



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

Table II

Orissa Agricultural Income-tax Act, 1947.

						Rate Rs. as. ps. nil
(a)	On the first Rs. 3,000	of	total	agricultural	income	
(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 Rs. as. ps. nil
(a)	On the first Rs. 1,500	of	total	agricultural	income	
(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

value of the land has become smaller in many parts of the country. The pressure of surplus purchasing power in rural areas, not yet mopped up by any system of compulsory subscription to government loans, cries out for the levy of agriculture-income tax. We need hardly refer to the financial condition of provinces which have introduced either total or partial prohibition. If we study the agricultural income-tax systems in Bihar, Bengal and Assam, we would immediately notice that their structure is by no means so progressive as the structure of the income-tax on non-agricultural incomes.

The exemption limit of Rs. 5,000 is obviously high. Up to Rs. 20,000, the rise is slow. It is one pie in the rupee for each advance of Rs. 5,000. The maximum rate is only 30 pies in the rupee where the incomes exceed 15 lakhs of rupees. Similarly in Assam, while lower incomes are taxed very heavily, higher incomes are taxed very lightly. If the basic rates in the upper ranges are not adopted, there is no justification for adopting the rates in the lower ranges, which are correlated to those high rates. The great defect of the system of agricultural income tax in Assam and Bengal is that gradation stops too early. This leads to heart-burning among agriculturists enjoying comparatively smaller incomes as the richer class of agriculturists are let off lightly.

The question of exemption limit for this tax has always been a matter of controversy. Some publicists contended sometime back that in as much as land is already subject to land revenue and cess, the exemption limit should be placed very high, say Rs. 25,000. If we accept this contention, there would be very few assesseees left over. It is true that the cost of living in rural parts is not so high as in urban parts, but it must be remembered that our small agriculturists have practically no savings to fall back upon and that the prices of agriculturists' requisites have gone up appreciably. The exemption limit may, therefore, be well placed at Rs. 3,000. But, perhaps, in food deficit provinces which are industrially advanced, like Bombay, there might be discrimination in favour of agricultural incomes i.e. the exemption limit may be placed at Rs. 2,500 or Rs. 2,000. Any one keen on modernisation of our farming practices or increased output per acre, would have to plead for gradualness in the matter of stepping up rates of taxation, specially on medium incomes. Mr. Holdsworth, in his evidence before the Indian Taxation Enquiry Committee long ago, pointed out that ryots own land in several villages while government accounts are of one village only. He added that it would be necessary to examine the accounts of several villages to find out the total agricultural income of a single assessee. Careful estimates may also have to be made, he has argued, of varying

cultivation expenses in different villages. But with improvement of our tax machinery, this cannot be considered a big obstacle.

Our machinery for assessing agricultural incomes must be instructed to exempt property held for the furtherance of agriculture research. Properties held for agricultural research purposes have been made exempt in the U.P. Agricultural Income-tax. Taking the case of cardamom for instance, the United Planters' Association of South India has pleaded for losses to be taken into consideration in the computation of the tax.

As under our Constitution, agricultural income taxes are levied by provincial governments, the need for active and constant collaboration between the central and provincial governments need hardly be explained at length. In the absence of such co-operative vigilance on the part of the two governments, businessmen with agricultural incomes may be taxed at the same rate as businessmen with no such incomes to their credit. We may admit that a high rate on larger agricultural incomes may accelerate partition of joint family properties. In reality, however, most of the big agricultural incomes are earned by plantation companies as in Assam. Further, division of big agricultural properties need not be frowned upon; for even in England, the process of breaking up of big estates has been going on during the last forty years. The enormous success of sheep and dairy industry in Australia and New Zealand should not be lost on us. All the world over, a comparatively small size of farming unit has been no handicap, provided short term credit facilities are available. It does not matter at all if the revenue yield of this tax turns out to be moderate. But from the outset the rates should be carefully constructed. It should be emphasized that while the rates on medium agricultural incomes are similar to the rates on non-agricultural incomes, the rates on larger agricultural incomes compare very favourably with the Central Income-tax rates on non-agricultural incomes.

It has been estimated that the percentage of income paid by many of income and super-taxes on incomes exceeding Rs. 50,000, is as follows:

Rs.	per cent
50,000	34.8 „ „
70,000	42.9 „ „
1,00,000	49.0 „ „
2,00,000	60.0 „ „
3,00,000	66.6 „ „
5,00,000	73.7 „ „
10,00,000	84.5 „ „
20,00,000	89.9 „ „
30,00,000	97.7 „ „

These rates, as compared to the rates of agricultural income-tax in the provinces would show that agricultural income tax is treated too leniently; even in the U.P. the maximum does not exceed 33-1|3 per cent of the total net income.

This state of affairs is, in part, due to the continuing political influence of the landlord class in our community, and in part this may also be ascribed to the fact that agricultural incomes are in their nature more precarious than non-agricultural and so call for the creation of reserves on which landlords can fall back upon during lean years. Whether we should have two sets of exemption minima, or higher exemption limit similar to that under Indian Income-tax in the ryotwari districts and a lower one in the permanently settled districts, which in the months to come will be abolished and converted into ryotwari, is a matter of detail that may be explored by the land revenue establishments as early as possible. The recent proposal of the Madras government to secure advance payments of land revenue under the present circumstances is justifiable, though it can never be considered to be a substitute for progressive agricultural income-taxes.

TAXATION OF LAND AND AGRICULTURAL INCOMES

(With Special reference to Madras)

by

N. N. NATARAJAN, M.A.,

Vivekananda College, Madras.

The land tax has long dominated the Indian financial system and the right of the government to land revenue, as to any other tax, is incontrovertible. The old theory that the land revenue in India is to be regarded as a rent and not a tax is now abandoned. The Indian Taxation Enquiry Committee (1926) treated India's land revenue frankly as a tax and so do most modern writers. Having been the mainstay of provincial finance for many years, it manifests regressive features. The land revenue system is the product of the haphazard and time-serving arrangements made by the British rulers. The reform of the land revenue has been in the air for quite a long time now. There is an urgent need for the complete rehabilitation of Indian agriculture, in view of the persistence of the serious food crisis for over six years, the dependence