



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

Vol V
No. 1

ISSN 0019-5014

CONFERENCE
NUMBER

MARCH
1950

INDIAN JOURNAL OF AGRICULTURAL ECONOMICS



INDIAN SOCIETY OF
AGRICULTURAL ECONOMICS,
BOMBAY

TAXATION OF AGRICULTURAL INCOMES IN INDIA

(With special reference to the Madras province)

by

DR. R. N. PODUVAL,

Reader in Economics, University of Madras.

The taxation of agricultural incomes is now becoming an important feature of the provincial tax structure. At present five Provinces—Bihar, Assam, West Bengal, United Provinces and Orissa—and one States Union—United State of Travancore and Cochin—are levying this tax. The question of levying a tax on agricultural income has been under the consideration of the Madras Government for a considerable time. The Congress Ministry in 1938 took up the question, but before any final decisions were reached, the ministry went out of office. A bill for the levy of an agricultural income-tax was published by the Madras Government in 1945 to elicit public opinion. But the Advisers' regime was not prepared to proceed with it. In 1947 the Prakasam Ministry published a bill for the levy of an agricultural income-tax; the fall of the Ministry, however, led to the shelving of the question. The need for the reform of land revenue and the pressing necessity to look for new sources of revenue, now that prohibition has made a deep hole in the provincial finance, has again focussed attention on this levy.

Early attempts at taxing agricultural incomes and later exemption of such incomes from income-tax

The taxation of agricultural income in India has not been new. Incomes from agriculture had been taxed from 1860 to 1865 and again from 1869 to 1873. When in 1878 the income-tax was replaced by a licence tax, a cess on land was imposed. In 1886 the licence tax was merged in the general income-tax; but the existence of the cess led to the exclusion of agricultural incomes from the tax. During 1905-06, cesses on land were levied for purely local purposes and cesses levied for other purposes were abolished. Since then, there has been no charge on the land except the land revenue and the local rate and the continued exemption of agricultural incomes from income-tax has been an anomaly of the Indian tax system.

Case for the levy of the tax

It has sometimes been contended that the imposition of an agricultural income-tax over and above the land revenue would be tantamount to double taxation. This does not stand a moment's scrutiny. In provinces where there is permanent settlement, land revenue is fixed and unalterable. Even in the temporarily settled areas there is the same tendency for land revenue to remain inelastic, since it is commonly fixed for a period of thirty years. It has to be admitted that land revenue notoriously fails to respond to the variations in the income from land. Increased productivity, together with the rise of prices, has increased the money value of agricultural produce and even after making allowance for increased cost of cultivation, there has been an increase in the net income from land from which the state has not been able to get anything. An appropriate share can be obtained by the state only by an agricultural income-tax. Again, it has to be remembered in this connection that land in Western countries is subject to four different taxes, namely, a flat rate on annual or capital value, a death duty, local cesses and a tax on incomes. In India only the land revenue and the cesses are collected.

Moreover, land revenue viewed as a scheme of taxation does not conform to the ability principle in taxation. It is a proportionate levy irrespective of the income derived from land. While this had, on the one hand, pressed hard on the cultivator of uneconomic holdings, it has on the other enabled the large landholder to contribute only a small part of his surplus towards the State fisc. The only means of introducing progression in land revenue is by means of an agricultural income-tax which, while exempting incomes below a certain minimum from the tax, taxes incomes above it at a progressive rate.

The case for the taxation of agricultural incomes on grounds of equity has been expressed by the Indian Taxation Enquiry Committee in terms which cannot be bettered. Equity demands that incomes from land should bear burdens similar to those borne by corresponding incomes from other sources. When a person investing in shares and securities has to pay income-tax, there is no reason why a person investing in land should be exempted. In the words of the Taxation Enquiry Committee, "if a man, having a sum of money to invest, can secure a return of, say, Rs. 5,000 from a speculative venture, Rs. 3,000 from Government paper and Rs. 2,500 from investing in land, there is no reason in theory why the first two investments should be subject to the income-tax and the third free."¹

1. Taxation Enquiry Committee Report, p. 213.

At the present day, on account of the high prices of agricultural produce, the static land tax in the shape of land revenue and the exemption of agricultural incomes from income-tax in many of the provinces, there has been a redistribution of income in favour of the primary producer. The Minister for Civil Supplies in the United Provinces, Mr. Chandrabhan Gupta, has provided some significant figures. He points out that the farmer is now getting Rs. 30 per maund for oil-seeds as against Rs. 4 in 1939; Rs. 13 for pulses as against Rs. 2-4-0 in 1939; Rs. 1-10-0 for sugarcane as against 0-5-0 in 1938; and Rs. 4 to 8 for fodder as against 0-8-0 in 1939. It may also be mentioned that the price level of agricultural products has been considerably above that of manufactured articles from 1943-44 according to the Economic Adviser's Index of Wholesale Prices. There is no denying the fact that the cost of cultivation has increased and the cost of commodities consumed by the agriculturist has risen; but the point is that whereas taxation has been successively increased on the other classes, the agriculturists as a class have not been subjected to any increase in taxation. Comparatively, therefore, the burden of taxation has been higher on the non-agricultural classes. A tax on agricultural incomes will remove this differential treatment.

From the strictly financial point of view, taxation of agricultural incomes will be one of the means of augmenting provincial revenue. On the one hand, by the implementation of the policy of Prohibition, provinces like Madras have been deprived of a substantial slice of revenue. On the other, there has been the pressing need for increased revenues for undertaking schemes of economic development. In this context any addition to provincial revenues, however meagre, by means of an agricultural income-tax ought to be welcomed.

Agricultural Income-tax as levied now by the provinces

It was remarked earlier that five provinces have now imposed the agricultural income-tax. Bihar led the way by levying an agricultural income-tax in 1938. Assam followed suit in 1939 and the other provinces which have since then levied this tax have been West Bengal, Orissa and the United Provinces. There has been no uniformity in the scheme of agricultural income-tax in these provinces.¹ While the exemption limit is Rs. 2,000 in Bengal and Rs. 3,000 in Assam and United Provinces, it is Rs. 3,500 in Bihar (by the Bihar Agricultural Income-tax Act, 1948) and Rs. 5,000 in Orissa. On the first slab of income the rate is 6

1. Vide Appendix.

pies in Orissa, 9 pies in Bihar, West Bengal and Assam and 1 anna in the United Provinces. The maximum rate is 0-2-6 in Assam and Bengal, 0-3-0 in Orissa, 0-4-0 in Bihar and 0-5-0 in the United Provinces. The number of slabs is greater in Orissa than in the other Provinces. The rate of taxation is generally higher in the United Provinces for all slabs of incomes. Whereas the highest rate of taxation is leviable on incomes above Rs. 15,000 in Assam, Bihar and the United Provinces, it is leviable on incomes above Rs. 20,000 only in Bengal and Rs. 30,000 in Orissa. Unlike other provinces, United Provinces levies also a supertax on incomes of Rs. 30,000 and above on a graduated scale at rates varying from 1½ anna to 5½ annas in the rupee.

The yield from the agricultural income-tax has been very modest. In Assam during the war years, the yield was high, reaching Rs. 59.04 lakhs in 1944-45, on account of the large profits made by Tea companies. Since the end of the war, the yield has been falling. The fall in yield has been also due partly to the separation of Sylhet from Assam. The yield amounted to Rs. 35 lakhs in 1947-48. In Bihar the estimated receipts from the tax in 1949-50 is Rs. 30 lakhs, in Bengal it fetched Rs. 50 lakhs in 1946-47 and in Orissa, the estimated yield for 1948-49 was Rs. 8 lakhs. In the United Provinces the yield is estimated at Rs. 70 lakhs. The total yield for the five provinces put together amounts to Rs. 1.93 crores, which may be compared with the estimate of Rs. 5 crores for the whole of British India made by Sir Walter Layton for the Indian Statutory Commission. As the yield of the tax is dependent upon the number of large estates, with the abolition of the zamindari in the United Provinces and Bihar the yield is bound to go down.

The Madras Agricultural Income-tax Bill, 1947

The object of the Government in publishing the Bill was stated thus: "Government have found it necessary to impose a tax on agricultural income, not only because it is equitable to do so, but also to find additional sources of revenue to meet the loss of revenue on account of the introduction of prohibition and the expenditure on new schemes undertaken for the benefit of the public."¹ It will be seen that the measure does not contemplate a change in the existing system of land revenue. Its primary object seems to have been to replenish the state fisc for the loss of revenue arising from prohibition. The Revenue Minister, however, sought to justify the bill also on the ground that the land assessment bore very lightly upon the agriculturists and as evidence of this, pointed out the very low ratio of land revenue to the total rental income

1. Statement of objects and reasons accompanying the Bill.

of the land. Taking the district of Vizagapatam he observed, "for the raising of double crop the rent is Rs. 100 per acre and for single crop Rs. 68-8-0. The rates of assessment prevailing are: wet rate Rs. 2 to Rs. 9-8-0 and dry rates Rs. 0-7-0 to Rs. 3-9-0. However heavy the incidence of the land tax was till 1941 and 1942, today when prices have doubled and trebled, the land tax does not weigh so heavily".* The rent paid is the surplus above the cost of cultivation and hence it is the net income from land. Since land revenue as revealed by the above figures forms only small part of this surplus, the conclusion is obvious that the state is deprived of an appropriate share of the higher net income from land. The proper way of getting that share is by the levy of an agricultural income-tax.

The provisions of the Bill show that the Government have been anxious not to burden the small landholders. In the first place, the exemption limit is fixed at Rs. 5,000. Secondly, in calculating the total agricultural income, cultivation expenses, amounts paid as land revenue or rent to a superior land lord and interest paid on mortgage, etc. are to be excluded. There can, therefore, be little scope for complaint that the terms of the Bill are harsh. Agricultural income, as defined in the Bill, brings under its purview rent-receivers, owner-cultivators and tenant-farmers. The tax is to be levied on the total agricultural income of the previous year of every individual, Hindu undivided family, *Marumakkattayam tarward* or *tavazhi Aliyasantana* family or branch, firm, company, association of persons and institutions capable of holding property. The Hindu undivided family being regarded as an individual, the Bill may lead to the subdivision of property by means of partition. In order to discourage this the United Province Bill taxes the Hindu undivided family at a lower rate.

The rates of taxation vary from 9 pies in the rupee on the first slab of income to a maximum of four annas on the last. The progression gets steeper on the later series of incomes.¹ Whereas in Assam, Bihar and United Province, the maximum rate is payable on incomes above Rs. 15,000, in Madras the maximum rate is applicable only on incomes above Rs. 50,000. It is stipulated that the amount of tax paid shall not exceed one half of the amount by which the total agricultural income exceeds Rs. 5,000.

* Madras Legislative Assembly Debates, Vol. IV (Nos. 1-14) 1947, P. 593.

The figures for other districts given by the Hon'ble Minister are also pertinent. The income per acre for double crop lands, he pointed out, was Rs. 105-3-0 in Chingleput, Rs. 114-10-0 in Tanjore, Rs. 196 in Tinnevely, Rs. 120 in North Arcot, Rs. 209 in Coimbatore, and Rs. 171 in Trichinopoly. For plantations per acre the gross income comes to Rs. 600 at least; for sugarcane nearly Rs. 1,000.

1. Vide Appendix.

In the statement of objects and reasons attached to the Bill, the government contemplate that the tax would serve to "meet the loss of revenue on account of prohibition and the expenditure on several new schemes undertaken for the benefit of the public." This, however, will only remain as a pious aspiration. The loss of revenue from province-wide prohibition is to the tune of Rs. 16 crores. No accurate estimate of the yield of the agricultural income-tax is available. Introducing the Budget for 1947-48, the then Premier, Mr. Prakasam, took credit for an additional revenue of Rs. 1 crore from the proposed levy. The Taxation Enquiry Committee, on the assumption that the tax is imposed on incomes above Rs. 2,000 came to the conclusion that the number of persons paying land revenue of Rs. 500 and upwards would be measure of the number of persons likely to be liable to assessment. According to the Board of Revenue statement showing the number of pattas of various values held in the several districts of the Madras Presidency during fasli 1355 (1945-46), the number of single pattas paying above Rs. 500 is 3,658 and the number of joint pattas 1,273.¹ The Taxation Enquiry Committee further assumed that the return from land was four times the land revenue. In the context of the present high level of prices and the statement made by the Revenue Minister on the floor of the Legislative Assembly regarding the rent from land, this figure will have to be more than doubled. The land revenue assessment on single and joint pattas paying above Rs. 500 in 1945-46 was Rs. 36.6 lakhs. Multiplying this figure by eight we get Rs. 292.8 lakhs as the income from land in ryotwari areas. Even if we make the unreal assumption that the maximum rate is levied on this income, the yield will only be Rs. 73.2 lakhs. With the conversion of the zamindari tracts into ryotwari, the number of small holders will increase and those claiming exemption from the tax will be greater. In view of this, the estimate given by Mr. Prakasam in introducing the budget for 1947-48 that the levy of the agricultural income-tax would bring in an additional revenue of Rs. 1 crore may be said to err on the side of optimism.

But the levy is to be viewed not solely from the point of view of its yield. It is as a method of correcting the regressiveness of the land revenue that the tax ought to be justified. With the conversion of zamindari estates into ryotwari, government may well take up the larger question of land revenue reform. Though land revenue has ceased to be the mainstay of provincial finance, provincial governments cannot hope to abolish it as such. In Madras it is still yielding Rs. 5.3 crores. The reform of land revenue must be in the direction of fixing a basic

1. Report on the Settlement of Land Revenue of the Districts in Madras Province for fasli 1355 (1945-46), pp. 51-52.

and moderate rate of assessment combined with an income-tax on agricultural incomes. The Taxation Enquiry Committee has pointed out as early as in 1925 that land revenue ought to be standardised at a low rate, namely 25 per cent of the annual value, and that it should be supplemented by an agricultural income-tax.

Need for absorbing agricultural income-tax into the general income-tax.

The rational way of treating agricultural income is to regard it as any other source of income, which is subject to income-tax. In other words, an assessee's whole income, whether agricultural or non-agricultural has to be taken into account for income-tax purposes. It is the practice which is followed in other countries. In Great Britain, for example, schedule B of the income-tax comprises profits from the occupation of lands (mainly farmers' profits) and Schedule A comprises income from the ownership of lands. If the whole income of a person, whether agricultural or non-agricultural, is to be brought under a single machinery of assessment in India, the central machinery of income-tax is to be entrusted with the work. It means that the Provincial Governments will have to give up their right of assessment of agricultural incomes. At present there is no uniformity in the levy of agricultural income-tax in the provinces. Only five provinces are levying this tax and even among them there is disparity in the rates and methods of assessment. The solution would be for each province to levy a basic land tax at a low rate and allow the Centre to tax all categories of income in return for an agreed share of the proceeds. This absorption of agricultural incomes into the general income-tax has already been done in the United State of Travancore and Cochin. It has the advantage of not duplicating the machinery of assessment as well subjecting all categories of income to a single and uniform levy.

APPENDIX

Scale of Taxation in Assam, Bengal, Orissa, Bihar and United Provinces

Table I

	Assam	Bengal	Bihar	U.P.
	Nil	Nil	Nil.	Nil
(a) On the first Rs. 1,500 of total income ..	0 0 0	0 0 9	0 0 9	0 1 0
(b) On the next Rs. 3,500 of total income ..	0 1 3	0 1 0	0 1 6	0 2 0
(c) On the next Rs. 5,000 of total income ..	0 2 0	0 1 6	0 2 6	0 3 6
(d) On the next Rs. 5,000 of total income ..	0 2 6	0 2 0	} 0 4 0	} 0 5 0
(e) On the next Rs. 5,000 of total income ..	0 2 6	0 2 0		
(f) On the balance of total income	6 2 6	0 2 6		

(In Assam, Bihar and United Provinces the maximum rate of tax is payable on the balance of income above Rs. 15,000. In Bengal it is payable only on the balance of income above Rs. 20,000).

Table II

Orissa Agricultural Income-tax Act, 1947.

						Rate Rs. as. ps.
(a)	On the first Rs. 3,000	of	total	agricultural	income	nil
(b)	On the next Rs. 2,000	"	"	"	"	0 0 6
(c)	On the next Rs. 5,000	"	"	"	"	0 1 0
(d)	On the next Rs. 5,000	"	"	"	"	0 1 6
(e)	On the next Rs. 5,000	"	"	"	"	0 2 0
(f)	On the next Rs. 10,000	"	"	"	"	0 2 6
(g)	On the balance	"	"	"	"	0 3 0

Table III

Madras Agricultural Income-tax Bill, 1947

						Rate nil
(a)	On the first Rs. 1,500	of	total	agricultural	income	nil
(b)	on the next Rs. 3,500	"	"	"	"	0 0 9
(c)	On the next Rs. 5,000	"	"	"	"	0 1 0
(d)	On the next Rs. 5,000	"	"	"	"	0 1 6
(e)	On the next Rs. 5,000	"	"	"	"	0 2 0
(f)	On the next Rs. 30,000	"	"	"	"	6 3 0
(g)	On the balance	"	"	"	"	0 4 0

TAXES ON AGRICULTURAL INCOMES—SOME REFLECTIONS

by

M. K. MUNISWAMI,

Annamalai University.

A tax on agricultural incomes, if levied for combating inflation, may be innocuous if we adopt the low rate structure prevalent in Bengal and Bihar today. The yield of this levy has proved to be disappointing for the three years from 1939-40. In Assam, the yield was only Rs. 27 lakhs in 1943-44. But if in provinces like Madras and Bombay, such a tax is patterned on the rate structure prevalent in Travancore and the United Provinces, there is no reason why the comparatively modest estimate made long ago by the Simon Commission as the likely yield of this tax—Rs. 4 crores—should not be realised.

The introduction of this tax is called for only to impart equity to our tax system; for our land revenue is an anachronistic survival of a proportional kind of tax. It has been frequently stressed that the loss resulting from the disappearance of the tax on uneconomic holdings can be made good by a graduated tax on higher agricultural incomes. Today, it is a fact that the percentage borne by total land revenue to the rental