kerala is applicable only to plantation crops. The rate of the tax was increased from Rs.2 to Rs.8 per acre in 1961 and from Rs.8 to Rs.20 per acre in 1967.
(6) West Bengal Plantation Land Tax

To make up the loss of revenue caused by its decision to exempt holdings up to 1.2 hectares from land revenue the United Front Government of West Bengal raised the rents of bigger holdings on a slab basis. The new rates would raise fourfold the rents payable by tea plantations for the area under tea and even more for other types of land. In Darjeeling district, where a large percentage of tea plantation grants was freehold and the rent payable for leasehold land was approximately Rs.3.71 per hectare, the cost of production is likely to go up by 7 paise to 10 paise a kg. because of the steep increases in land rents. Besides, the increased rents will apply retrospectively from June, 1965.

(7) Other Levies

The following is a list of other levies which the tea industry is required to pay:

(i) Licence fees on vehicles
(ii) Education cess
(iii) Health cess
(iv) Road cess
(v) Profession tax
(vi) Terminal tax
(vii) Conservancy rates
(viii) Octroi
(ix) House and building tax
(x) Water and lighting rates
(xi) Chowkidar tax
(xii) District Board tax
(xiii) Land cess
(xiv) Panchayat tax
(xv) Land tax

The nature and rates of these levies vary from State to State.

IV Import Duty on Tea

Many of the importing countries have been taxing tea in the form of import duties. The imposition of import duty in high income countries was rendered possible by the low price elasticity of import demand for the commodity. Even in several relatively low income tea-importing countries like Iran, Iraq, Saudi Arabia, Sudan and the U.A.R. the commodity is subject to fairly high import duties. It needs to be noted, however, that the E.E.C. countries have agreed to the suspension of the common external tariff on tea from the beginning of January, 1964. Even a complete abolition of these duties would

Refer Appendix 6 for duties imposed on tea in EFTA, EEC and other countries.
not have a major effect in boosting export earnings from tea owing to its low price elasticities of demand in the leading import markets. Low income tea-importing countries where the price elasticity of demand is high are not likely to either reduce or abolish the import duty on tea.

V An Appraisal of the Taxation Policy

(1) Lack of Co-ordination between the Centre and the States

The Tea Act of 1953 expressly states that it is expedient in public interest that the Union Government should take under its control the tea industry. The actual working of the Act, however, leads one to the conclusion that this assumption of control by the Union has been irrelevant to the development of the industry. It has not led the Union Government to exercise authority over the taxation policies of State Governments which affect the development of the tea industry. 9

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9 Lack of control by the Union Government is seen in other spheres as well. The land ceiling legislations of different States have varying effects on the future development of the industry. The forest laws of the different States have a restrictive effect on expansion and development of differing intensity. The surplus land acquisition policy of the tea-growing States differs widely from one another and in its application from one year to another.
Since land and agriculture are State subjects, notwithstanding the enactment of the Parliament providing for the taking, under its control, the tea industry, independent policies of taxation affecting the earning levels and resource creation of the industry are being pursued by the concerned States without any restraint from the Union Government. The West Bengal entry tax, the West Bengal plantation land tax, the Kerala sales tax, the Kerala plantation land tax and the Assam passengers and goods tax are examples which show lack of co-ordination between the Centre and the States. Having recognised the right of the States to levy taxes, their effect on the industry's resources, the method of taxation and the consequences on the industry's willingness to expand and develop have not been taken note of by the Union Government.

If the assumption of control over the industry is to have any positive significance, the taxation policy of the Union must be planned and co-ordinated with those of the Governments of the States. Or, the ability of the policies of the State Governments to impinge upon the industry's capacity to expand and develop must be neutralised. If it is not possible to have a joint and co-ordinated approach on taxation, the authority to control the industry vested in the Government of India can only have a negative application. When it is not within the
power of the Government of India to obtain cooperation, if not compliance, from the States for the development of an industry for which control has been taken by it, it is not right to accuse the industry of inefficiency, as is being done now and then. Hence, it is of utmost importance from the point of view of achieving a purposeful tea policy that the Central Government must become willing and able to persuade the Governments of the tea-growing States to the framing of an integrated tea policy in the field of taxation, land utilization, forest preservation and labour relations.

(2) Taxation and the Competitive Ability of Indian Teas

Indian teas cannot hope to compete successfully in the world market if Indian producers suffer greater handicaps than their foreign competitors. The most powerful challenge in the world of tea comes from the East African countries where the land suitable for tea is extensive and the policy of the concerned Governments is to provide the maximum encouragement to investment in the expansion of tea industry. They have the advantages of land, favourable climate and soil and terrain. Government

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control is limited and a large measure of self-management of their affairs is left to the industry. But the most important aspects of East African policy which make for successful competition with Indian tea are in relation to taxes. Because of the different taxation policies, if a producer in Kenya and another in India receive the same price, the result will be as follows:

<table>
<thead>
<tr>
<th></th>
<th>INDIA</th>
<th>KENYA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price per kg. in rupee equivalent*</td>
<td>5.00</td>
<td>8.00</td>
</tr>
<tr>
<td>Excise duty (Zone IV)</td>
<td>0.66</td>
<td>Nil</td>
</tr>
<tr>
<td>Sales tax</td>
<td>0.42</td>
<td>Nil</td>
</tr>
<tr>
<td>Export duty</td>
<td>1.13</td>
<td>Nil</td>
</tr>
<tr>
<td>Total levies</td>
<td>2.21</td>
<td>Nil</td>
</tr>
</tbody>
</table>

In the hands of the producer, if other conditions remain equal, 5.79 8.00

*Exclusive of selling expenses, freight, cess, etc.

Tax on agricultural income in Kenya is the same as tax on business income, being 8 shillings in the £. On a planting company's profit of 5.4 million in Kerala and Kenya, the following deductions will occur:
While profit after income-tax for the Kenya producer is Rs.2.4 million the Kerala tea planter gets only Rs.1.57 million.

In determining the competitive ability of Indian teas in the world market, one must have a clear idea of the way in which the price of tea is determined. The tea prices are determined at the auctions. The system of valuing tea for auctions is unique in the sense that tea producers, unlike manufacturers of textiles or cigarettes, do not enjoy the advantage of pricing their products. It is the brokers of tea who do the job on the basis of their expectation of price that the consignment is likely to fetch. Naturally, pricing in this process has to be unrelated to the cost of production and, therefore, the incidence of excise duty and other levies cannot conveniently be passed on to the consumers, although the
incidence of indirect taxes is to be borne by the consumers theoretically.  

Most of the taxes imposed on tea have to depend on the general assumption that the product is a profitable one to its producers and do not take into account the fluctuations in the market, the variations in conditions met with among the thousands of units engaged in production over a vast area, which directly add to the cost, thus depriving the producer in India the capacity to face competition abroad. The extent of increase in the incidence of indirect taxes like the excise duty, the export duty, the cess, the West Bengal entry tax, the Kerala sales tax, and the Assam passengers and goods tax, which are added to the value of tea, is indicated in Table 33:

The taxation policy of the Government goes against all canons of export promotion and has accentuated the search for cheaper sources of supply by the foreign buyers even at the cost of quality of the blends in their retail packs. On the one hand, it has enabled other producing countries, most of whom have either no such taxes or only nominal ones in the form of export cess and export duty, to price out Indian tea, thereby leading to a steady decline in the share of Indian tea in world exports. At the same time, India has been replaced by Ceylon since 1965 as the largest tea-exporting country. As long as Indian tea has continued to influence the bottom of the international prices by the larger weight on the world exports, the higher price of Indian tea has enabled other producing countries to realise the relatively better prices, which would not have been otherwise possible. And this, in turn, has encouraged them to continue to expand production.

(3) Taxation and Profitability of the Tea Industry

Some of the taxes fall on production and some on the income derived from the enterprise. For instance, the land tax, the excise duty, the cess and the export duty fall on production and add to the cost. The tax
on agricultural income and business income has the virtue that it falls on the visible income left over after the expenditure needed to earn the income has been covered. The exaction from this income can be punitive or expropriatory depending upon what proportion of the emerging income is taken away as tax. But a land tax (Kerala plantation land tax) is payable whether the tea sells at a loss or a profit. So must the excise duty be paid at the factory gate irrespective of whether the eventual price realised covers the cost or not. The cess on tea, the licence fee and levies of this type directly add to the cost of production. They do not depend upon the sale of the produce and some of them do not depend even on output.

The increasing burden of the excise duty and other fiscal levies in India during a period of increasing world supply of tea and falling prices has affected adversely the profitability of the industry. The increasing burden of excise duty payable by producers three to six months before the realization of proceeds from the sale of tea at Calcutta, Cochin and London auctions has strained their financial resources. For example, an estate in Dooars (Zone II) with 200 hectares under tea and with an yield of 1,047 kgs. per hectare should have required
a sum of only Rs. 3,611 per annum in 1958-59 for payment of excise duty. But the requirement of funds for the same purpose has increased to Rs. 1,00,512 in 1967-68 because of the increase in the rate of excise duty and the introduction of the zonal system. And after the abolition of the surcharge of 20 per cent with effect from October 1, 1968, the requirement is reduced to a sum of Rs. 83,760, still over six times that in 1958. If a similar estate is situated in Sibsagar (Zone V), it will now require a sum of Rs. 1,36,110 as against Rs. 13,611 in 1958-59.

As a result of the heavy excise duty, producers are forced to obtain advances from banks and other sources through hypothecation of title deeds and crop for financing their current production. They are finding it difficult to block funds for the payment of excise duty, because the overall requirement of working capital has increased with the rising labour cost and other inputs and sources of funds, especially from banks, are restricted.

While the excise duty has thus affected adversely the profitability of the tea industry, it also forces producers to sell their teas in Indian auctions rather than export them for sale at London auctions, which involves longer time for the realization of the sale.
proceeds as well as additional funds for export duty. Such restrictions on the choice of the selling outlet curb the initiative to export.

The West Bengal entry tax, the Assam passengers and goods tax and the Kerala sales tax have increased the difficulties still further by reducing the profitability. And with declining profitability and increasing difficulties in maintaining the productive assets, no industry can expect to attract capital for development purposes.

(4) Taxation and Development

The question of fiscal levies, particularly those to be paid by the producers either before the sale of tea (excise duty) or at the auction stage (West Bengal entry tax, Assam passengers and goods tax, Kerala sales tax) from their gross realization ought to be viewed from the requirements of growth and development. The argument that the abolition of fiscal imposts on Indian tea will result in a further decline in the unit value of world exports and thus affect the Indian tea industry adversely is purely academic as the level of fiscal imposts is not uniform in all exporting countries. Unless there is an international understanding among the tea-
producing countries on this issue the continuance of fiscal imposts will only tend to retard its growth and export possibilities.

During the seven years from 1960-61 to 1966-67 the total area extended, replaced and replanted was about 35,000 hectares (Table 25). This is clearly inadequate. If the tea industry is to maintain a rehabilitation programme of replacing 3 per cent of the aged or exhausted or obsolescent plants, the funds needed will be vast. Says the Borooah Committee Report

12 \ldots the economic life of the tea bush is considered by the scientists in the Tocklai Experimental Station, to be forty years and it should be replaced at the end of this period. It is thus imperative that 31\% of our acreage should be replaced or replanted immediately and arrangements to replace the other 42\% in the 21-50 age-group should be made with the least possible delay." Hence the immediate need is that 31 per cent of the existing area, which amounts to about 108,000 hectares, needs to be replaced or replanted. Assuming that the average cost of replanting or replacing is around Rs.10,000 per hectare the amount

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needed is ₹1,080 million. Again, assuming that this rehabilitation programme is to take place between 1970 and 1974 (5 years) the amount needed will be ₹216 million per annum. How the development resources have been eroded by the excessive taxation is illustrated by presenting the actual per hectare figures of ten above-average tea companies of South India for the period 1950-1966 in Table 34. It is shown also in figure 4.
TABLE 34

PROFIT PER HECTARE AFTER TAXATION OF TEN SOUTH INDIAN TEA COMPANIES
1950 TO 1966

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Sales (in rupees)</th>
<th>Expenditure</th>
<th>Taxation</th>
<th>Net Profit</th>
<th>Retained Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>3,568.06</td>
<td>2,246.12</td>
<td>322.26</td>
<td>999.68</td>
<td>385.02</td>
</tr>
<tr>
<td>1951</td>
<td>3,928.56</td>
<td>2,574.88</td>
<td>322.68</td>
<td>1,021.00</td>
<td>397.52</td>
</tr>
<tr>
<td>1952</td>
<td>3,587.29</td>
<td>2,716.99</td>
<td>176.38</td>
<td>694.91</td>
<td>118.76</td>
</tr>
<tr>
<td>1953</td>
<td>4,498.21</td>
<td>2,856.43</td>
<td>511.16</td>
<td>1,130.62</td>
<td>382.95</td>
</tr>
<tr>
<td>1954</td>
<td>5,547.62</td>
<td>3,274.60</td>
<td>821.50</td>
<td>1,451.52</td>
<td>555.28</td>
</tr>
<tr>
<td>1955</td>
<td>4,834.75</td>
<td>3,438.76</td>
<td>554.39</td>
<td>841.60</td>
<td>157.42</td>
</tr>
<tr>
<td>1956</td>
<td>5,571.11</td>
<td>3,859.42</td>
<td>874.45</td>
<td>827.23</td>
<td>315.48</td>
</tr>
<tr>
<td>1957</td>
<td>5,923.78</td>
<td>4,707.65</td>
<td>637.53</td>
<td>578.60</td>
<td>31.47</td>
</tr>
<tr>
<td>1958</td>
<td>5,127.53</td>
<td>4,984.04</td>
<td>549.92</td>
<td>593.57</td>
<td>43.64</td>
</tr>
<tr>
<td>1959</td>
<td>5,123.60</td>
<td>4,978.84</td>
<td>584.28</td>
<td>860.48</td>
<td>80.18</td>
</tr>
<tr>
<td>1960</td>
<td>6,930.19</td>
<td>5,154.57</td>
<td>820.74</td>
<td>914.89</td>
<td>246.88</td>
</tr>
<tr>
<td>1961</td>
<td>6,761.82</td>
<td>5,142.59</td>
<td>659.96</td>
<td>732.23</td>
<td>137.50</td>
</tr>
<tr>
<td>1962</td>
<td>7,171.50</td>
<td>5,734.62</td>
<td>799.48</td>
<td>657.49</td>
<td>65.50</td>
</tr>
<tr>
<td>1963</td>
<td>7,077.98</td>
<td>5,533.87</td>
<td>702.52</td>
<td>800.28</td>
<td>157.10</td>
</tr>
<tr>
<td>1964</td>
<td>7,496.47</td>
<td>5,901.84</td>
<td>767.45</td>
<td>827.15</td>
<td>207.60</td>
</tr>
<tr>
<td>1965</td>
<td>8,739.03</td>
<td>6,816.65</td>
<td>972.41</td>
<td>949.96</td>
<td>231.76</td>
</tr>
<tr>
<td>1966</td>
<td>8,280.77</td>
<td>6,514.55</td>
<td>813.07</td>
<td>953.15</td>
<td>288.58</td>
</tr>
</tbody>
</table>

The retained profit of these companies dropped from Rs.385.02 per hectare in 1950 to Rs.268.56 in 1966, a drop of about one-third. The retained profits cannot meet the whole of the 3 per cent replanting cost and provide sufficient funds for the modernization or renovation of factory building and machinery or for the extension of the area under tea.

It is necessary to recognize the full significance of these figures. 1965 represented the best year for sales in all the years since 1954. These conditions need not be present in later years. The 1965 accounts of these ten companies had not shown the impact of the Wage Board award. Nor had they suffered from the increase in land tax and in super-tax on agricultural income in Kerala or the enhancement of the export and excise duties. The resource position of the industry has sharply declined making development effort more difficult than ever before.

Tax Relief

Tax relief was granted by the Government of India in respect of export duty and excise duty with effect from October 1, 1968. The relief granted by way of reduction in export duty was 11 paise. The reduction in surcharge on excise duty after the announcement of the
relief totals to an average of 20.5 paise per kg. to 16 paise for common tea and 24 paise for quality tea respectively. This relief was supposed to offset the loss to producers on account of the fall in tea prices during the season in the second half of 1968. The relief is clearly inadequate to offset the losses from the decline in the average auction prices of tea (leaf) at Calcutta and Cochin during the season which fell by 76 paise (upto November 27, 1968) and 54 paise per kg. (upto November 28, 1968) respectively. If relief were necessitated for offsetting the loss to producers, the quantum of relief, particularly the excise duty, should have been at least equal to the extent of the fall in prices. The relief announced by the Finance Minister by way of reduction of export duty while announcing the Budget proposals for 1969-70 is no better than a palliative for a serious malady.

Along with the announcement of tax relief in October, 1968, the Government of India directed the Tea Board to work out the procedures for the extension of the planted area, prevention of soil erosion and water-logging, irrigation, and improvement of factories from the funds accruing to the industry out of the fiscal relief. Being marginally relieved of the burden, especially of the export
duty, foreign buyers may be inclined to increase their biddings at auctions. The extent of increase in biddings as well as the overall off-take from India will, however, depend on the attractiveness of the reduction vis-a-vis the prices of teas of other competitive origins. As for the excise duty, the quantum of relief is so little that it may not be possible for the producers to think of saving for future developmental programmes. Hence, the directive of the Government to the Tea Board serves little or no purpose.

Factory Capacity, Modernisation and Renovation

A very substantial capital programme is required to renovate, modernise and expand processing capacity in the industry. It deserves the same attention as replanting and extension of the area under tea. The changes in the processing systems and the handling of much larger crops call for renovation and expansion on a substantial scale. Such projects call for capital investment which cannot be met wholly by borrowing.

The tea industry is probably unique among the export industries of India in that its raw material is the green tea leaf. It is, therefore, less dependent on import and does not become a burden on the country for the import of
its raw material and its net export earning is very close to its gross earning. However, for the efficient production of tea and for the various field operations, some machines, equipments and spares are necessary. At present, some arbitrary import allocation is made collectively for the whole industry which the Tea Board operates. Much delay is caused by the circuitous procedure of applying through the Tea Board.

So far as items of indigenous manufacture which have reached high performance standards comparable with the imported items are concerned, it may not be right to import such items. As for others, where the performance standards of imported items excel those of indigenous manufacture, a more liberal import policy should be followed. A similar policy is called for in the import and stocking of spares and components.

In the East African tea-producing countries imports of machinery, equipment and other supplies required by agriculture and allied industries are allowed free of import duties. This may be due to the fact that the manufacture of such items has not yet begun. The policy in these countries appears to be that additional revenue

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13 In Kenya and Uganda a subsidy is given on such supplies.
burdens are not cast on what are imports justified for agricultural production and processing. In view of the devaluation of the rupee, the rupee cost to the importer is higher than what the East African countries have to pay. But, in India there is a revenue as well as a protective duty imposed on imports raising supply costs excessively for the Indian producer. The producer should not be made to bear a heavy import duty which directly goes to increase his capital and production costs. Since a duty drawback scheme on every imported item will be impracticable, the main items of imports should be screened for duty rebate when imported for use by the tea industry.

It is clearly in the interest of efficient and uninterrupted production and of reducing production costs that the whole question of supply of machinery, equipment, tools, spares and components and also other items of important supplies should be organised in discussion with the industry and there should be periodical reviews.

**Summing-Up**

In view of the large number of taxes that the tea industry has been made to bear, there is a clear case for
a more sensible and equitable fiscal policy. The living plant is the primary productive asset of a tea estate but it is not allowed depreciation with the result that taxation of the emerging gross profit is heavier than on similar profits in other industries. Hence, it is necessary that a depreciation-cum-rehabilitation allowance based on the average output per hectare should be introduced so that the amount could be utilised for development purposes.

The rate of export duty and that of central excise duty must be reduced to a level at which Indian teas can compete effectively in the overseas markets with those of Ceylon and the East African countries. It would be better still if the export duty is abolished. Says Prof.P.R.Brahmananda, "Our ability to obtain advantages through the measure of devaluation has been crippled by the export duties."  

The law regarding sales tax in Kerala should be amended. It may be noted that the West Bengal Sales Tax Act provides for exemption from payment of the sales tax, subject to certain conditions, in respect of sales

through a registered broker member in tea auctions held under the auspices of the Calcutta Tea Traders Association. The broker member provides the declaration to the owner that the tea was sold to registered dealers authorised to make such purchases either for resale or for use in the goods for resale. This provision has been included mainly with a view to develop the auctions at Calcutta. Thus, at the first point of sale there is no sales tax liability. If a similar provision is included in the law relating to sales tax in Kerala, the auctions at Cochin will receive considerable encouragement.

As regards agricultural income tax, the rate of the tax on the agricultural portion of the composite income should not exceed the rate of tax on the non-agricultural portion of it.

The indiscriminate proliferation of taxes and duties on tea and their frequent enhancement by raising the cost of production can only cause damage to the industry and its will to face the challenges of the world market. Hence the number of taxes on tea need to be reduced. Besides, a greater amount of co-ordination in the taxation policies between the Centre and the States is of utmost importance.
In brief, rationalization of the tax structure is urgently called for.