General Studies – 3 Topic: Agriculture – issues

Taxing Agricultural Income in India

1) Introduction

- The question of taxing agricultural sector is a contentious issue in almost all the countries especially in the developing ones, where agriculture is still a predominant sector and providing employment and livelihood to a major chunk of the population.
- However, taxing agricultural income at minimal rates of about 5% can help rather than hurt our poor farmers.
- So far, successive governments have resisted any move to tax farmer’s income.

2) Why Tax Agricultural Sector?

- Taxing the agricultural sector properly was a topic of debate in India even in the 1980s
- There are large numbers of farmers whose income exceed the income of non agriculturists who pay income tax.
- The surplus generated in areas where Green Revolution occurred is frittered away in conspicuous consumption. It is therefore necessary to mop up a part of these surpluses by the Govt. through taxation.
- For better utilisation of land, proper taxation of agriculture is necessary
- Progressive taxation of agricultural land or agricultural income can be expected to bring down the land values
- Vast expenditure is needed for the large number of schemes being taken up for agricultural development
- Agriculture in India has got modernized to a large extent and there is taxable capacity as productivity has increased.
- Inter-sectoral terms of trade have moved up in favour of the agriculture and hence there is untapped taxable capacity in agricultural sector.
- Farm taxation would promote economic stability and bring more and more areas under monetised sector.
- Japan extracted a large part of resource for industrialisation from agriculture. So did Soviet Union and China.
- Mobilize resources from this sector to make available the inputs required for accelerating the growth of agricultural output.
- Taxing agricultural income can improve access to finance to a large section of farmers because verified income tax returns can provide a credible signal of the earnings potential of a farmer.
- Taxing agricultural income will lead to small and marginal farmers demanding better services, infrastructure and facilities.
- It will also create a significant incentive for farmers in this country to get organized into associations, demand accountability and seek to influence the debates around development rather than to remain mute beneficiaries.
- If income-tax is levied on agricultural income, the farmers of the country will be able to develop the habit of saving for their bright future in the years to come specially because of the income-tax provision granting tax deduction on certain investments etc.,

3) Recommendations to tax agricultural income

- Way back in the year 1975 a Committee on Agriculture Taxation was headed by Dr. K.N. Raj. The recommendation of this Committee was to tax agricultural income of rich.
• Dr. B.D. Ambedkar who was a man with towering personality and a great visionary and his view was that he favoured taxing agricultural income with his sound reasoning

4) Difficulty in taxing Agricultural Income
• Agriculture is largely an individual business where family labour play important role in the generation of income; the problem of depreciation and capital replacement are more intractable
• there is large fluctuation in annual income
• Lack of monthly periodicity in receipts and production, transportation and marketing of output are so integrally mixed up, it is very difficult to plan an Agricultural Income Tax.
• With the rise in the suicide rate by the agriculturists and at that point of time to think about taxing agricultural income might bring home a fear of more suicides being further committed by the agriculturists.
• large portion of Indian farmers are illiterate or semi-literate and they do not maintain systematic books of accounts regarding their production and income
• assessing their true income or income-earning potential becomes an onerous task
• There could be a concern that the imposition of tax could lead to credit flowing only to big farmers as they have higher income to show.

5) proposals to raise tax collection from agricultural sector
• Tax officials made a specific suggestion that the government should consider taxing agricultural income, not fully but partially.
• people having a regular income alongside agricultural income above a certain threshold can be brought under the tax net
• Exempt farmers with 5 acres or less from land revenue (71 per cent of the farmers) and fix a progressive tax for others.
• The Government may also exempt taxing agricultural income in case it is derived by cultivating rice, wheat and vegetables.
• Let there be a start for taxing the agricultural income of particularly the rich farmers and thereafter let the Government study its impact, the tax collection, the problems and then come to an amendment of taxing agricultural income.
• It is a fact that taxing agricultural income is a State subject but just like having a debate on GST with the States the Government should now have a debate with the States for taxing agricultural income.
• It is strongly felt that if agricultural income is taxed and in case the policy of taxing agricultural income is designed in a very scientific manner, then it will have no adverse impact on the common farmer
• In the first 2 to 3 years the entire income-tax recovered from taxing agricultural income should be spent by the Government in the development of agricultural activities

6) Conclusion
• If the Government takes a decision to levy tax on agricultural income, then the rich farmers would be required to make payment of income-tax which will increase government revenue, increase GDP ratio in the country and would finally help in the holistic development of the country.
• Nation first and not just vote politics should be on the back of the mind of every political party if they really want to tax the agricultural income in India.