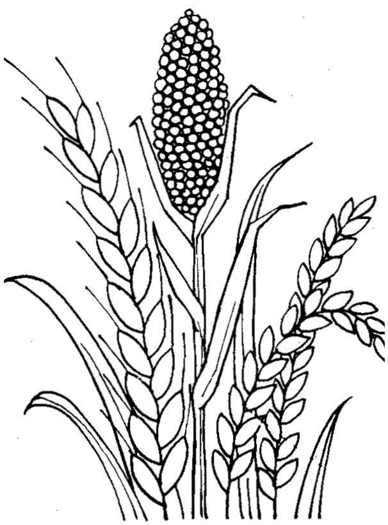
Vol XXIV
No. 1

JANUARY-
MARCH
1969

ISSN 0019-5014

INDIAN JOURNAL OF AGRICULTURAL ECONOMICS



INDIAN SOCIETY OF
AGRICULTURAL ECONOMICS,
BOMBAY

TAXATION OF AGRICULTURAL INCOME UNDER CENTRAL INCOME TAX

Ved P. Gandhi

I. OBJECTIVES

The objectives of this paper are three-fold:

(*a*) To list briefly the benefits and costs of bringing taxation of agricultural incomes within the purview of the Central income tax;

(*b*) To estimate the revenue potential of the integration of the State agricultural income taxes with the Central income tax; and

(*c*) To throw light on the changes, if any, that will need to be made in the existing income tax framework in case the country decides to move from the existing system of taxation of agricultural incomes to that of their taxation under the Central income tax.

To avoid misunderstanding, let it be explicitly stated that it is not the purpose of this paper to make out a case for the taxation of agricultural incomes or answer the objections to the levy of an agricultural income tax.[1]

II. BENEFITS AND COSTS OF INTEGRATION

What exactly are the benefits and costs of the taxation of agricultural incomes under the Central income tax? The following appear to be some of the major benefits :

(*i*) It should ensure equity in taxation, *i.e.*, equal tax treatment of equals. Two persons earning equal agricultural incomes in different States will pay equal amount of income tax after integration. Also two persons having different mixes of agricultural and non-agricultural incomes will pay equal amount of income tax (unless desired otherwise).

(*ii*) The taxation of agricultural incomes under the Central income tax will ensure an effective maintenance of the scheduled progressivity in the taxation of incomes. The income-splitting device inherent in the present situation of two separate taxes on the agricultural and non-agricultural incomes would not be available to the tax-payers any more. This should reduce the income tax avoidance and bring in larger revenues to the Government.

(*iii*) The merger of two taxes should yield larger revenues to the Government for various reasons. Firstly, as the exemption limits of the agricultural income taxes of certain States are higher than the exemption limit under the Central income tax[2] the merger would expand the tax base. The tax base would also expand because, at present, only certain types of agricultural incomes are taxed

1. For an excellent case for the taxation of agricultural incomes, answering many of the doubts of its opponents, see Yoginder K. Alagh, "Case for an Agricultural Income Tax," *Economic Weekly*, Vol. XIII, No. 39, September 30, 1961, pp. 1533-1538.
2. See Appendix.

in some States, *e.g.*, incomes from sugarcane in Maharashtra, incomes from commercial crops in Mysore, incomes from tea crops in West Bengal.[3] Secondly, the differences in the basic rates of tax on agricultural incomes levied by the different States and the Central income tax rates,[4] which become really glaring for incomes over Rs. 20,000 per annum (see Appendix), would be ironed out and this would also enhance the yield from taxation of agricultural incomes. Thirdly, the farmers in States like Andhra Pradesh, Gujarat, Haryana, Jammu & Kashmir, Madhya Pradesh, Punjab, Rajasthan and the Union Territories, which are not subject to any agricultural income tax at present would then become subject to income tax.[5] This alone should increase the yield of agricultural income tax significantly because many of these States are agriculturally prosperous. An estimate of the revenue yield of the taxation of agricultural incomes under the integrated income tax is given in Section III.

(*iv*) To the extent the present exclusion of the agricultural incomes has acted as a loophole in the existing Central income tax, it has provided an avenue for unaccounted money with its undesirable economic effects on the economy.[6] The taxation of agricultural incomes under the Central income tax would close this loophole and would, consequently, reduce the quantum of unaccounted money.

(*v*) The taxation of agricultural incomes under the Central income tax would invest the former with the elasticity and buoyancy of the Central income tax[7] (especially in the context of rising production and prices) and make the present inelasticity of the agricultural income tax[8] a matter of the past.

(*vi*) The existing system of differential taxation of agricultural and non-agricultural incomes disturbs the natural flow of resources between sectors. Though in an economy with an under-developed agriculture, the effect of differential taxation could be considered desirable, this may not be in the overall interest of balanced economic development especially in the context of the reported "agricultural breakthrough." A unified income tax structure for both agricultural and non-agricultural incomes may, therefore, be expected to regulate the inter-sectoral flow of resources.

(*vii*) The relatively higher rate of taxation to which agricultural incomes, especially the high ones, would become subject than at present would provide the Central Government with an instrument to curb the inflationary tendencies in the economy.

---

3. *Reserve Bank of India Bulletin*, Vol. XVII, No. 8, August 1963, p. 1023.
4. *ibid.*, pp. 1032-1033.
5. In Uttar Pradesh the agricultural income tax was replaced by the Large Landholdings Tax in 1957.
6. Cf. "Meanwhile, the Central Government can only note and live with the fact that there is scope for unaccounted money masquerading as agricultural income." S. Bhoothalingam : Final Report on Rationalisation and Simplification of the Tax Structure, Ministry of Finance, Government of India, New Delhi, 1968, p. 48.
7. The buoyancy of income tax has been estimated by G.S. Sahota to be 2.040 against 1.756 for the agricultural income tax. See Indian Tax Structure and Economic Development, Asia Publishing House, Bombay, 1961, pp. 20-21.
8. The revenue yield from agricultural income tax for all States taken together has been around Rs. 10 crores during the past few years. It is expected to yield no more than Rs. 10.84 crores in 1968-69 (budget estimates). One explanation for this is that under the existing agricultural income taxes of many States the tax rates are committed to once and for all in the original Acts. It is only in case of Assam and Bihar that the agricultural income tax rates are announced at the time of the Budget every year. See *Reserve Bank of India Bulletin*, August, 1963, p. 1026.

(*viii*) Last, but not the least, to the extent the Central Government would get some revenues from the agricultural sector, it would provide some sort of a fiscal balance between the Central Government's expenditure on and revenues from the agricultural sector. Whether or not this fiscal balance is desirable is another question.

Against the above-mentioned benefits of the integration the following appear to be its costs :

(*i*) The gap between the tax levying and collecting authority and the tax-payer would be widened. The seriousness of this factor would, of course, depend upon whether or not the centralisation of the agricultural income taxation is desirable at this stage.[9]

As a first step to the solution of this problem, let the tax be levied by the Centre but collected by the State Governments as far as the tax-payers with purely "agricultural incomes" are concerned.

(*ii*) The integration would involve the retraining of agricultural income tax officials at the State levels for their absorption in the Income Tax Department at the Centre, which will now be required to meet the additional responsibilities of the taxation of agricultural incomes.

(*iii*) The merger would require a constitutional amendment or a delegation of the taxing authority to the Centre neither of which the States may be willing to accept in the context of the existing not very happy Centre-State relations.

One also hears the argument that the integration of the two taxes would act as a disincentive to agricultural production in so far as agricultural incomes would now become subject to relatively more progressive taxation.[10] This argument is weak. Even in theory, the effects of progressive income tax on production cannot be categorically laid down; it would all depend upon the relative strengths of the "substitution" and "income" effects of higher taxation. It is quite possible that the integration might motivate the farmers to adopt the "new technology" in order to pay a relatively higher tax on their incomes. In fact the higher taxation of agricultural incomes implicit in the integration could actually encourage the farmers to increase agricultural production if a "slack" exists in agriculture.[11]

To sum up, there are various benefits and costs of an integration of State agricultural income taxes with the Central income tax and when people differ in their recommendations the obvious reason is that they attach different weights to the different elements that comprise the benefits or costs. If the economists have been in favour of the integration and the politicians against it, this is so because the former hold the benefits to be more valuable than the costs and the latter the reverse.

---

9. Cf. I. S. Gulati : Resource Prospects of the Third Five-Year Plan, Orient Longmans, Bombay, 1960, p. 73.

10. E. M. S. Namboodiripad, "Problems of Agricultural Income Tax," *The Economic Times*, February 11, 1968, p. 5.

11. Ved P. Gandhi : Tax Burden on Indian Agriculture, The Law School of Harvard University, Cambridge, Massachusetts, U.S.A., 19(6, Chapter 6, pp. 143-180.

This diversity of positions taken by the economists and the politicians on the question of the integration of the two taxes was very much evident at the meeting of the National Development Council held in December, 1967 when Prof. D. R. Gadgil proposed the integration and the Chief Ministers of the States opposed it.[12] Even Shri Morarji Desai, Deputy Prime Minister, opposed the proposal on the ground that "a villager exercised a great deal of pull at election time."[13] The integration of the two taxes, like any other tax reform is more of a political problem than an economic one and Prof. Kaldor was right when he said, "tax reform . . . is predominantly a matter of political power."[14]

III. REVENUE POTENTIAL OF A TAX ON AGRICULTURAL INCOMES UNDER THE CENTRAL INCOME TAX

The National Council of Applied Economic Research, which carried out an All-India Rural Household Survey in 1962 and collected some very useful data on incomes, expenditures, savings, etc., of sample households from their sample studies, have estimated the pattern of distribution of rural incomes by income classes. These data, presented in columns (1) to (3) of Table I, have been utilized to arrive at an estimate of revenue potential of the proposed tax reform.

TABLE I—RURAL INCOME DISTRIBUTION BY INCOME CLASS, 1962

	Income class* (Rs.)	Weighted average income (Rs.)	No. of rural households (million)	Average tax payable by the household† (Rs.)	Total tax payable by the rural households (Rs. in crores)
(1)	(2)	(3)	(4)	(5)	(6)
I	Under 500	343	10.87	—	—
II	500 — 999	735	26.94	—	—
III	1,000 — 2,999	1,601	29.61	—	—
IV	3,000 — 4,999	3,754	3.30	23	76
V	5,000 — 9,999	6,624	1.09	157	171
VI	10,000 — 24,999	13,141	0.24	800	192
VII	25,000 and above	37,180	0.05	6,305	135
			72.00‡	—	574

* Income here includes the computed value of owner occupied houses.

† This estimate has been derived by considering the weighted average income of the group, the exemption limits of Rs. 3,000, and the income tax rates for 1962. The income classes IV, V, VI and VII are estimated to pay 3 per cent, 4.4 per cent, 8 per cent, and 18 per cent tax rates respectively on their incomes over Rs. 3,000. Surcharges have not been included in this estimate.

‡ This estimate has been derived on the basis of the rural population of 360 million in 1961 and the average size of the household to be 5 members.

Source : (1) National Council of Applied Economic Research: All-India Rural Household Survey, 1962, Occasional Paper No. 13, January, 1965, Table 9, p. 22, and (2) The Finance Act, 1963.

12. The major apprehensions of the Chief Ministers were that: (*a*) in many States other taxes were being levied on the agriculturists; (*b*) without stable agricultural prices, agricultural income could not be considered stable enough for the taxation; and (*c*) there were administrative and other difficulties. See *Yojana*, Vol. XI, No. 25, December 24, 1967, pp. 9-11. Also see *The Economic Times*, December 2, 1967.

13. "Mr. Morarji Desai Opposed to Taxing the Agricultural Sector," *Capital*, January 25, 1968, p. 161.

14. Nicholas Kaldor, "Will Underdeveloped Countries Learn to Tax?" *Foreign Affairs*, Vol. XLI, January, 1963, p. 418.

Given the income distribution in the rural sector, the yield from agricultural income tax at the Central income tax rates works out to about Rs. 57 crores per annum.

Three points in relation to this estimate may be stressed here. Firstly, the estimate is based on the average tax payable by the household, indicated in column (5) in Table I, which does not include the surcharges. Ignoring for a moment the surcharges on earned and unearned incomes levied under the Central income tax and considering only the 10 per cent special surcharge levied on the amount of income tax payable by all non-corporate tax-payers since 1966-67, this alone would raise the estimate from Rs. 57 crores to Rs. 63 crores per annum.

Secondly, the revenue estimate of Rs. 57 crores pertains to the year 1962 when the index of wholesale prices of agricultural commodities was only 127.2 (1952-53=100) as against 195.7 in 1967 and the index of agricultural production 137.4 (1949-50=100) as against 172.4 in 1967. Thus since 1962 both prices and production have risen, though not strictly as a trend.

Whether or not all farmers have equally benefited from this rise in prices and production is difficult to say. There is no denying the fact, however, that large farmers who have large marketable surplus and who normally sell it themselves rather than through a middleman would have benefited more than the small farmers. The rural income distribution presently would have become more skewed in favour of the income tax paying farmers as compared to that in 1962. And this coupled with the fact that average income tax rates have risen since 1962 would make the estimated sum of Rs. 61 crores appear to be an under-estimate for the present.

Thirdly, the estimate of Rs. 57 crores above relates only to the rural incomes. It ignores the mixed incomes which would naturally become subject to higher tax rates under the progressive Central income tax.

In view of these, it would not be unrealistic to suggest that the taxation of agricultural incomes under the Central income tax would yield about Rs. 75 crores per annum. And this alone set against the current yield of Rs. 11 crores and growing needs of resource mobilization for financing the Fourth Five-Year Plan should make the integration of the two taxes an attractive proposition.

IV. INTEGRATION AND THE EXISTING INCOME TAX FRAMEWORK : CHANGES NEEDED

Assuming that the integration of agricultural income tax with the Central income tax is to be effected, following issues will need to be tackled :

(*a*) Who should be the tax-paying entities?

(*b*) What should be the definition of agricultural income? An inter-related question here would be : How should agricultural incomes be estimated?

(*c*) Should any portion of the agricultural income be excluded from the tax base?

(*d*) What deductions should be allowed for arriving at the taxable agricultural income?

(*e*) Should certain special tax incentives and concessions be given to encourage agricultural production and investment?

(*f*) Should the agricultural incomes be subject to the existing income tax rates or should there be a special rate structure, *i.e.*, should there be a schedular or a global rate structure for the taxation of incomes?

(*g*) Who should administer the tax, *i.e.*, who should levy the tax, collect and retain its revenues? If the Centre is to levy and collect the tax, should there be a tax-sharing between the Centre and the States?

The following thoughts are only in the nature of broad answers to these questions in the light of the State Agricultural Income Tax Acts, Income Tax Act, 1961 and the experiences of other countries with reference to the taxation of agricultural incomes.

(*a*) *Tax Paying Entities*

Under the existing Agricultural Income Tax Acts of different States the tax-payers, for purposes of agricultural income tax, are classified according to their status into individual, Hindu undivided family, firm, company, other association of individuals whether incorporated or not, and any institutions capable of holding property. This definition of the tax paying entities is similar to the definition of the "person" given in Section 2 (31) of the Income Tax Act, 1961, wherein an individual, a Hindu undivided family, a company, a firm, an association of person or the body of individuals whether incorporated or not, a local authority, and every artificial juridical person not falling within any of the preceding category, are subject to the Central income tax.

It appears, therefore, that no change in the status quo will be needed in case the agricultural income tax is integrated with the Central income tax.

(*b*) *Definition of Agricultural Income*

Section 2 (1) of the Income Tax Act, 1961 defines the "agricultural income" at great length. The States' Agricultural Income Tax Acts (excepting those of Uttar Pradesh, Mysore, and Jammu & Kashmir) have, by and large, borrowed this definition of agricultural income.[15]

There has of course been some controversy as to which items should be included and which excluded from the term "agricultural income;" however much of it has been resolved by the judicial decisions.[16] The integration of agricultural income tax with the Central income tax, therefore, should not create any problems as far as the definition of the tax base is concerned.

Regarding the computation of agricultural income, Section 145 of the Income Tax Act, 1961, clearly states that such income shall be computed in accordance with the method of accounting regularly employed by the assessee. Wherever the income tax authorities are not satisfied with the correctness or the completeness of the accounts of the assessee, or where no method of accounting has been regu-

15. *Reserve Bank of India Bulletin*, August, 1963, p. 1023.
16. See J. P. Bhatnagar: All India Taxation Manual, Central Law Agency, Allahabad, 1966, pp. 6-10.

larly employed by the assessee, the authorities shall make the assessment of the total income to the best of their judgment, taking into account all relevant facts.

In theory, thus, there appears to be no problem in the computation of agricultural incomes. In practice, however, the above-mentioned provision of the Central income tax is likely to become redundant in so far as the tax-payers having agricultural incomes do not normally keep the necessary accounts. Even in the economically advanced countries, the taxation of agricultural income has presented formidable problems of assessment and tax compliance.[17]

How then have the existing Agricultural Income Tax Acts of different States resolved this problem? Once again they broadly follow Section 145 of the Income Tax Act, 1961 described above.[18] Yet the general practice has been to assess the agricultural income of the assessee on the basis of farm account if available and/or such information as may be available locally regarding the average produce of each crop and the prices of various items of agricultural produce at that time.[19]

There should hardly be any problem in the determination of income of plantations, for the agricultural income component of such incomes is determined at present under Rule 7 of the Income Tax Rules, 1962. Nor should there be any major problem in the case of large commercial crop producers who do pay the income tax on their agricultural incomes to the State Governments. There are definitely many problems in assessing agricultural incomes of medium and small farmers but then most of these would be exempt from the income tax permitting a personal exemption limit of Rs. 4,000.

In any case, the possibility of making presumptive assessment for purposes of arriving at the agricultural income cannot be ruled out. There are many countries in the world where presumptive techniques are adopted to estimate agricultural incomes.

In Chile, for example, the presumptive assessment on the farmers equals 10 per cent of the capital employed including the assessed valuation of the land.[20] In Uruguay, the taxable agricultural income is worked out on the basis of $80 (or more in certain cases) per hectare.[21] In Brazil, agricultural income is presumed to be 5 per cent of the value of the tax-payer's lands, pastures, buildings and other improvements, equipment and machinery, permanent crops and animals.[22] In Venezuela, the taxable agricultural income is presumed to be equal to 10 per cent of the gross sales of the farmer.[23] In Ceylon, the taxable income from land is presumed to equal 4/5th of the net annual value of land.[24]

Other countries which use presumptive techniques of estimating agricultural incomes are Puerto Rico, Egypt, Italy, Belgium, Switzerland, Denmark, and Great

17. See especially W. D. Gardner, "Farm Income Tax Compliance," *Journal of Farm Economics*, Vol. XLII, No. 8, August, 1960, pp. 686-692; and F.D. Stocker and J.C. Ellickson, "How Fully Do Farmers Report Their Income?," *National Tax Journal*, Vol. XII, No. 6, June, 1959, pp. 116-126.
18. *Reserve Bank of India Bulletin*, August, 1963, pp. 1023-1024.
19. Agricultural Legislation in India, Vol. IX—Agricultural Taxes, Ministry of Food and Agriculture, Government of India, New Delhi, 1964, p. xvi.
20. Tax and Trade Guide—Chile, Arthur Anderson & Co., Chicago, U.S.A., 1966, p. 40.
21. Raynard M. Sommerfield: Tax Reform and the Alliance for Progress, University of Texas Press, Austin, Texas, 1966, p. 158.
22. *ibid.*, p. 157.
23. The Fiscal System of Venezuela: A Report, John Hopkins Press, Baltimore, 1959, p. 90.
24. Report of the Taxation Commission, Government Press, Colombo, 1955, p. 203.

Britain.[25] In France, an estimate of profit per hectare for each type of farming in each locality is used for estimating taxable agricultural income whenever the farmer cannot produce the necessary accounts.[26]

A detailed study of the presumptive techniques of estimating agricultural incomes in these countries should prove useful in streamlining the procedures for the assessment of agricultural incomes under the Central income tax.

(*c*) *Exclusions*

At present, under Section 10 of the Income Tax Act, 1961 items like gifts and bequests, proceeds of endowment life insurance policies, casual and non-recurring receipts (excepting capital gains) as lottery prizes, gambling winnings, and certain types of compensation for miscellaneous services are excluded from the "total income" to be taxed. Also, certain benefits which cannot be converted into money or money's worth (excepting "perquisites") are excluded.

Once the agricultural income is brought under the purview of the Central income tax, that part of it which is in the nature of casual or non-recurring receipt or whose money's worth cannot be easily established may have to be excluded from the computation of taxable "total income." As a matter of fact, this very situation exists under the Agricultural Income Tax Acts of different States.

In many parts of the world certain types of agricultural incomes are excluded from the purview of income taxation. For example, in Columbia, income from fisheries are excluded.[27] In Chile, agricultural incomes from the newly reclaimed lands are exempt from taxation. In Argentina, incomes from the sale of certain agricultural products under control of Minister of Agriculture are tax-exempt.[28]

In certain countries, some portions of agricultural incomes are straightaway excluded before taxable income is arrived at. In the case of Mexico, for example, only 50 per cent of the agricultural income is taxable and the other 50 per cent is excluded.[29] In the case of Iran also, during 1943-45, 50 per cent of the agricultural income was excluded for computing the tax-payer's income tax liability.

(*d*) *Deductions*

Under the Agricultural Income Tax Acts of different States a number of deductions like the land revenue, local rates and cesses, interest on borrowed capital, maintenance costs of capital assets and other irrigation works, expenses of cultivation, harvesting, transporting and marketing agricultural produce, depreciation of capital assets like protective irrigation, machinery and plant, etc., are allowed from the "gross" agricultural income of an assessee.[30]

---

25. Haskell P. Wald and Joseph N. Froomkin (Eds.): Papers and Proceedings of the Conference on Agricultural Taxation and Economic Development, The Law School of Harvard University, Cambridge, Mass., 1954, pp. 278-279.
26. E.B. Nortcliffe: Common Market Fiscal Systems, Sweet and Maxwell Limited, London, 1960, pp. 48-49.
27. World Tax Series, Taxation in Columbia, The Law School of Harvard University, Cambridge, Mass., 1964, p. 319.
28. Tax and Trade Guide—Argentina, Arthur Anderson & Co., Chicago, 1965, p. 42.
29. Highlights of Taxation in Mexico for United States' Businessmen, Arthur Anderson & Co., Chicago, 1962, p. 27.
30. Agricultural Legislation in India, Vol. IX—Agricultural Taxes, *op. cit.*, pp. xvi-xvii.

In the case of the Central income tax, a general principle regarding deductions from any income, specially the income which is in the nature of "profits and gains from business or profession" is laid down under Section 37(1) of the Income Tax Act, 1961, which reads: "any expenditure (not being expenditure . . . .in the nature of capital expenditure of personal expenses of the assessees), laid out or expended wholly and exclusively for the purposes of the business or profession shall be allowed in computing his (assessee's) income chargeable under the head profits and gains of business or profession."

This provision of the Central income tax, once again, requires that the tax-payers' accounts are available. In the case of the farmers such accounts may not be readily available, hence the provision may become ineffective or redundant. In such a situation, then, a sort of a general deduction as a percentage of "estimated" agricultural income may have to be allowed in the same manner in which it is being allowed at present under the existing Acts of different States.[31]

(*e*) *Tax Incentives and Concessions*

While under the existing State agricultural income taxes no special incentives or concessions are given, under the Income Tax Act, 1961 a number of tax incentives are given many of which would become applicable to incomes from agriculture as well. The development rebate (subject to redefining the term "plant and machinery"), partial tax-holiday (subject to redefining the term "new industrial undertakings"), carry forward of losses, loss-offsets, preferential tax treatment of capital gains, etc., are some of the tax incentives which should encourage agricultural production and investment in the long-run. And if agriculture is declared a "priority industry" the agricultural income tax-payers would become eligible for certain other tax incentives, like the special deduction of 8 per cent of "profits" while computing taxable income, higher development rebate, etc.

The inclusion of agricultural income under the Central income tax may necessitate the tax enactment with a view to encouraging agricultural investment, diversification of crops, etc. Here one can learn from the experience of Columbia which gives many tax incentives to reduce its dependence on its present staple like coffee, bananas and sugar. For instance, it allows the otherwise non-allowable capital expenditures on improvements of farm property as revenue expenditure.[32] In the case of Argentina also, agricultural activities, cattle breeding, and forestry are allowed higher incentive allowance.

(*f*) *Rate Structure*

If the Central income tax rates are applied to the agricultural incomes, farmers earning over Rs. 20,000 will naturally become liable to higher income tax than at present (see Appendix). The position, however, will not be so clear-cut if the Government decides to adopt a schedular tax rate structure, as in many Latin American countries. In Venezuela, for example, whereas business profits are taxed at $2\frac{1}{2}$ per cent rate, and interest and royalties are taxed at 3 per cent rate, agricultural profits are taxed only at 2 per cent rate. Similarly in Mexico, whereas the rates of tax on incomes from industrial activities vary between 5 per cent to 39 per cent, and for interest and royalties between 10 per cent to 50 per cent, for in-

31. *ibid.*, p. xviii.
32. World Tax Series, Taxation in Columbia, *op. cit.*, p. 315.

comes from agricultural activities the tax rates range only between 3.2 per cent to 25.9 per cent.[33]

Although the schedular rates structure has the merit of recognising the distinction between various "kinds of incomes" and providing for different tax rates for different incomes, its adoption in India would defeat the very purpose of integration of agricultural income taxes with the Central income tax. One may, therefore, rule out the possibility of an independent structure of income tax rates in the case of agricultural incomes.

(g) *Administration of the Tax*

In case of the integration of agricultural income taxes with the Central income tax, the Centre would be levying and collecting the tax. This may require a constitutional amendment. However, if the States delegate the taxing authority to the Centre by passing resolutions in their respective Legislatures, as they did in the case of estate duty on agricultural property, such an amendment would be unnecessary.

In any case, it would be appropriate that the net tax receipts due to taxation of agricultural incomes under the Central income tax should be allocated to different States in proportion to the origin of agricultural incomes or the residence of agricultural income tax-payers. Or, as another solution, they can be put in the "divisible pool" the allocation of which would be made on the recommendations of the future Finance Commissions.

V. SUMMARY AND CONCLUSIONS

A perusal of the benefits and costs of integration reveals that the economic benefits of the proposed measure far exceed its economic costs. The picture, however, is not so clear when one considers the non-economic benefits and costs alone. The disagreement between the economist and non-economists (including the politicians) is thus easily explained.

In case the integration proposal gets accepted, certain changes in the existing Income Tax Act and Rules will become paramount. In terms of the Act, definitions of terms like income, exclusions, new industrial undertakings, plant and machinery, priority industry, business losses, capital gains, etc., will need to be revised to take into account the agricultural incomes and the characteristics of agriculture as a business or profession. The terms like revenue expenditure and capital expenditure may also require redefinition.

In terms of the Rules, new rules will have to be incorporated pertaining to presumptive assessment of agricultural incomes, "business expenditure" in the case of agri-business. The question as to what part of agricultural income is "income from property" and what part "profits and gains of business" will also need to be resolved.

The changes necessitated by the taxation of agricultural incomes under the Central income tax are merely of legal character and should not stand in the way of the acceptance of the proposal which should, in all fairness, be decided on its own merits.

33. Raynard M. Sommerfield, *op. cit.*, pp. 75-76.

APPENDIX

BASIC RATES OF INCOME TAX 1968-69

Total income (Rs.)		Basic rates of agricultural income tax* 1968-69								Basic rates of Central income tax† 1968-69
		Assam	Bihar	Kerala	Madras	Maha-rashtra	Mysore	Orissa	West Bengal	
(1)		(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1st	1,500	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Next	2,000	4	5	5	Nil	Nil	3	2	5	Nil
,,	1,500	4	5	5	5	Nil	3	3	5	5
,,	2,500	8	11	11	15	Nil	6	6	8	10
,,	2,500	12	11	11	15	Nil	6	6	8	10
,,	2,500	15	16	18	20	Nil	9	9	12	15
,,	2,500	19	16	18	20	Nil	9	9	19	15
,,	5,000	27	22	25	25	Nil	12	16	30	20
,,	5,000	37	25	25	30	Nil	15	22	30	30
,,	5,000	37	25	25	45	Nil	18	29	40	40
,,	5,000	37	25	25	45	Nil	18	36	40	50
,,	5,000	37	25	25	45	50	21	44	50	50
,,	5,000	37	25	25	45	50	21	50	50	50
,,	5,000	37	25	25	45	50	21	50	50	50
,,	5,000	45	25	25	45	50	25	50	50	60
,,	5,000	45	25	25	45	50	25	62	50	60
,,	10,000	45	25	25	45	50	25	62	50	60
,,	15,000	45	25	25	45	50	25	69	50	65
,,	15,000	45	25	25	45	50	25	69	50	65
,,	15,000	57	25	25	45	50	40	72	50	65
,,	15,000	57	25	25	45	50	40	75	50	65
,,	70,000	57	25	25	45	50	40	78	50	65
Balance		60	25	25	45	50	40	78	50	65
Exemption (Rs.)		3,000	3,000	3,600	3,600	36,000	3,500	5,000	3,000	4,000
Estimated yield 1968-69 (Rs. in crores)		3.24	0.39	2.80	1.57	0.35	1.55	0.07	0.87	

* Besides the basic tax rate, a super tax is levied on agricultural incomes over Rs. 25,000 varying between 6 per cent to 40 per cent and a surcharge of 5 per cent on super tax. See the Statement laid on the Table of Rajya Sabha by the Finance Minister in reply to Unstarred Question No. 629 on August 13, 1968.

† Besides the basic tax rate, a surcharge is levied varying between 5 per cent to 15 per cent on earned incomes exceeding Rs. 1 lakh and 20 per cent to 25 per cent on unearned incomes exceeding Rs. 30,000. Besides, a special surcharge of 10 per cent is levied on income tax and surcharge payable by an assessee. See The Finance Act, 1968.