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TAXATION OF LAND AND AGRICULTURAL INCOMES

by

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The system of taxation of land and agricultural income should depend on the land policy of the government. If the policy is to promote joint-farming; and restrict individual farming to the bare minimum necessary for economic cultivation, taxation policy will have to be different from the one which is followed in countries of small holders. If the excess of land of big holders are expropriated and added either to small holdings or collective farms, there will be little agricultural income to tax. Land policies of the provincial governments in India present the following features:—

(1) The area of landholding for owner-cultivators will not be reduced.

(2) Family farms will be promoted.

We need not expect, therefore, in the near future any radical alteration in the structure of holdings.

Lands are held, according to area, by five different categories of holders:

1. The uneconomic holder, whose major income is from non-agricultural sources and who ordinarily lets out his land,
2. The uneconomic holder who cultivates his holding,
3. The solvent holder,
4. The medium holder, who is more than solvent, and
5. The big holder, who is a non-cultivator in respect of most of his lands.

No. 1 and No. 5 are in the same category. There is no case for any relief in land revenue in their case. No. 2 who are willing to consolidate their fragments and pool their lands for joint-farming may be given an inducement by remission of the land tax. No. 2 who do not agree to joint-farming may be penalised by being taxed at the rate of rupee one in addition to land revenue for each fragment (not according to area of the individual holder but the number of fragments). This is a recommendation of the Punjab Land Revenue Committee, on the ground that it is a small price for the landowner to pay 'for his privileged position and for the record that is maintained for his rights.'

As regards Nos. 3, 4 and 5, the existing land revenue cannot be considered a burden. But it presses unequally. Where land revenue has been fixed in a district on the basis of low average prices during the preceding 20 years, it is lower and *vice versa*. Secondly, while it presses heavily on cultivators who raise non-commercial crops, who have to spend more on cultivation expenses, and who have to struggle hard against nature and periodical failure of crops, it is light on certain landholders (amounting to a rupee or two per acre) who make more than Rs. 500 per acre in a year from vegetables and tobacco lands and fruit gardens. On the principle that increased income due to one's own effort should not be taxed, incomes from lands under wells are not taken into consideration (except in Malabar and S. Kanara in the Madras province) in fixing the land tax. But this exemption is unjustifiable in the case of big landholders who have more than minimum competence for living from their lands. The present land revenue may be therefore replaced by an agricultural income-tax and a small levy on land on an acreage basis.

The introduction of a tax on agricultural income with an exemption limit is the soundest method for giving relief to the small holder. When prices fall, agriculture cannot reduce acreage and yield so as to restrict supply with a view to stabilise prices, as industry can. Considering the fluctuating character of agricultural income owing to conditions of weather and pests, the existence of sub-marginal areas, variations in operating costs and cost of living, the difficulty in locking-out family members and live-stock in years of low yield or failure of crops, income-tax which is flexible would be more in keeping with this unstable character of farm income. It adjusts itself to changes in farm income promptly and proportionately.

Those, whose net income is below Rs. 2,000, may be exempted from land revenue and others may pay graded agricultural income-tax according to slabs of income. But this exemption limit should apply only to agriculturists who cultivate personally, or who are mainly engaged in the management of cultivation. It should not apply to the rentier class. Otherwise it is a wasted relief. Secondly, it should be made conditional on carrying out improvements recommended by bodies working under the state. Japan rapidly popularised better seeds in Taiwan and Chosen by granting concessions in taxes.

The question also should be considered whether income-tax cannot be further raised in the case of rentiers whose income is above Rs. 2,000. This provision may be temporary for those provinces, where renting is not penalised. Such provisions exist in other countries, such as Australia. Absentee landholders in Australia have to pay an additional

20 per cent over the usual taxes. Also the Punjab Land Revenue Committee has proposed a special surcharge on bigger landowners, with a view to make up the loss incurred by a reduction in land revenue for the small holder.

The agricultural income-tax should be collected by the Government of India and transferred to the provinces deducting the charges of collection.

A tax akin to agricultural income-tax is the agricultural profits tax, which was prevalent in France and Italy. This is similar to land revenue in India which is a tax on the net income from land, but without taking into account any interest for the capital value of the land and deducting it as a charge. This cannot, however, be treated as an income-tax, as it does not exempt the small owner, nor provide for a graded tax on the slab system.

When once agricultural income-tax is introduced and a large number of petty land-holders whose net income is below Rs. 2,000, are exempted from payment of land revenue, should or should not there be a tax on land, so long as proprietary rights in land are recognised and maintained by the state through its departments of Registration and Land Records? And if so, what should be the principle of levy? Its collection should not entail a large staff for its assessment. It should be a very small levy, easily payable by even owners of marginal lands. It need not vary within the class of soils etc., but may be levied on the area basis. A tax of this character is levied in the Travancore State. This mode of levy need not be permanent for all time, but only during the transition period when loss in land revenue has to be made up. It may thereafter become a local rate.

Property taxes are based on capital value of the land. Capital values are determined by a reference to sale-value or annual rental value. These taxes, which were the main source of income of the States in the U.S.A., have dwindled from 17.2 per cent. of total taxes in 1932 to 4.5 per cent in 1944, while the general sales tax, tobacco tax and taxes on net incomes have increased.

Property tax on land is in the nature of a fixed cost for the cultivator. Regardless of production or price he must pay it. No provincial government should rely on it as a just source of revenue from land.

We believe that the future structure of agricultural land economy sooner or later will be more or less collective or co-operative. The collective farm (cultivated either as individual holdings or a single unit) will then have to pay the income tax out of profits.

Property tax is now levied in India in municipal towns on non-agricultural lands. Considering the difficulties of land valuation, it is better not to have any property tax. Agricultural income-tax will exclude 80 per cent. of landowners from its range. Even if the rest disappear as a result of the policy of fixing a ceiling for ownership of land, local rates can still be levied on agricultural net income. Small incomes such as wages and salaries have to pay a local rate levied by Local Boards. Similarly, small individual holdings too may be subjected to a tax on income, commencing from a net income of Rs. 750. This indeed would be a good source of income for Local Boards. In the case of lands paying income-tax on incomes of Rs. 2,000 and above, a surcharge may be levied as a local rate.

By these proposals net incomes from land will become the basis for land tax. They will have to be calculated for every short period of three to five years by the staff trained in assessing profits of agriculture. The income-tax staff of the Government of India might fix the tax when they assess non-agricultural incomes. The local staff of the provincial government employed in the Department of Agriculture or Co-operation or Village Panchayats might do the work of assessment in connection with fixing the *local rate* of land-tax for Local Bodies.

If during the interval of periodical assessment prices rise or fall, provision may be made for the proportionate rise or reduction in the income-tax. Similarly there should be provision for suspension and remission.

Tax Exemptions.

A number of tax-exemptions have been generally made in respect of property tax in the U.S.A. They have partly been in vogue in India too. Properties of governments, religious institutions, non-profit organisations, and homesteads are exempted in the U.S.A. Homesteads naturally get exempt under these proposals, in as much as landholdings below a certain income are excluded. But there is no argument for excluding religious institutions and cooperative societies from paying any income-tax on their net incomes from lands.

Calculation of net income in agriculture—Farmers' free labour

It is in the deductions that have to be made for cultivation expenses that any income-tax staff will get the greatest amount of headache. Cost accounting in agriculture raises various complications, small-scale rural economy adds to such complications. Its very simplicity eludes detailed classification of expenses as is done in a big industrial concern. Where

the owner himself cultivates, the manual labour should be calculated in terms of the number of unit days of work. What is the standard remuneration to be paid for manual labour or for supervision? What addition or deduction should be made to this wage or remuneration for exceptional and below-average capacity? The calculation of wages paid to permanent and casual labour for different crops and different kinds of work and in periods of scarcity for and slump in, the demand for labour will have to be correctly estimated. The question of wages in kind and perquisites paid will have to be computed and calculated. Work done for the home should be separated from that done in the fields for assessing the amount of wages. The value of free services rendered for the master will have to be estimated.

Repairs and Maintenance. Other items of cost that enter into the cultivation expenses relate to repairs and maintenance of equipment and buildings. The family of the cultivator sometimes contributes free labour to them. This also needs to be estimated.

Capital Assets

Again capital assets have to be valued for fixing the annual charge by way of depreciation. These are of various types, as putting a mud wall of a foot or two round a field to conserve rain water, wells, embankments, fencing, reclaiming a fallowland, deepening a well, planting of fruit trees, etc. Here too the labour of the cultivator and his family will need assessment and computation into cash. Again, the cultivator helps in various ways in the putting up of sheds and buildings for storage, for livestock, for his own residence, etc. This has to be valued. Part of the income from land as straw will go into these buildings. Are we to show this amount of straw as income and deduct its value from the building cost? The soil may be used for building purposes. How is depreciation of the soil to be valued? Difficulties will equally arise in valuing animals and implements.

Interlocking of income and expenses

Animals feed on the produce of the land and some implements are made out of the trees that grow on the land. There is an interlocking of income from lands and of expenses of the farm which need careful analysis.

Depreciation charges. Further, depreciation rates will have to be differently fixed for sheds and buildings, improvements, implements and animals. Sometimes provision is made for replacements to be treated as expenses and no depreciation for plant and buildings is provided for. This will not be correct accounting.

Residential effects. Again when the effect of an outlay like manure lasts for more than a year, cost will have to be spread out over the period for which it lasts or is expected to last.

Recurring charges. The calculation of recurring charges in cultivation is another problem. The cost of bullock power used on land will have to be split up according to the area of land covered and separated from that used for non-cultivation purposes like transport for the family. The interest charges paid on borrowing for short and long terms will have to be added to the other items of cost, to the extent loans were used on land for agriculture.

In the case of crops which bear fruit only after some years and whose expenses are not met by annual receipts in the initial years, certain charges will have to be allowed for. Other special expenses have also to be added in computing the allowances to be deducted for arriving at the agricultural net income. A cultivator has to put up dykes and embankments to repair the damage or destruction caused by flood or other natural causes. The charge for their maintenance and depreciation has to be added. Then again when machinery or livestock is sold or discarded, the amount by which the written down value of the machine or animal exceeds the amount for which it is actually sold or its scrap value should be treated as an expense.

Expenses for Processing and Transport.

Expenses do not stop with those incurred for raising a crop. They include processing for the market and transport charges. This includes cost of the maintenance and depreciation charges of machines implements, carts and cattle used for these purposes.

It is also necessary to include, when calculating agricultural expenses, the special items which are bound to arise in the future. Payment by means of cesses, for research, inquiry and investigation will become common. Secondly a farm may have to provide special amenities for labour such as schools, houses, dispensaries, and schools and creches for children.

Method of Survey

The work of calculation of cultivation expenses can be lightened by having some sample surveys done continuously of different classes of land and of different sizes of farm, small, medium and big.

Enquiries should be conducted on these farms as regards the cultivation expenses. Farms with similar climate and rainfall, similar standard of husbandry and similar yields should be grouped together for

these enquiries. The quantity that will be required of seed, manure and implements and the number of days of manual and bullock labour required can all be approximately calculated. When once the quantity of agricultural requirements and the days of labour needed are fixed, it is easy to calculate their money value each year according to the prevailing prices.

The Berar Land Revenue Code has provided for a continuous enquiry of a certain number of holdings. Certain forms have been prescribed and detailed instructions issued under Section 94 (1) of the Berar Land Revenue Code. Cultivation expenses are to be calculated for a typical farm in each homogenous group. They are then to be appointed for an acre of land for the main crops. The Revenue Inspectors are entrusted with this work. Some such surveys by a staff trained in economic investigation will be necessary as a guide for finding out agricultural incomes and expenses.

Apply the average percentage of net income to yields over six years to the yields of last year for finding out income.

Will the expenditure incurred in the year previous to that of assessment be a correct assessment of actual expenses? Certain expenses may be incurred continuously for a period until the plant reaches maturity. The correct basis will be to charge the amount expended in maintaining the plants during any period against the sales of crop as and when it is harvested. This will mean that every year a portion of the expenditure should be charged to the current crop and the balance carried forward and charged against the crop that may be realised in future. An easier method has been adopted in Kenya in respect of coffee. The total coffee sales and the total net profit are estimated for a period of six years preceding the year of assessment. Profits are then expressed as a percentage of the sales. This percentage is applied to the sales of the previous year and the amount that is derived is taken as the assessable net income. This system has another advantage that in as much as crop incomes vary periodically, this percentage applied to the yields of the previous year will give a more correct figure than the income of the year previous to that of assessment.

What is agricultural produce?

Agricultural produce is not so standardised as individual goods are. It may be income from cereals and fibres, or forest produce or trees or seeds, tea, coffee, etc. It may be from dairy or poultry farming, cattle rearing or fruit and flower gardening. All kinds of agricultural

produce have to be taken into account, whether they are grown on the fields or on the bunds, whether they are consumed by the family or the workers in the farm, or sold to consumers direct in retail sales or to wholesale merchants.

One of the questions that will arise in the calculation of incomes is whether, when the same person utilises agricultural produce for manufacturing purposes as in sugar factories or rice or oil mills or tea estates, the actual costs incurred in raising the produce should be taken as its value for computing the income from land, or its market value. From the correct accounting point of view, the income from land should be calculated only at the market value for which it is sold. The fact that one and the same person is an agriculturist as well as manufacturer should be no reason for calculating the income from land on a different basis.

According to Agricultural Income-tax Acts in India, the following are also included under agricultural incomes :—

- (1) the income made by processing the produce, and making it fit for the market, and
- (2) any income derived from building used for storing and processing and as a dwelling house.

Fixing of agricultural income in the case of rented lands.

When once the agrarian reforms are enforced in different provinces, income by the leasing of lands may dwindle very much. Even so, as we cannot expect the present ministries to go ahead with any radical reforms of abolishing leasing altogether, there is bound to be a class of landholders receiving rents from agricultural lands. The fixing of assessable income in the case of 'tenants', and of zamindars in respect of their home farms is now done in Bihar by calculating it as a certain multiple of the rent they receive. To this is added the various incomes which a land-holder makes from rents for ryoti lands, transfer fee, salamis, income from forests, etc. The Bihar Act provides for a multiple of rent which varies from district to district according to varying yields from crops. Until rents are standardised, this will not be a fair method at all for finding out net incomes. With the abolition of zamindaris, the taking over of the communal lands by village panchayats and the transfer of various sources of income as fisheries, mines, forests, etc., from zamindars to the government, the annual rent from home farms will be the only sum which zamindari landlords will receive in the future. In fairness rent itself should be based on net incomes, and when such

legislation comes, the net-income basis will be there already for assessing income-tax too.

The importance of cost accounting surveys in the future.

It is impossible to expect agriculturists to keep proper accounts in standardised forms and in a scientific manner on the lines discussed above. It would be unreal to apply standards of accounting for a primitive economy, which is still a mode of living and has not evolved into a commercial business geared to the market. Calculations of an elaborate character may give quite a different figure than the actual net income. The Bengal Agricultural Income-tax Act provides that cultivation expenses need not be calculated, and 50 per cent of the gross produce may be deducted from the yields for finding out the assessable net income. Some such procedure may be followed in the case of smaller holdings, which are cultivated as family farms. In fact, this rough and ready method may be adopted for calculating local rates on incomes between Rs. 750 and Rs. 2,000. Net incomes which will form the basis for provincial income-tax may be calculated according to the detailed scheme outlined above. Our country had a succession of revenue officers in the Settlement Department, who had gained immense experience in the assessment of net income for land revenue purposes. The abolition of settlement since 1937 has deprived us of benefit of such experienced staff; but in the future, many economic proposals and policies will depend on the proper calculation of income and expense in agriculture. Procurement and equitable distribution of cereals, the fixing of short-term and long term credit, the fixing of the area of minimum holdings for the different regions, the guarantee of minimum price and minimum wage—all these will depend on accurate assessment of yields and cultivation expenses. A new batch of village officers, trained in an institute for assessing the profits of agriculture is necessary. These will supply the necessary data for the various reforms thought of or under consideration by the Government. The commercial audit courses will have to be reorganised from the point of view of supplying trained auditors who can assess agricultural profits. The co-operative, agricultural, and panchayat staff should also be trained in the assessment of yields, expenses and distributive margins.

Some features of agricultural income-tax.

Under Indian conditions certain special points have to be considered when introducing any scheme of agricultural income-tax. It is better to fix the area of land below which income-tax will not be levied. This will prevent disputes about the admission of border-line cases as fit to

be taxed. But when once this lower limit of agricultural income-tax is fixed, there is no reason to give a free slab for initial income.

There is every danger of the income-tax being shifted on to the tenant unless the limits of rents to be paid by the tenants and crop-sharers are fixed. The tax will tend to be passed on to the shoulders of the working classes, unless the latter are assured of security of tenure and minimum wage.

Variations in the rates of agricultural income-tax from province to province are not at all justifiable. The tax is lighter on the bigger zamindar in Bihar than on the smaller. There should be no room for such complaints and the rates should be progressive, providing for a higher tax on the rich.

Under present conditions, when pressure groups dominate the ministries, it is impossible to expect the ministries to keep aloof without interfering in the day-to-day administration of the special tribunals. The way out lies in providing a sufficiently long period of tenure for the officers of special tribunals, say not less than five years.

Land and Agricultural income as a tax source for Local Bodies.

The Madras Panchayat Bill provides for four sources of taxation of lands. They are—(a) Land cess at the rate of three pies in the rupee on the annual rental value of all occupied lands, which are not adjunct to or occupied by buildings, (b) a tax on agricultural land for a specific purpose, (c) a duty on transfers of immovable property at a rate not exceeding 5 per cent of the value of the property as set forth in the instrument, and (d) one-eighth of the land revenue collected by the Government of Madras. The Central Provinces Panchayats Act provides for six pies in the rupee of land revenue or rent and a licence fee from buyers, brokers, commission agents weighers or measurers. The C.P. Local Government Act provides in the case of 'janapadas' for eighteen pies per rupee on the land revenue or rent and additional cess for schools or roads or any other purpose at a rate not exceeding twelve pies in the rupee.

The United Provinces Panchayat Raj Act, 1947, provides for one anna in the rupee on rents payable by tenants and on income of 'sir' lands of zamindars and half-an-anna in the rupee on rents received by zamindars.

In the C.P. and U.P. rents are statutorily fixed and are lower in rate as compared to rents in ryotwari areas. Uncontrolled rents for 'sir' lands may not, however, be a fair basis for income-tax. In ryotwari areas as Madras, rents are competitive rents and they vary according to

the superior bargaining power of landholders and tenants. This often unduly inflates the net income of either. It is not easy to fix the annual rental value of all lands. A huge administrative staff will be necessary. Any taxation by local authorities should be a certain proportion of an established tax, collected by the Provincial or Central Government. Otherwise the assessment of the tax will prove costly.

Secondly any tax on property on the basis of area will be unfair to holders of marginal lands and to those who hold only a bare minimum for subsistence. Land-tax, can be fair to the payer, only if it is based on agricultural net incomes. Any additional charge can only be a proportion of agricultural income-tax.

Thirdly, a duty on transfers of immovable property as proposed in Madras is no more than a sales tax on land sales. Such a duty, up to 5 per cent of the sale value, will increase enormously the stamp charges of every sale or mortgage with possession. A tax on transfers of land may be restored to by provincial governments to prevent speculative purchases, and to appropriate a portion of the unearned increment on land. Additional stamp duties by Local bodies will be treading on the sources of income of the provincial government.

Another tax which will cut into the agricultural income of the cultivator is that proposed in the C.P. Panchayat Act. A licence fee on merchants and traders is likely to be passed on to the landholder who sells his produce, unless it is very low and is not related to the turnover of any business.

Agricultural Income-tax in Madras.

It is a sad fact that this tax which would have brought a substantial revenue out of the high prices realised by big holders and planters has never been levied in Madras, while poorer provinces of Orissa, Bihar, Bengal and Assam have introduced this tax, some even from 1938. This is the only tax which would yield a progressive income and satisfy canons of equity and ability to pay. It could be applied easily to co-operative and collective farms. It would be a check to inflationary pressure. It would release the poorer peasants from paying land revenue. The Congress Working Committee pressed, as early as March, 1937, on all governments to introduce this tax. That the Madras government are averse to introduce it, as it works under pressure groups of big landholders, is amply testified by the periodical speeches of ministers against such a tax. The following reply of the Finance Minister to the Andhra Chamber of Commerce in October, 1949 is one such:—

“According to the Bill published two years ago, the estimated revenue from the tax was about Rs. 100 lakhs. The Zamindari legislation took away a bulk of this. So it might not be worthwhile introducing this tax now, when only about Rs. 20 to Rs. 30 lakhs could be expected.”

The Zamindars' income is a flea-bite as compared to the huge incomes realised by the rentiers in ryotwari areas and even in Zamindari areas. According to Mr. S. Y. Krishnaswami, (*Rural Problems of Madras*), the number of owners paying a land revenue of Rs. 100 and above is 59,670. They hold 14 per cent of the land, or roughly 40 lakhs of acres. Calculating at the rate of 50 acres per pattadar as the minimum exemption limit, the balance that will be available for taxation of incomes in respect of those landholders will be 10 lakhs of acres. As one-third of the area is irrigated and two-thirds is rain-fed and on the modest basis that the net income from the former is Rs. 100 and from the latter Rs. 25 per acre, this tax can be collected on a net income of Rs. 4 to 5 crores. This calculation omits the assessable net income of pattadars paying a land revenue below Rs. 100 and of zamindars in possession of home farms. This is a modest estimate and considering the present prices, the income is bound to be much more.

Irrigation Cess

Another tax which is generally considered heavy, but is really not so, is the irrigation cess. A land-holder considers land tax heavy in canal areas because water rate is permanently included in the land tax. And when water rate, which should be paid by the tenant as part of his cultivation expenses is paid by the landholder to government, he considers it a burden though he makes up for this charge by increasing the rent or reducing labour wages. Cultivators should be educated to pay the due water-rate, which should be based not on acreage but on the volume of water supplied. And the water rate collected in each tract should be pooled for its economic development. Bombay has rightly levied very high rates for crops such as sugar-cane, which requires a larger volume of water and for a longer time than crops like millets.

A capital tax on land is collected whenever irrigation projects are started. In the State of Mysore a capital contribution ranging between one-third and one-fifth of the difference between the price of the original dry and new wet is collected. This inclusion fees entitle an owner of land to irrigate his lands from a new project. In the Tungabhadra Project scheme, a proposal has been made that instead of paying an inclusion fee, every ryot should part with a certain portion of his land to the

State. This is based on the ground that in as much as the value of the land improves in consequent of irrigation every owner should contribute a portion of its unearned incremental value to the state. In the Kistna Delta, an inclusion fee used to be charged in return for the benefits of canal irrigation. This capital levy is rather hard for small cultivators to pay. As we have proposed, an increase of water rate in proportion to the volume of water consumed by different crops will meet the capital charges of the project. There need be no collection of an inclusion fee in new project areas, either in cash or in the shape of a free gift of lands to government.

Taxation of unearned increments on land

For various reasons a permit system will be necessary to regulate transfers of land so that the government may be in a position to approve its prospective user. Permit may be necessary to see that lands do not pass into the hands of non-agriculturists. Even assuming that such laws do not come into force in a short period, some control over sale of land is necessary so that the profits from such sales do not go merely to the seller. Such control may also prevent speculation in the purchase and sale of lands, which happens in the new irrigation project areas. Profits from the sale of land may be taxed, taking the land value in the year in which the Act is passed as the base value.

As recommended by the President's Committee on Farm Tenancy in the U.S.A., a capital gains tax may be collected on each sale, taking thereby land transactions. The tax should be on the difference between the purchase price and sale price, but taking note of the excess value of the land due to improvements. Another principle that has been adopted in this tax is to vary the rate of taxation in inverse proportion to the length of time elapsed before transfer, thereby deterring speculative purchases with a view to resale for profit in the shortest period.

Sales Tax

Sales tax being a turnover tax is a tax on the gross business. It will be an unfair burden on agricultural income. Even if sales by a producer are not taxed, what happens is the merchant passes it on to the producer. Generally food grains are exempted from sales tax in many Sales Tax Acts in the U.S.A., but in Madras a tax is collected both from the wholesale merchant and the retailer, which certainly falls on the consumer as well as on the producer-seller. The provision of only a ceiling price for purchase of food grains by merchants enables the latter to negotiate for a lesser price and thus pass on the sales tax to the producer. The fixing

of also a floor price for producers will prevent this evasion. The tax-proceeds from sale of foodgrains also is Rs. 3 crores in Madras. While sales-tax on food crops which are resold by a cultivator should certainly be avoided, exclusion of food grains from any sales tax, particularly when from an important source of trade, will be next to impossible. Connected with the question of sales-tax on agricultural income is that of taxing the goods for which the farmer has to pay. Sales tax reduces the purchasing power of the farmer. In the interest of reducing production costs, especially of feeds, seeds, and fertilisers should not be taxed. This exemption is given in many of the American States.

Estate Duties

An estate duty corrects the inequalities created by war-made wealth. Its justification lies in treating it as a compensation from the inheritor of property for enjoying the benefits of society without contributing anything to production of national wealth. It is a welcome contribution to the fund needed ever so much for the economic advancement of the people. Estate duty is a corrective to income-tax. Income-tax is paid on the basis of incomes not graded according to the mode of earning—whether it was hard-earned, or a speculative gain, or an unearned wind-fall. The estate duty takes a large amount of money from unearned property. Wealth made by effort should not be so much taxed as wealth acquired by no effort. The collection of an estate duty is “the sole way to achieve an effective and gradual nationalisation of private capital without injuring the delicate mechanism of economic production”. So long as the motive for acquiring wealth is not the mere provision of one’s offspring but the gaining of power and prestige, estate duty will hardly discourage accumulation.