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A STUDY OF AGRICULTURE TAXATION IN INDIA

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"A Taxation of agriculture has critical role to play in the acceleration of economic development since it is only the imposition of compulsory levies in the agricultural sector itself which enlarges the supply of saving for economic development." During the process of development, agriculture has to supply the rest of the economy with larger food surplus and raw materials. Production and marketed surplus of agricultural goods have to increase to meet the requirements of the non-agricultural sector and also to supply an increasing proportion of the community's man power. Higher price alone may not always bring about increased production and larger marketable surplus. Heavier agricultural taxation would help in the commercialization of agriculture which in turn would respond to prices and other market forces quickly. Agricultural taxation would induce farmers to go for improved technology and this would increase the labour force available for non-farm jobs. The government has been investing increasingly larger amounts in agriculture it has not made a parallel effort to tax away a portion of the increase in the income of the farmers.

This is particularly true in case of the large farmers, whose incomes have risen considerably as a direct consequence of the process of economic growth.

Present position of Agricultural Taxation: In a broad way, agricultural taxation includes taxes paid by the agriculturists directly and also those borne by them indirectly. Direct taxes on agriculture consist mainly of land revenue, cesses and surcharges on land revenue, cesses on crops and agricultural income tax.

1) Land Revenue: Traditionally, land revenue is the oldest of all taxes and at present the most important tax on agricultural land. The land tax is levied and collected by state governments. Land tax has become a crude acreage tax. From Rs.48 crores in 1951-52, the amount collected had gone up to Rs.1400 crores in 1997-98. In 1951-52, land revenue accounted for 17% of total sale tax revenue but by 1997-98 its share was only 1.3%.

2) Agriculture Income Tax: Agricultural Income Tax is levied and collected by the states. Bihar was the first to levy this tax in 1938. At present the states which have levied agricultural income tax are Assam, West Bengal, Bihar, U.P., Rajasthan, M.P., Orissa, Karnataka, Tamil Nadu and Kerela. The rates of tax have generally been lower than those applicable to the urban income tax. This tax has always occupied an insignificant role in India- a little more than 1% in 1951-52 about .1% of the states tax revenues in 1997-98

Political Domination of Land Lords

Tax on agriculture have remained generally untouched since several year in India on the contrary, land revenue on agriculture has been either dropped or reduced considerably. On many occasions the state governments completed with each other to provide relief to the agriculturists by giving them tax concessions or by abolishing some taxes altogether rather than taxing them. As many economists point it out, land revenues from agriculture income is inelastic. It does not increase with increase in prices of agricultural products. This trend is in the favour of pretty agriculturist. The affluent peasantry, who constituted perhaps the most powerful group within the Indian coalition, successfully imposed three conditions on economic policies.

1. Land reforms should not be pushed beyond a certain point. 2. There should be no taxation of agricultural income and wealth 3. And the state government should maintain high prices for outputs and low prices for major inputs and there by maintain a budgetary policy with heavy subsidies. With the provision of irrigation and modern farms techniques production has become more stable. The farmer also gets an assured price for his product. Agricultural income is now quite high and stable. It is fit enough to be taxed like any other income. From the point of view of horizontal equity, as far as possible, all income should be treated in the same manner for tax purpose.

A review of Agricultural Taxation reveals the following 1.Share of agricultural taxes in total tax revenues collected by the central and state governments has been falling more or less steadily since independence. This is undoubtedly much smaller contribution as compared to about 30% which is the share of the agricultural sector in India's national income.2. 90% of agricultural holdings are small and marginal categories. In principle, these farmers should be exempted from any form of direct taxation. On the other hand, the rich farmers who are mainly the beneficiaries of the green revolution can and should bear the burden of higher taxation. 3. Since rich farmers have powerful political lobbies in both state and central governments, it would not be possible to tax rich farmers in view of political considerations that weigh with state governments. 4. But since about 10% of top rich farmers account for nearly 40% of total rural household income, a move practical way of resources mobilization would be to-

a.Cut down subsidies on fertilizers, power, irrigation etc., which form agricultural inputs of rich farmers and

b.Increase indirect taxes on these and other products like tractors, diesel, and electric pumps etc. purchased by rich farmers.

Recent experience clearly points out that control of government is so weak both at the center and in the states they would find it difficult to tax the rich farmers, either directly or indirectly. Taxation on agriculture income is good for economic health of nation. But the powerful landlords lobby is constantly creating obstacles in the way of implementation. 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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