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A BASIC TAX ON LAND
(The Travancore Experiment)

by

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It has been recognized for a long time now that there is a crying need for reforming the Indian land revenue system and placing it on an intelligible basis. The present system or lack of system is the inevitable result of centuries of anomalous growth. There is neither equity nor uniformity in the existing arrangements. The land tax offends against practically every canon of taxation. The extreme uncertainty of the levy, devoid of any definite basis of assessment, and varying from place to place and time to time has hardly a parallel in another country. It makes the poor peasants the victims of arbitrary power and opens up avenues of corruption. The iniquity of the tax is perhaps its greatest condemnation. It presses heavily on the cultivators of uneconomic holdings driving them into indebtedness and possible alienation of the land itself. The rich landlords, on the other hand, escape lightly with a land tax burden of which is very small relatively to that falling on incomes from other sources. The regressiveness of the tax has weighed heavily on the poor peasantry but little has been done so far to redress the balance of the tax system. Periodic resettlements, apart from the heavy expenditure involved, are a source of great inconvenience to the landholders. From the point view of economy also, elaborate surveys and settlements, the maintenance of records of holdings and the permanent establishment to administer the tax, all involve an enormous expenditure which consumes a considerable portion of the meagre yield from the tax. Thus from every point of view the present land revenue system is defective and results in gross iniquity and waste. It calls for radical reform, but the government has been trying to stop the the rot with palliatives like partial remissions of revenue which do not touch even the fringe of the problem. It was given to Travancore to take a bold lead in this matter and the Travancore experiment, therefore, deserves careful study.

Land Revenue system in Travancore.

The small state of Travancore* with an area of only 7625 square miles presents a multiplicity of land tenures, perhaps more varied than

* It is now integrated with Cochin to form the United State of Travancore and Cochin.

in any other part of India. Baden Powell in the course of his researches on land tenures compared Malabar to "one of those little glens sometimes found by botanists in which a group of plant treasures not to be found over many square miles outside all at once reward his search"* His description applies equally to the adjacent state of Travancore which geographically and culturally forms one unit with Cochin and Malabar. The bulk of the lands fall into two categories; *Jenmon* lands over which the State has no right of taxation and *sirkar* lands which are subject to assessment. Roughly one-third of the state is covered by forests, one-third by *Jenmon* lands and the remaining third alone is *sirkar* land. The *sirkar* lands themselves are of different types. They comprise *pandarapattom* lands subject to full assessment as well as lands held under numerous types of favourable tenures paying only fractions of the full assessment.

The multiplicity of tenures has in its turn complicated the system of assessment by introducing different principles and rates for different types of land. Inequalities in the incidence of the land tax have been further accentuated by local variations which are either accidental or the product of longstanding custom and tradition. For example, wet lands in the South were assessed at more than double the rates applicable to wet-lands in the north. Trees like mango, palmyrah and tamarind which were subject to taxation in the south were exempted in the northern parts. Further, new types of commercial crops like rubber, tea, and cardamom, which are good money-earners, were non-taxable while the coconut, the mango etc., which are generally used for consumption purposes, were taxed.

The last settlement that completed in 1911 was for a period of 30 years. By 1941, however, conditions had changed entirely. The land tax which at one time accounted for one-third of the state revenues had steadily declined in importance and it constituted only 14.7% of the state revenue. The expenditure on collection consumed 25% of the 40 lakhs collected as land revenue. The prevailing rates of taxes had little bearing on the productivity of the lands concerned or the ability to pay off the landholders. The time was ripe for a new survey and settlement but it was estimated to cost Rs. 6 crores. The question was whether such an enormous expenditure was warranted by the yield of the tax. Further, experience had shown that nearly 50% of the land tax was realized every year by coercive steps; an indication that the tax was pressing heavily on the poor ryots. Thus the land revenue system in Travancore suffered from all the defects of the Indian system besides others peculiar to its own.

* *Lands Systems of British India*. Vol. I P. 95.

The Basic Tax

It was under these circumstances that Travancore decided in 1945 to take the bold step of introducing a radical reform in the system by abolishing the old land tax and substituting in its place a basic tax or land coupled with a tax on agricultural incomes. At one stroke it cut the Gordian Knot of a multiplicity of tenures and a welter of rates and schedules.

The basic tax follows the Benthamite principle of uniformity. The fixing of the rate is therefore the crux of the matter. In Travancore the idea behind the tax at the time of its inception appears to have been to serve as a symbol of the allegiance which every land holder owed to the sovereign. While this feudal aspect of the levy has fast receded to the background its fiscal implications are of paramount importance. The uniform rate chosen was truly nominal, being lower than the tax previously imposed on the worst type of barren lands. All sirkar lands irrespective of their 'nature, quality or location' were taxed at the flat rate of 14 as. per acre. Thus the basic tax system, while calling upon all landholders to make a token payment, transfers the burden of the land tax from the down-trodden peasant to the rich land-lord through the machinery of the income-tax on agricultural incomes.

The measure of relief which the basic tax has given to the ryots can be gauged by looking at the rates which they were paying before. In south Travancore first grade wetlands were assessed at as much as Rs. 32/- per acre with correspondingly lower rates for the lower grades. Similarly the tree-tax was a heavy burden on holders of dry lands. The coconut is the most widely cultivated tree in this area. These trees were graded into four types according to yield and the best were taxed at 2 as. 3 ps. There can be upwards of 200 trees in an acre so that the tree tax alone would come to about Rs. 28/- per acre. Lands under rubber, tea and cardamom were taxed at Rs. 2 to Rs. 3, per acre. The present flat rate of 14 as. therefore has given immense relief to all except the holders of barren lands.

It is also important to note that the large majority of the landholders who have thus benefitted have not been assessed to the agricultural income tax. Out of a total of 17,49,607 pattadar in the state 12,35,945 or 76.7% own lands below one acre, and 16,73,400 or 95.6% own lands below 5 acres. Only 8376 persons or 1½% own land above 25 acres. These alone were the potential assesseees to the income-tax. The actual number assessed formed only a small proportion of them. Thus the benefit from the basic tax to the small holders has been substantial while the large holders have been called upon to shoulder a heavier burden than before.

The basic tax has much to commend it. Simplicity and uniformity are its main attractions. It is simple to understand; and simpler still to administer. The uniform flat rate cuts through a labyrinth of difficulties engendered by the former distinctions between wet and dry lands, between favourable and unfavourable tenures, between barren and fertile areas and between cultivated and uncultivated plots. Economy is another great advantage. It makes periodic surveys and resettlements totally unnecessary and it can be worked with a much smaller permanent establishment than the cumbrous system which preceded it. Further the absolute certainty of the levy leaves nothing to chance or to the discretion of the revenue authorities. Thus it satisfies every canon of taxation while the old system satisfied none.

One defect of the tax from the point of view of equity is that the uniform treatment of unequal holdings may appear to tilt the scales against the owners of barren and undeveloped lands. But a progressive tax on agricultural incomes will correct the inequality in the incidence of the base tax. The relatively heavy burden falling on uncultivated lands should be an inducement to bring them under the plough in these days when India cannot afford to leave any land as waste. Perhaps the most pertinent criticism of the basic tax from the fiscal standpoint would be its low yield. In Travancore it has yielded about 20 lakhs, i.e. about 50% of the old land revenue but the deficiency has been more than made up by the tax on agricultural incomes.

The Taxation of Agricultural Incomes

✓ A tax on agricultural income is a necessary concomitant of the basic tax. Its purpose is two fold; firstly, to make good the loss of revenue from the land tax and secondly, to redress the iniquity in the present land tax by readjusting taxation to the ability of the land holders. The land tax is essentially a tax on things and not on persons and therefore the faculty theory of taxation has only a limited application to it. But a basic tax coupled with an agricultural income tax introduces the element of progression and brings the adjustment of taxation to the faculty of the taxpayer within the realm of practicability. ✓

The proposal for the taxation of agricultural incomes has been the subject of controversy for over a quarter of a century. The taxation Enquiry Committee (1924) had gone into the point of view of history, equity, yield and administration. The Committee concluded that there would be ample justification in theory for the proposal if it should prove administratively feasible and practically worthwhile.* These provisos

* The Report of the Indian Taxation Enquiry Committee.—P. 217.

have been the bottlenecks of all plans of taxing agricultural incomes. But recent experience has shown that the administrative difficulties are not insuperable and that from the revenue aspect the tax is certainly worthwhile.

The Travancore Agricultural Income Tax Act of 1943 came into effect three years before the basic tax was introduced. This measure was prompted by the abnormal rise in agricultural incomes during war time and the inequity of allowing such incomes to escape taxation. It was also justified as an anti-inflationary measure. The tax was assessed on the net income from agriculture after allowing for deductions in respect of expenses of cultivation, payment of taxes and rents, interest on capital invested on improvements, insurance against loss or damage to land, crops or cattle etc. The exemption limit was fixed at Rs. 5,000/- and the rates were made progressive on the step system ranging from 3.4 pies in the rupee to 20 pies in the rupee on incomes above one lakh of rupees. The rates were lower than corresponding rates in provinces like Bihar and Assam. In 1943-44 the number of assesseees came to 453 (399 individuals and 54 companies) and the yield was roughly Rs. 17 lakhs. In 1944-45 the number of assesseees increased to 898 (818 individuals and 80 companies) and the yield rose to Rs. 19 lakhs. In the next year the number of assesseees rose to 1713 (1624 individuals and 89 companies), but the yield was only Rs. 17½ lakhs. By 1946 the introduction of the basic tax necessitated a revision of the agricultural income tax. The original Act was repealed and agricultural incomes were made assessable along with the income tax at the same rates. This system has worked satisfactorily during the last three years but with the taking up of the income-tax by the Centre, the United State of Travancore and Cochin will have to devise ways and means of collecting the agricultural income-tax separately.

Six years of experience in the working of this tax has brought to the forefront certain problems connected with its structure and organisation. The first is regarding the manner of assessment. The administrative difficulties of verifying returns are indeed great and the assessment has been in many cases on an arbitrary basis. This has caused much hardship and the expense and delay in the disposal of appeals have increased the taxpayer's burden. But things have been improving from one year to another. While on the one hand, more and more people have been brought under assessment, on the other, the assesseees themselves have gradually got into the habit of keeping accounts. The administrative machinery has improved as the collectors gained knowledge of the condition of the lands, the nature of agricultural costs, the incidence of pests and diseases on the crops and the course of prices. All

these point to the need for a band of trained officers for investigation as well as assessment.

A second question closely related to the first is regarding suitable machinery for the administration of the tax. Hitherto the income-tax department has been administering the tax. But at every stage they require the assistance and co-operation of the land revenue department in verifying the returns in respect of acreages especially when the holdings are scattered, settling questions regarding ownership rights, and above all in determining the relative fertility and yield of different areas. The land revenue department in recent years has gained first-hand knowledge about these matters through working the scheme of procurement of food grains. The conclusion is irresistible that the land revenue department reinforced by trained income-tax officers would be a better agency for the administration of the agricultural income-tax than the regular income-tax department. The compulsion of events may also force the provinces and states to resort to this agency when the income-tax administration is taken up by the Centre.

A third problem is with regard to the rates and the exemption limit. Under the 1943 Act the exemption limit was fixed at Rs. 5,000/ as in Bihar, but other provinces like Assam have adopted Rs. 3,000/- as the limit. The experience in Travancore has shown that a lowering of the limit to a level with the income tax does not involve much hardship, nor does it bring many more assesses to complicate the problem of administration. But conditions may vary in different provinces, and the limit will have to be fixed in relation to local conditions. With regard to the rates, however, there is a strong case for differential treatment of agricultural incomes in lieu of the very unsteady nature of that income depending upon the vagaries of the monsoons, and the sharp movements of prices over which the State has so little control. It is therefore only equitable to fix lower rates on agricultural incomes than those admissible under the general income-tax.

Notwithstanding administrative difficulties, it seems fairly certain that the agricultural income-tax has come to stay and the time factor is bound to cure many of the ills from which it is suffering to-day. At the same time, the increasing yield of the tax in most of the provinces and states which have adopted it should be an encouragement to devote more attention to the downtrodden ryots of uneconomic holdings whose difficulties have received so little notice in the past. It should be possible to reform the present land revenue system with a view to place it on an equitable basis and to avoid the enormous wasteful expenditure on administration. The basic tax experiment in Travancore should serve as a pointer for other States to solve the problem of the land tax.