

Justification of Tax Base of Agricultural Income

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ABSTRACT

Agricultural income is taxable on the basis of gross value and net value. Both have their merits and de-merits. Despite the complex nature of agricultural sector and social and political impediments, evolving taxation policy is complicated one as it is directly related to the problem of fiscal planning. In order to solve the problem it is essential to determine the basis of agricultural tax policy which will solve the problem for taxing the agriculturist so that the objectives of economic growth may be achieved.

The term agricultural income, used for taxation purposes, connotes the income earned by the farmers from land cultivation, family labour contributed to agricultural production, and the returns on capital invested in improvements of land and productive equipments. It excludes other incomes earned by the cultivators, such as dividends on shares and securities, rent on urban property and profits from other business.

Before selecting tax bases for taxing agricultural sector, the following factors should be kept in mind-

1. It should be capable of yielding maximum possible revenue to the government, provided the purpose is not otherwise, without affecting production adversely.
2. It should be consistent with the principle of equity in taxation.
3. It should have built in flexibility.
4. It must be capable of being easily assessed and efficiently administered. Viewed against these merits of tax bases, agricultural sector appears to have only two sound bases of taxation, so far as direct taxation is concerned, viz landed property and agricultural income. Now the question arises as to whether agricultural sector should be taxed on the basis of landed property or agricultural income or both. Even if one of these two or both are accepted as the basis of agricultural taxation, the problem is not solved because they have several variants which are quite different from each other. For instance, agricultural land treated as property can be taxed accordingly to prevalent practices in India and other countries of the world on the basis of its area, its capital value and its

rental value. Similarly, agricultural income can be taxed on the basis of its gross value and net value.

There are two bases i.e, gross value and net value.

Taxation on the basis of gross value of total agricultural produce, although more productive from revenue point of view as it forms a larger base and provides a wider scope for progressive taxation, may prove deterrent to the productive capacity of farmers. Since gross value includes cost of production also, taxation on the basis of gross value will, therefore, mean taxing cost of production as well as its net income further, since more than 70% of the total cost of cultivation comprises human and animal labour, taxation of cost element may discourage the farmers to increase their labour input and productive efforts. And, therefore, it may affect the agricultural production adversely, which in no way is desirable.

Besides, from the point of view of intersectoral justice also, the taxation of agricultural income in the basis of its gross value does not seem to be reasonable because in the nonagricultural sector company or business income is taxed on the basis of its net worth, i.e. net profit rather than gross profit.

As against this the taxation of agricultural income on the basis of its net value is supposed to makefull allowance for the cost of cultivation and claim only a part of net income. Therefore, taxation of surplus income will not affect agricultural production, atleast in the minor taxation of gross income is expected to do. However, the effects of taxation of the surplus value on the production depend on the production of net produce or income extracted by way of taxation. If the proportion of tax to the net income is such that it does not leave adequate income at the disposal of farmers to fulfill their necessary consumption and investment requirements, the

taxation of net income also may affect agricultural production adversely by reducing either consumption or investment or both.

However, if adequate precaution are taken against such dangers at the time of fixing the rates of taxation, net income is decidedly preferable to gross income as a tax base. Besides, taxation of agricultural income on the basis of its net value is consistent also with the principle of intersectoral justice in taxation.

The net income as tax base has, however, got some practical difficulties with respect to its assessment. Assessment of net income requires adequate data regarding cost of cultivation where as there is paucity of such data, mainly because farmers donot maintain any records of their expenditure. This problem is not special to India; but buy and large a global problem in both developed an under developed countries. This problem is, however, not beyond solution it can be solved by undertaking farm management studies in different regions of the economy keeping in view climatic condition, nature of soil, cropping pattern, size of holding, irrigation facilities, etc.

The other problem in this connection is the selection of prices to evaluate the income of the farmers. The problem is

whether current or constant prices should be selected for the evaluation of agricultural income. In view of the desired goal, constant price would be a better choice compared to current prices.

Lastly, if agricultural income is taken as the basis for agricultural taxation and taxes are imposed according to the rates of general income tax, the problem arises whether there should be any exemption limit; if so, to what extent principle of justice in taxation demands that, if agricultural income is to be taxed on par with taxation of nonagricultural income similar treatment should be given to the agricultural sector.

Both the tax bases have their merits and demerits, therefore, no single tax base appears to be sound enough to provide adequate base for agricultural taxation. In other words, it appears that neither to property taxation nor the income taxation alone can suffice the purpose of agricultural taxation. Combined scheme of both, however, may provide appropriate base for taxing the agricultural sector.

Thus this system will not take the agriculturists far from the existing system of taxation because at present both taxes are in force. The present land tax, i.e. land revenue, is very close to the property taxation and the large holding tax in this state can be regarded as a variant of income taxation.

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