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NEED OF REFORMS OF AGRICULTURAL INCOME TAX IN INDIA

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ABSTRACT

Since 1950s agricultural income tax has been levied only on plantation crops and all other agricultural income has been exempted in India. The total tax collection from this source was less than 1% and in the late 1980s has dropped below 0.3%. But about 60% of Indian people meets their livelihood from agriculture income; but a very few people know about its tax impact. The very peculiarity of agricultural income tax is that; although it is a primary source of income of many people of India, it did not come under the purview of income tax. However, it has some impact if the non-agricultural income exceeds the basic exemption limit. Moreover, Income tax is a central tax; but agricultural income tax is a state subject and tax is levied on plantation crops only e.g. tea, coffee, rubber etc. In this perspective the paper is selected to study the present position and future prospects of agricultural income tax in India. The study shows that there is every possibility to cope up large farmers in the tax net. But the powerful landlords lobby is constantly creating obstacles in the way of implementation. Hence, change in political attitude and determination is necessary for taxation on agriculture income in India.

KEYWORDS

income tax, agricultural income tax, reforms, horizontal equity.

INTRODUCTION

The basic framework for the tax system in independent India was provided in the constitutional assignment of tax powers. The important feature of the tax assignment is the adoption of principle of separation in tax powers between the central and state governments. It assigned the major broad based and mobile tax bases to the centre and these included taxes on non-agricultural incomes and wealth, corporation income tax, customs duties, and excise duties on manufactured products. Over the years, the last item has evolved into a manufacturers' VAT on goods. The major tax powers assigned to the states include taxes on agricultural incomes and wealth, sales taxes, excises on alcoholic products, taxes on motor vehicles, passengers and goods, stamp duties and registration fees on transfer of property, and taxes and duties on electricity. They also have powers to levy taxes on entertainment, taxes on professions, trade, callings and employment and these have been exercised by the states themselves in some states and in others they have been assigned to local bodies. Although the state list also includes tax on property and tax on the entry of goods into a local area for consumption, use or sale, these have been assigned to local bodies. The central government levied tax on selected services on the basis of the residuary entry in the Union list from 1994, but in 2003, power to tax services was specifically assigned to it.

Tax on agricultural income continued till 1986. Thereafter, up to 1935 agricultural income was completely exempted from taxation. And as per Government of India Act, 1935 under British Rule and thereafter, as per Constitution of India, 1950 in Independence India, power to levy tax on agricultural income has been given to the provinces. Since 1950s agricultural income tax has been levied only on plantation crops and all other agricultural income has been exempted in India. The total tax collection from this source was less than 1% and in the late 1980s has dropped below 0.3%. But about 60% of Indian people meets their livelihood from agriculture income; but a very few people know about its tax impact. The very peculiarity of agricultural income tax is that; although it is a primary source of income of many people of India, it did not come under the purview of income tax. However, it has some impact if the non-agricultural income exceeds the basic exemption limit. Moreover, Income tax is a central tax; but agricultural income tax is a state subject and tax is levied on plantation crops only e.g tea, coffee, rubber etc.

Since independence so many reforms and changes has been made in Indian tax system recommendations of different committees and finance acts. These are:

i. Taxation Enquiry Committee, 1953
ii. Direct Tax Enquiry Committee, 1971
iii. Committee on Taxation of Agricultural Wealth and Income, 1972
iv. Indirect Tax Enquiry Committee, 1977
v. Tax Reforms Committee (TRC), 1991
vi. Expert Group on Tax Policy and Tax Administration, 2001

But most of the committees are silent about agricultural income tax except Committee on Taxation of Agricultural Wealth and Income and Task Force under Bijay Kelkor in 2002. Although, their recommendations are not yet implemented. About 60% of Indian people meets their livelihood from agriculture income; but a very few people know about its tax impact. In this perspective the paper is selected to study the present position and future prospects of agricultural income tax in India.

LITERATURE REVIEW

1. According to V.K. Alagh (1961) agricultural income-tax has an important role in mobilizing financial resources from the agriculture sector and in imparting a measure of progression of rural economy. Contrary to the general belief; imposition of ceiling of land holdings does not detract from the need for an agricultural income-tax.
2. According to Gandhi (1968) tax burden of agriculture sector was comparatively very low and is decreasing and interclass inequality in tax burden I existed between agricultural and nonagricultural sectors.
3. Joshi et. al (1968) bring out the importance of land revenue till 1960-61. Land revenue always remained passive and has not served the case of development finance. Upper class agriculturalists could be taxed more. In a case study of Bihar, they found that taxes on agricultural sector played only a very minor role in the state's tax structure. Pattern of rural income, low rates of taxation and large scale evasion were responsible for this.
4. Angrish (1972) suggests a rationalised scheme of direct agricultural taxes for India. He also is of the opinion that land revenue and Agricultural Income Tax are not progressive and elastic. Middle and high income classes in the agricultural sector possess taxable capacity. Land revenue and Agricultural Income Tax are inequitable and unproductive and there is inter- sectoral and inter class inequity.
5. The empirical studies in U. S. A (Pechman, 1985) and Chile (Engel Eduardo *et. al.,* 1999) have shown that the extent of income redistribution and reduction in inequality achieved by the tax systems were insignificant.
6. Bird and Oldman (1990) opine that in the literature on tax design and reform, the thinking on what constitutes the best tax system and an implementation strategy to achieve it have undergone considerable change over the years mainly due to the changing role of the state in development and Internationalisation of economic activities.
7. According to Bagchi and Stern (1994) tax policy in India has evolved as an important component of fiscal policy which had to play a central role in the planned development strategy. In particular, tax policy was the principal instrument to transfer private savings for public consumption and investment.
8. M. G. Rao (2000) opines that there has been a major change in tax system in several countries over the last two decades. The paper describes and assesses the introduction of new form of direct and indirect taxes and their revenue and equity implications.

9. J. Thomas stated that (2004) there is no sound economic reason for the exemption given to the farmers having land holding up to 3 hectares irrespective of the type of crop cultivated. This must have resulted in the lack of buoyancy in tax collection in a state like Kerala where land reforms have been very successful and 83 per cent of the area of holding is in the category of less than 3 hectares. The study also unveils the fact that there isn't any attempt by the farmers to resort to fake partition of land among the members of the family to evade Agricultural Income Tax.

RESEARCH GAP

So far literatures are reviewed we have been seen that so many papers have been published on direct and indirect taxes keeping silent about agricultural income tax. And a few papers are published on agricultural income tax. And no paper has been noticed to publish on reforms of agricultural income tax in India specially in West Bengal That is why the paper is selected to know about need reforms of agricultural income tax.

THE SPECIFIC OBJECTIVE OF THE STUDY

1. To know the background of agricultural income tax.
2. To know the reforms that has been taken on agricultural income tax.
3. To know the present position of agricultural income tax and
4. To study the future prospects of agricultural income tax.

METHODOLOGY

In course of preparation of the paper, exploratory studies have been undertaken. In the ambit of exploratory research strategy, detailed search of the literature has been carried out. Therefore, no statistical analysis except some table and percentage are applied. Theoretical information is gathered from different books and websites. Four factors are taken into account for determination of economic condition of farmers of India; such as: category of land holdings, Possession of assets, number of crops in a year and degree of concentration of farmers in farming.

BACKGROUND OF AGRICULTURAL INCOME TAX OF INDIA

Agricultural income tax is the oldest tax of in India as well as world. In primitive age, Raja, Samrat etc. was collected tax from their Praja in different names was nothing but agricultural income tax. As per 'Manusmriti', agriculturists were to pay 1/6th, 1/8th or 1/10th of the produce depending upon the circumstances. And it is known to all that in medieval age, agriculturists are compelled to pay 1/3rd to ½ of the produce to their Samrat or Nabab in different names. Not only that, even in the British period, when Income Tax Act introduced in 1860 by James Wilson; agriculture income was placed in the 1st schedule; out of four schedule of income. But, as per government of India Act, 1935 and Constitution of Independence India, 1950 agriculture income tax came under the purview of state subject. Naturally, different state government passed separate Agriculture Income Tax Act as follows:

i. Bihar Agriculture Income Tax Act, 1938
ii. Assam Agriculture Income Tax Act, 1939
iii. West Bengal Agriculture Income Tax act, 1944
iv. Orissa Agriculture Income Tax Act, 1947
v. Uttar Pradesh Agriculture Income Tax Act, 1948
vi. Rajasthan Agriculture Income Tax Act, 1955
vii. Tamil Nadu Agriculture Income Tax Act, 1955
viii. Karnataka Agriculture Income Tax Act, 1957
ix. Kerala Agriculture Income Tax Act, 1957.
x. Maharashtra Agriculture Income Tax act, 1962

AGRICULTURAL INCOME TAX IN ABROAD

Although; there is a deviation in computation of tax in agricultural income, it is taxable in most of the countries of the world. Such as in USA incomes from farm and forestry do not represent separate kind of incomes. These incomes are determined and taxed like incomes from other businesses. Canada: Farmers' incomes from farm and forest operations are taxed as business income although there are some tax advantages for farmers. Australia: The main income tax system for primary producers aims at averaging taxable income over a maximum of five years. The primary producers can choose to withdraw permanently from the averaging system and pay tax at ordinary rates. However, once the taxpayer has made this choice, it will affect all his assessments for subsequent years and cannot be revoked. Germany: The agricultural income on half of all German farms is calculated according to the flat method. The income calculation is based on the economic value of the land. The estimated profit per hectare is directly linked to the so-called 'hectare value. UK: The agricultural industry in UK is taxed in almost the same way as other industries and the farmers are obliged to keep accounts as other tradesmen for the tax computations. And so many countries of the world have tax liability on agricultural income.

REFORMS IN AGRICULTURAL INCOME TAX IN INDIA

It has been already mentioned that since independence so many commission has been formed; but most of these commission have not given proper importance regarding agricultural income tax. But in the year 1972, a Committee on Taxation on Agricultural wealth and Income was formed under the chairmanship of Dr. K.N. Raj who strongly recommended in the favour of agricultural taxation but the same was not made in law**.** Similarly, eighty years ago, Dr. B.D.Ambedkar favoured taxing agricultural income with his sound reasoning. He was viewed that tax should be levied on amount of income i.e rich must be taxed more and the poor less. He also criticized the land revenue system of British Government as it was against the interest of the poor. Later on, The Taxation Enquiry Commission was set up in the year 1953-54 and recommended the revision of tax laws taking into consideration the changes in the prices of agricultural produce. Moreover, long term fiscal policy was introduced by the Government in the year, 1985 and they also recognized the concept of taxing agricultural income. In short, so many commissions in the last sixty years have unanimously been of the view that agricultural income should be subject of tax but the million dollars' question is that who will bell the cat. The fact remains that the law makers could not dare to taxing agricultural income mainly because of the vote bank problem.

PRESENT POSITION OF AGRICULTURAL INCOME TAX IN INDIA

It has been already mentioned that agricultural income tax is a state subject. And there is separate Agricultural Income Tax Act of the states. At present, only in six states e.g. Assam, Bihar, Orissa, Karnataka, Kerala and Tamilnadu exist agricultural income tax on plantation crops i.e. tea, coffee and rubber. On the other hand, agricultural income is exempted from tax u/s 10(1) of the Income Tax Act, 1961. However, it is required to be added agricultural income with non-agricultural income if the latter exceeds the basic exemption limit and tax is to be computed on total income and later tax on agricultural income is to be deducted. Therefore, tax impact of agricultural income is very negligible in India; although about 60% of our people meet their livelihood from agriculture.

FUTURE PROSPECTS OF AGRICULTURAL INCOME TAX IN INDIA

It has been already mentioned that the contribution of agricultural income tax in India is very poor and it is true that about 90% of our farmers are poor; but there are a few rich farmers also. Let us see the present economic condition of farmers of India.

1. Category of farmers

TABLE 1

Category of farmers	Percentage
Landless farmers	14
Small farmers	60
Medium farmers	19
Large farmers	07

Source: CSDS Report, January, 2014

2. Number of crops grown in a year

TABLE 2

Number of crops	Percentage
One crop	26
Two crop	46
Three crop	24
More than three	04

Source: CSDS Report, January, 2014

3. Assets owned by farmers

TABLE 3

Assets owned	Percentage
Mobile phone	73
T.V	55
LPG Gas	31
Fridge	18
Tractor	07
Car	06

Source: CSDS Report, January, 2014

4. Concentration in farming

TABLE 4

Concentration parameter	Percentage
Ready to quit farming for a good job in a city	62
Not ready to quit farming despite good job in a city	26
Undecided	13

Source: CSDS Report, January, 2014

From the above table we have been seen that till now there are 7% large farmers in India having tractor, car etc. And 26% of farmers are not ready to quit farming despite good job in a city; implies their earnings are better than a good job in a city.

Therefore, we can infer that there is every possibility to cope up large farmers in the tax net. Moreover, as per recommendation of K. N. Raj Committee, 1972 to remove the existing system of taxation of agricultural income; a unified system of taxation of agricultural and non-agricultural income is needed. For this purpose, taxation of agricultural income must be taken out of the state list through a constitutional amendment. And from the point of view of horizontal equity, as far as possible, all incomes should be treated in the same manner for tax purposes. Hence, income from agriculture should be subjected to the same tax treatment as non-agricultural income with the necessary adjustments to take care of the special characteristics of agriculture.

CONCLUSION

Taxation on agriculture income is good for economic health of the nation. So many commissions in the last sixty years have unanimously been of the view that agricultural income should be subject of tax but the million dollars' question is that who will bell the cat. The fact remains that the law makers could not dare to taxing agricultural income mainly because of the vote bank problem. Therefore, this sector is remained untouched from any changes in tax pattern. Hence, change in political attitude and determination is necessary for taxation on agriculture income in India.

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