TAXATION OF AGRICULTURAL LAND AND INCOME
(WITH SPECIAL REFERENCE TO MADRAS PROVINCE)

by

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Some considerations

'Taxation of agricultural land and taxation of agricultural income' may mean one and the same thing, or may imply even something different, though not entirely different. Taxation of agricultural incomes is, in fact, one of the advanced methods of taxing agricultural land. If 'taxation of land' is taken as to mean the system of basing government demand on land on mere physical conditions such as the area of land, (as against the yield,) or the sowing capacity or ploughing capacity of a ryot\(^1\) or in accordance with the privileges and revenue concessions accorded by government on certain individuals as the Zamindars, the Inamdars, the jagirdars etc., it is indeed a crude system, for it does not take into account important factors like the productivity of land, costs of production and its situational advantage. The practice of taking a share in the produce of land (varying from 1/6th to 1/4th in the Hindu and from 1/3rd to 1/4th in the Moghul administrations) is still widely in vogue as a method of rent collection in the Zamindaris and other estates. This may appear to be primitive to the administrators and economists in most of the countries, with the exception of Soviet Russia. The system of land revenue assessment on the basis of 'net produce' as in the provinces of Madras and Bombay is apparently superior to that on the basis of the 'gross produce' of land. But as Prof. Seligman remarks, taxation of the 'net product' looks at the produce of the source of industry rather than the recipient of the earnings; it is a tax on things, rather than on persons; and it is abstracted from the personal situation of the tax payer. The logical conclusion thus finally emerges that taxation of incomes is preferable to any other known methods of taxing agricultural lands. The measures for abolition of zamindaris and tenancy legislation for fixing maximum size of holdings in some provinces will no doubt tend to diminish the number of the taxable class and with it the amount of taxable reserve obtainable to the public exchequer. That a clear distinction should be made between earned and unearned incomes,

1. See. Agrarian Problems of Madras Province—by V. V. Sayana, Madras, 1949, Ch. V.
TAXATION OF AGRICULTURAL LAND AND INCOME

that agriculture is the chief occupation of the bulk of the people in the country, that conditions of agricultural production and income, the amenities and other social services given by the state to the peasantry vary widely from those in other occupations like industry, trade, commerce or professions—all these should receive from the state due attention in the determination of the rates of taxation on different slabs of agricultural incomes, the pace of progression and tax exemptions. The need to have separate methods of dealing with the urban and rural populations,—the latter always receiving greater consideration in the fiscal and the general economic policy of a popular government—cannot be overemphasised in a country like India, where it is necessary to reduce some of the major disparities in the status and condition of life between rural and urban areas, agriculture and other occupations.

Defects of the present system and need for reform

The main features of the existing land revenue assessment in the Madras province may be briefly outlined. The unit of assessment is the field or the survey number; the basis of assessment is the net produce and the period of settlement is 30 years. Extra tax known as the irrigation cess apart from local cesses, is charged and remission of land revenue for complete or partial loss of produce is provided for. Under the existing laws in the province, the landholder is at full liberty to do whatever he likes with his holding (for instance, he may cultivate his holding or he may not cultivate it and may keep it as wasteland if he so chooses; or he may lease it to another person on such terms and conditions he is able to extract; or he may sell, mortgage, bequeath, bestow as a gift or relinquish it to government), he shall not be questioned on that account by government, which will guarantee him his holding so long as he pays regularly the government kist and other cesses on his patta land to the revenue authorities concerned.

Without entering into a detailed examination of the land revenue system and the method of appraisal of government demand, some of the major defects of the prevailing mode of assessment of land revenue may be summed up as follows:—As already pointed out, the system in the first place, does not stand the test of the principles and practices of modern taxation especially the principles of progression, graduation, differentiation and exemption, let alone the old canons of Adam Smith viz., certainty, convenience, economy and ability. Hence it constitutes an anomaly among the taxes of the 20th century. Secondly, the system is

1. This paper is based on the material contained in Ch. IV, The Agrarian Problems of Madras Province, Opp. Cit.
inelastic, as the assessment made at the revision settlement cannot be altered for a period of thirty years. Moreover, the real burden of land assessment changes with the changes in the prices of agricultural produce and no provision exists in the system itself to effect needed adjustments according to fluctuations in prices. Even after the abolition of the zamindaris and other favoured tenurial patterns in the provinces, the system may be found still unequal in its incidence in different parts of the province, as between different talukas of a district or, in some cases, among different groups within the same taluka. Fourthly, in addition to the fact that the method of appraisal of the rates of assessment is cumbersome and complicated, no differentiation is made in the rates of assessment according to crops grown and their money values to the agriculturist, nor between the earned incomes of the cultivating owners and the unearned incomes of the lessors. Above all a host of landholders with undersized holdings are not only unexempted from taxation but have to pay the same rates which are payable even by the biggest landowner in the province on a given category of land. All these, surely, call for immediate reform.

The lines of reform—Imposition of Agricultural Income-tax

If the prevailing system of taxation of land is unacceptable and if the Punjab Sliding Scale system tried in the districts of Montgomery and Lyallpur during the years 1930-32 is also ruled out, we are left with the only alternative of introduction of agricultural income-tax. Although land revenue has been till recently a main if not an overwhelming source of budgetary revenue, owing to the absence of any tax on agricultural income, there has been no substantial rise in the yield under ‘land revenue’ as compared with the increase in the total revenues of the provinces. The figures given below indicate the progress of land revenue and total revenue (in lakhs of rupees) for some provinces for the years 1938-39 and 1944-45:

<table>
<thead>
<tr>
<th></th>
<th>1938-39</th>
<th>1944-45</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Land Revenue</td>
<td>Total Revenue</td>
</tr>
<tr>
<td>Madras</td>
<td>5,13</td>
<td>12,44</td>
</tr>
<tr>
<td>Bengal</td>
<td>3,24</td>
<td>11,00</td>
</tr>
<tr>
<td>Punjab</td>
<td>2,64</td>
<td>5,02</td>
</tr>
<tr>
<td>U.P.</td>
<td>5,82</td>
<td>9,70</td>
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</tbody>
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So far Agricultural Income-tax has been imposed only in Assam, Bihar, West Bengal, Orissa, Travancore, Cochin, the U.P. and the Eastern-merged States. It does not exist in the Provinces of Madras, Bombay, the C.P. and Berar and East Punjab, though in the first two provinces the
proposal seems to be still under consideration. It may be interesting to note that imposition of agricultural income tax and death duty were some of the anti-inflationary measures recommended by the Expert Committee of Economists to the Government of India more than a year ago, while the recent Krishnamachar Committee recommended the imposition of an income-tax in all States and Unions from the date on which federal financial integration becomes effective.

In Madras, the measure was originally proposed to be introduced during 1945-46 on 1944-45 incomes. According to the estimates made, the proposed Bill was expected to yield about Rs. 40 lakhs in the province under the proposed rates of levy. In Bihar the number of slabs are many and the tax operates lightly on all the ranges of income when compared with the rates of taxation in other provinces. The maximum rate of 0-2-6 in a rupee on individual incomes is applicable only to incomes over Rs. 15 lakhs in Bihar, whereas the same rate is charged on incomes over Rs. 25,000 in Assam, over Rs. 22,000 in West Bengal, while the maximum of 0-5-0 in a rupee is charged over Rs. 15,000/- in U.P. The U.P. measure apparently is steep in its rates of taxation, while the maximum rate of 0-5-0 in a rupee payable is double or more than double the maximum rates in other provinces. For example, an assessee whose net agricultural income is Rs. 1 lakh pays only Rs. 9,375 in Bihar, whereas in U.P. he will have to pay as much as Rs. 33,812-8-0. The assesses with annual incomes of over Rs. 25,000 are also subjected to a further levy of a super-tax in case of Bihar and U.P. It will be better if all the provinces and states adopt a co-ordinated policy in the determination of rates of taxation and levels of exemption instead of each unit going its own way. An investigation into incomes and savings of different classes of agriculturists in each of the provinces will throw light on whether the composition of various slabs, the rates of taxation and exemption limits are scientifically justifiable, or a different order of these would be more desirable, as also of the reaction of the tax on savings and net capital formation. A periodical readjustment in respect of these is necessary, if wide variations in prices, production costs and opportunities of income occur. The case for exemption or taxation at a low rate of incomes due to improvements made deserves careful consideration.

It may be noted in this connection that not all agricultural incomes or the individuals or institutions that are assessable to taxation are similar in kind, nor equally capable of bearing the tax burden. Large plantations of coffee, tea, rubber, cardamom and even tobacco are of a different category than land bearing cereal crops or oilseeds. Those that raise them should be treated as industrialists, for whom tea, coffee, tobacco or
other crops, though they are primarily agricultural produce, when further processed, fetch an industrial and business income. In fact, over 90% of the revenue derived by way of taxation of agricultural incomes in Assam is derived from tea planters.

If agricultural income tax is utilised as an instrument of the general economic policy, the need arises for differentiation in taxation in favour of the incomes derived by owner-cultivators and tenants vis-a-vis the unearned incomes derived by lessors and again between co-operative, collectivist or joint farming societies, and commercial enterprises. Indeed, by reducing taxation aimed at encouraging the development of a particular class of ryots or branches of farming, the state can direct agricultural activities and thus influence the patterns of landholding and farm operations. It is unfortunate that wherever Agricultural Income tax is levied, the tax is collected along with the existing rates of land revenue assessment with the consequence that some taxable classes are overburdened on the one hand, while on the other no relief is provided for the small and petty landholders. Reduction of the rates of land revenue assessment to a moderate level is an essential preliminary to the levy of agricultural income tax, even if it involves some loss of revenue which otherwise might accrue to government.

Conclusion

The economic and social reforms which are being launched in the country necessitate elasticity of public revenue and expenditure. The prevalent system of taxation of land in the province is found obsolete and has to be so remodelled as to better suit to the new and altered setting. There may be some special difficulties in collection, compilation and interpretation of data about incomes from land, costs of cultivation, costs of living under various income groups needed to estimate the number of assesseees in different regions of the province, not to speak of the practical difficulties in implementing the suggestions made. "But the difficulties are none too insurmountable." In a democratic country the usefulness of any fiscal measure has to be ultimately viewed from the angle of social welfare. In other words, in a democracy any tax or reform is justifiable, if it can be shown that in its levying or enforcement it promotes accepted social objectives more effectively and at less sacrifice of other social values than alternate ways of accomplishing like results.