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The Taxation of Agricultural Income in India

K.V. Sridhar Golagani

Student, Jain University

ABSTRACT:
The taxation of agricultural income in India has been a topic of discussion and research for academicians, policymakers, and social activists. Agricultural income is not taxable under Section 10(1) of the Income Tax Act as it is not counted as a part of an individual's total income. However, the state government can levy tax on agricultural income if the amount exceeds Rs. 5,000 per year. It is classified as a valid source of income and basically includes income from sources that comprise agricultural land, buildings on or related to agricultural land, and commercial produce from agricultural land. There have been certain committees in the past appointed by the government that have suggested imposing tax on agricultural income, whereas on the other hand, there are people who are opposing this initiative on some or other ground. India being a diverse country, the government requires a substantial amount of revenue, which it can get from indirect taxation. Currently, about 52% (7.44 lakh crores) of the tax revenue of the government comes from taxes on commodities and services, i.e., indirect taxes. Moreover, they are regressive in nature, thereby leading to inflation and social inequality. This research paper examines the five questions, which are: Can agricultural income be taxed? How will it be implemented if it is taxed? Progressive taxation or fixed tax ceiling? Why is agricultural income wholly exempt from the Indian Income Tax Act? What are the benefits and threats of this implementation? How are people leveraging this exemption for their needs?

KEYWORDS: Indirect tax, agriculture income taxation, tax exemption, Income tax act, progressive tax.

INTRODUCTION:

The concept of agricultural taxation wasn't new. When we go back to our history, there was a system called the British Raj. The British administration officially began taxing income in 1860 as part of a formal drive to increase revenue. It was also the first time they presented a budget to the British crown. And lo and behold, they taxed agriculture income. Between 1860 and 1863 and 1869 and 1873, they levied a tax on farmers when their annual revenue exceeded Rs. 600 a year. During the 1900s, Britishers introduced the Zamindari system, where they appointed landlords and controlled most farmland in India. They then sublet the land to small farmers and extracted a hefty rent, a tax, and even appropriated produce when they felt like it. The British lined their coffers. The Zamindars made money. But the farmers simply toiled away in these lands for next to nothing. They were landless laborers.

The first recommendation to tax the agriculture income was given by the Indian Taxation Enquiry Committee in 1925, but it wasn't implemented, citing administrative and political reasons. Even back in 1961, prominent economists such as Yogender Alagh were making a case for taxing agricultural income. And agriculture contributed 50% to our GDP. It was a primary source of income, and for a young nation like India, this income would have come in very handy. But back then, most people were of the opinion that farmers would struggle with taxation matters. And they also believed collecting and monitoring payments would have incurred an even bigger cost. It didn't seem worth the effort. There was also the fact that India had decided to impose land ceilings, meaning people couldn't simply buy a lot of land and sit on it. They had caps on what they could own. So the authorities believed that most farmers wouldn't earn a lot of income anyway. But times have changed. There's an improvement in yields. Prices have shot up. And income levels have risen across the board. We have even amended land-ceiling acts. Now people and corporations own large swathes of agricultural land.

REVIEW OF LITERATURE:

Alagh (1961) stated that at the state level, agricultural taxation can be used as a resource mobilization tool, and with that revenue, it can be used to invest in developmental activities in rural areas. He also mentioned that fixed land ceilings don't help in collecting taxes as the majority of the farmers will still be exempted due to small landholdings. As found by Alagh, the revenue generation from agricultural income tax has grown more or less in proportion to total tax revenues. Finally, he opined that there are a lot of administrative and political difficulties in implementing this initiative.

Ojha (1969) attempted to discuss the scope of taxability of agricultural income and pointed out difficulties in equity. He suggested that certain amendments to the Income Tax Act can be changed so that certain incomes derived from agriculture will be treated as non-agricultural income and taxed accordingly. In simple words, the income derived from the agricultural land shouldn't be recognized as agricultural income.

Gandhi (1969) explained the benefits and costs of taxing agricultural income within the purview of the central income tax. He is of the opinion that revenue benefits are likely to arise from the integration of state-level agricultural income taxes with the central income tax. The author found that the extra tax revenue generated therefrom can be used to finance the development plans under the planning process. But there are certain issues that need to be addressed by the tax-paying entities: the part of agricultural income to be excluded from the tax base; deductions to be made in computing taxable agricultural income; special tax concessions and incentives to be offered to encourage agricultural production and investments in agriculture; the administration of agricultural income tax, including its distribution between the Centre and the States; etc.

Khan (2001) has made an analysis of certain developing countries within Asia, Africa, the Middle East, North America, and Latin America in the areas of taxation of agricultural income, including tax structure and tax administration. He found out that the governments of those countries have reduced export taxes on agricultural products, making it more feasible for the farmers, but on the other hand, the revenue generated from the direct tax hasn't seen any significant improvement. He even mentioned that the agriculture sector has huge potential to increase the revenue of governments but is not being implemented due to political and administrative issues.

James (2004) He has examined certain aspects of agriculture taxation and pointed out that even though there are certain states that have implemented taxation of agriculture income, such incomes are taken into consideration only for income tax rate purposes under the provisions of the Central Income Tax Act. He suggested that the agriculture tax should be brought under the purview of central taxation so that it increases the revenue of the union government, which will lead to investing in subsidies, providing new technology for farmers, and uplift the poor.

(pandey & ragavan, 2016) studies about the reaction of the Income Tax Branch on an RTI application. Agricultural income in India multiplied exponentially from 2004 to 2013. The initial estimates are in the range of 20,000 crore. Interestingly, that is about 20 times the size of India's GDP. Many IRS officers are of the opinion that undisclosed income would be around Rs 1 crore by means of many individuals. But this implementation may affect the food tax, as if farm profits are taxed, the farm tax would increase, and as a result, small-scale farmers would find it difficult to meet their needs.

METHODOLOGY:

a. **Population of study:**In the context of India, there are a total of 11,888,088,780 agricultural cultivators as per the 2011 census. So, they are regarded as part of the population.
b. **Sample Size:** All the 11,888,088,780 have been taken for the study.
c. **Source of Data** This study is analytical in nature, where the data is collected from secondary sources of data. Information collected is from the below-mentioned sources:
    1. Government sources such as the 2011 Census and the Ministry of Agriculture Farmers' welfare.
    2. Review of existing research papers in the same field.
    3. Professional associations like the National Bank for Agriculture and Rural Development (NABARD) and the Survey of India.
    4. Interviews with subject experts from YouTube.

TAXING OF AGRICULTURE INCOME AT STATE LEVEL:

The 11th schedule of Indian constitution has provided for a separate provincial levy on agricultural income. According to this schedule, the states have absolute authority to decide and impose taxes on agriculture. In 1938, Bihar was the first state to impose a tax in order to compensate for revenue losses caused by the province's separation from Odisha. Until 1951, agriculture income was levied in seven states: Bihar (1938), Assam (1939), West Bengal (1944), Odisha (1948), Uttar Pradesh (1948), Hyderabad (1950), and Travancore (1951). This was followed by Rajasthan and Madras. But later on, there is a change in trend: this tax was abolished in Uttar Pradesh and Hyderabad in 1957 and then in Rajasthan in 1960. However, after the reorganisation of states in 1956, agricultural income tax was introduced in the states of Mysore and Kerala in 1957 on farm incomes arising from commercial crops only. It may be further mentioned that by 1961, seven states were levying such a tax, namely, Odisha, Bihar, Assam, West Bengal, Madras, Mysore, and Kerala. At present, agricultural income tax legislation exists only in a few states, including Odisha, Bihar, West Bengal, Assam, Tamil Nadu, and Kerala.

The implementation of these taxes varies, making it suitable for the local conditions. The agricultural income was taxed every year with respect to the total agricultural income of an assessee, including an individual, HUF, association of persons, firm, or company. The rates of levy of such a tax are fixed under state-level enactments in some states, while in a few other states, the rates are fixed annually under the Finance Acts. In addition to this, states have fixed certain exemption limits below which agricultural income won't be charged. But at present, these tax levies aren't taking place, whereas some states are levying taxes only on plantations.

TAXING OF AGRICULTURE INCOME AT CENTRAL LEVEL:

As mentioned before, the central government is not eligible to levy taxes on state subjects. However, agriculture income is to be considered for tax rate purposes under the provisions of the act when the following three conditions are satisfied:

1. The taxpayer is an individual, a Hindu Undivided Family (HUF), a body of individuals, an association of persons, or an artificial juridical person;
2. The agricultural income of the assessee was more than Rs. 5,000 during the previous year; and
3. The non-agricultural income of the assessee exceeds the exemption limit (Rs. 2,50,000 in the case of general citizens being less than 60 years old, and Rs 3 lakhs in the case of resident senior citizens being 60 years of age or older, and Rs 5 lakh in the case of super-senior citizens being 80 years and above.

The scheme of partial integration of non-agricultural with agricultural income for the determination of income tax rates is applicable to the above-mentioned assessees. However, this scheme of partial integration is not applicable in the case of a firm, a company, a cooperative society, etc. Under this scheme of partial integration, the income tax liability of an assessee will be computed by following certain steps. is being practiced at the central level, which basically includes

1. The net agricultural income of the assessee will be calculated as if this were the only income chargeable to tax.
2. Subsequently, the aggregate of agricultural and non-agricultural incomes of the assessee is to be found and the income tax calculated thereon as if such aggregate income formed the total income of the assessee.
3. The net agricultural income as computed will be increased by the exemption limit, and the income tax will be calculated on such increased net agricultural income of the assessee.
4. Then, the income tax amount as determined on the aggregate of agricultural and non-agricultural incomes will be reduced by the income tax calculated on agricultural income alone as increased by the exemption limit.
5. Now, the balance amount of tax payable by the assessee is to be found and then, health and education cess at the rate of 4 percent thereon is to be added. The final amount so calculated will be the income tax liability of the assessee.

PROGRESSIVE OR FIXED TAX CEILING:

Progressive taxation basically refers to the taxing mechanism in which the taxing authority charges more taxes as the taxpayer's income increases. Taxpayers earning more pay a higher rate, while those earning less pay a lower rate. The government uses a progressive tax mechanism. A "fixed tax ceiling," on the other hand, generally refers to a specific rate that is fixed for all people, regardless of income. When it comes to agriculture, being a dynamic sector, the incomes of the farmers are not stable as they are highly dependent on the monsoon and the technology that they are using. So keeping this in view, the fixed tax ceiling doesn't serve the purpose, and instead it will abruptly increase poverty and farmer suicides.

As per the recommendations of the income tax agency, people with agricultural income and regular income who earn more than a particular amount can be brought into the tax system. Fix a progressive tax for other farmers and exclude 71% of farmers who have 5 acres or less from land revenue. Additionally, the government may not tax agricultural income that is produced from the cultivation of rice, wheat, and vegetables. Let the government begin collecting agricultural revenue, particularly that of wealthy farmers, and then let it examine the impact, the tax collection, and the issues before coming up with a change to agricultural tax income. It is true that taxing agricultural income is a state issue, but just as the government debated the GST with the states, it is time for it to do the same with taxing agricultural income. It is highly believed that if agricultural income is taxed and if the taxation policy is created in a very rational manner, it will not negatively affect the average farmer. The government should invest all income-tax proceeds from taxing agricultural revenue towards the expansion of agricultural operations in the first two to three years.

DATA ANALYSIS AND INTERPRETATION:

Table-1: State-wise break-up of number of agricultural cultivators and percentage of Population below Poverty Line.

State/Union Territory	Number of agricultural cultivators	Percentage of population BPL
Arunachal Pradesh	302723	34.7
Assam	4061627	32
Bihar	7196226	33
Chattishgarh	4004796	39.9
Goa	31354	5.1
Gujrat	5447500	16.6
Haryana	2480801	11.2
Himachal Pradesh	2062062	8
Jammu and Kashmir	1245316	10.4
Jharkhand	3814832	37
Karnataka	6580649	20.9
Kerala	670253	7.1
Madhya Pradesh	9844439	31.7
Maharashtra	12569373	17.4
Manipal	574031	36.9
Megahalaya	494675	11.9
Mizoram	229603	20.4
Nagaland	537702	18.9
Odisha	4103989	32.6
Punjab	1934511	8.3
Rajasthan	13618870	14.7
Sikkim	117401	8.2
Tamil Nadu	4248457	11.3
Tripura	295947	14.1
Telangana	6491522	9.3
Uttar Pradesh	19057888	29.4
Uttarkhand	1580423	11.3
West Bengal	5116688	20
Delhi	33398	9.9
Chandigarh	2578	1.3
Dadra and Nagar Haveli	28164	2.1
Daman and Diu	2316	1.5
Lakshadweep	0	0
Puducherry	12099	9.7
Andaman and Nicobar Islands	16567	13
All India	118808780	16.85142857

Source: 2011 Census

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ANALYSIS:

The inference derived from the above table being, out of the total cultivators of 11,88,08,780/-, only an average of 17% are below poverty line.

Table-2: Crop-wise Estimated Revenue (Assuming 20% tax rate on agricultural produce).

Crop Group	Crop	Production (in million Tonnes)	Issue Price (INR. Per tonne)	Estimated Income (in crores of INR) (Production X Issue Price)	Estimated Revenue (Assuming 20% tax rate) (in crores of INR)
Food Grains	Rice	104.32	7950	82934.40	16586.88
	Wheat	93.5	6100	57035.00	11407.00
	Course cereals	76.22	5320	40549.04	8109.81
TOTAL		274.04		180518.44	36103.69
Oil Seeds	Ground Nut	6.77	1100	744.70	148.94
	Mustard	6.82	1231	839.54	167.91
	Soya bean	8.59	930	798.87	159.77
	Sunflower	0.33	813	26.83	5.37
TOTAL		22.51		1665.24	481.99
Cash crops	Sugarcane	352.16	714	25144.22	5028.84
	Cotton	30.15	822	2478.33	495.67
	Jute	10.46	506	529.28	105.86
TOTAL		392.77		28151.83	5630.37
GRAND TOTAL				210335.51	42216.04

Source: Production of Crops: Department of Agriculture (2016)

Issue Price: Central Issue Price as given by the Department of Food and Public Distribution

ANALYSIS:

- The above table pronounces the fact that, if 20% tax rate is assumed on agricultural produce, the Government of India could get an estimated revenue of **42,216 crores**, which is almost **9.56%** of the Revenue from taxes on Income of the government of India.
- Also, the estimated revenue of Rs. 42,216 crores (Table 2) is close to **41.91%** of the Goods and Services Tax Collected till date of **Rs. 1,00,710 crores.**

A LOOK BACK AT THE EXEMPTION OF AGRICULTURAL INCOME:

Agricultural income has been defined under Section 2(1A) of the Income Tax Act of 1961. For the purpose of understanding, agricultural income has been divided under three headings:
(i) Rent or Revenue: "Sec. 2 (1A)(a): any rent or revenue derived from land that is situated in India and is used for agricultural purposes;"

(ii) Income derived from agricultural land ("Sec 2 (1A)") (b) any income derived from such land by (i) agriculture; or (ii) the performance by a cultivator or receiver of rent in kind of any process ordinarily employed by a cultivator or receiver of rent in kind to render the produce raised or received by him fit to be taken to market; or (iii) the sale by a cultivator or receiver of rent in kind of the produce raised or received by him, in respect of which no process has been performed other than a process of the nature described in paragraph (ii) of this sub- clause.

(iii) Income from the farm building: "Sec. 2 (1A) (c): any income derived from any building owned and occupied by the receiver of the rent or revenue of any such land, or occupied by the cultivator or the receiver of rent-in-kind of any land with respect to which, or the produce of which, any process mentioned in paragraphs (ii) and (iii) of subclause (b) is carried on".

Even back in 1961, prominent economists such as Yogender Alagh were making a case for taxing agricultural income. And agriculture contributed 50% to our GDP. It was a primary source of income and for a young nation like India, this income would have come in very handy. But back then, most people were of the opinion that farmers would struggle with taxation matters.

And they also believed collecting and monitoring payments would have incurred an even bigger cost. It didn't seem worth the effort. There was also the fact that India had decided to impose land ceilings— meaning people couldn't simply buy a lot of land and sit on it. They had caps on what they could own. So authorities believed that most farmers wouldn't earn a lot of income anyway.

Green revolution has resulted in improving in agricultural techniques. By this point, many people are under the assumption that the government is very considerate and sympathetic towards farmers. As agriculture is the main source of living for 43% of the total workforce, it is considered sensitive, so irrespective of the political party, they would never want to bring the agriculture income into the tax net.

Along with this, it involves administrative and political constraints. Such as cost as It is widely believed that the financial resources involved in collecting the taxes would be disproportionate to the amount of tax collected. The recent estimates propose that only 53% of the total rural activities are related to agriculture. Followed by labour costs involved in collecting the taxes. The tax slabs would be difficult to define because of the disproportionate and non-uniform relations between land holdings and produce. Dynamic input and output prices The income as a whole might come under the purview of the tax slab, but the dividends may not, causing hardship for individual stakeholders. Even the Indian constitution is clear on the subject of agricultural income.

The political constraints are Indecisiveness There have been many committees constituted for the purpose of examining the scope of agricultural income in the arena of taxation. The KN Raj Committee submitted its report on the same issue in 1972. It recommended a "Agricultural Holding Tax". [5] According to the 2002 Kelkar Committee report, the exemption of agricultural income jeopardises "vertical and horizontal equity," and it is a murky river, which basically means that no one has the courage to take up, and even if one does, it will not be implemented due to protests.

BENEFITS OF TAX IMPLEMENTATION:

- **The tax base of the country will grow;** as the country's revenue grows, the fiscal deficit will shrink, resulting in an increase in GDP. According to the NSSO 70th round, approximately 4% of farmers have 4 hectares of land, while approximately 70% have less than 1 hectare. If we tax these 4% at 30%, the government will receive Rs. 250,000 in tax revenue.
- **It will curb tax evasion,** as there are people from diverse sectors who are leveraging the exemption for this evasion. Agriculture has also become a haven for money laundering, which will be reduced by imposing taxation.
- **It will increase the financial inclusion of the economy:** Farmers must open bank accounts in order to pay taxes, which increases the demand for banking services.
- **Farmers will have access to formal lending:** If agricultural income is taxed, it becomes a formal sector of the economy, and banks will have formal lending.
- **Better documentation:** The landholding, income, etc. will be properly documented for proof. This, in turn, assists the government in providing targeted subsidies for low-income farmers, and the upkeep of land records can be used as collateral in providing credit or loans to farmers.

- **Vote bank politics can be scrutinised:** This is the major reason for showing resistance to the agriculture taxation by the state governments.
- **Increased productivity:** Increased investments lead to increased efficiency, which improves productivity overall. Which in fact reduces food inflation.

THREATS OF TAX IMPLEMENTATION:

- Half of the Indian population is dependent on agriculture. But since independence, the GDP contribution has been decreasing due to the small land holdings of the majority of the farmers; besides this, 40% of them are women, so if the taxation is implemented, their livelihoods will be affected.
- Low availability of credit to the farmers As banks issue loans based on their land holdings, big farmers will benefit from the formal credit, neglecting the small and medium-scale farmers as they don't even maintain proper land records, and along with this, all the transactions were made in cash.
- Administrative burden: As the majority of the farmers are illiterate and unaware, they can be easily exploited in the name of agriculture tax, where corrupt officials will levy more taxes. Furthermore, classifying farmers based on their income will impose a significant administrative burden.
- Lack of land titles is also a reason; as there is no proper documentation, it is difficult to tax them.
- Implementation of taxation will disincentivize the farmers as production will be down. It will have an impact on food security; if this occurs, the country will have to rely on imports, resulting in no food for the PDS.
- Agriculture products are exposed to price fluctuations as As don't have regular income due to risk factors such as the monsoon. If we import more, there will be an excess of supply over demand. which will decrease the price in the market.
- Agriculture is in distress due to many uncertainties. Farmers' suicides, privatisation of health and education in rural areas will have an impact on farmers because their incomes are dynamic and dependent on a variety of factors such as monsoon, technology, fertilisers used, and so on.
- Informality of agriculture: As the majority of the transactions are in cash, if taxation were implemented, these farmers, who are not so educated, would be reluctant to approach banks, which basically means they are not getting formalised, and this would increase the informality.

LEVERAGE OF TAX EXEMPTION BY PEOPLE:

The land under cultivation in India remained constant. Agriculture as a sector will grow by 3–5%. But the kind of "agriculture income" people declared to the tax authorities kept rising through the roof. Wealthy People from various backgrounds are leveraging this exemption. Politicians typically own vast tracts of agricultural land. To avoid the taxes, they will build a farm house, which will be given to renters for parties, concerts, and other events. He is making money on the agriculture land, which he is not using for the same. So technically, their income should be taxed. But then, they are using a small part of the land to grow vegetables or fruits. He claims that he is indulging in some farming. Then he aggregates all of his earnings and claims a tax break. Maybe he'll also include the income he is receiving elsewhere. It's become a great scheme to avoid paying taxes.

As per the CAG investigation in 2019, they actually found that exemptions on agricultural income were given without even verifying supporting documents such as crop information. They didn't even know if this income was genuine, and a lot of people were benefiting from it.

SUGGESTIONS:

It is evident from the data interpretation that by imposing taxation on agricultural income, The government can substantially and significantly lower its tax on commodities and services, which are regressive in nature. The first small step must be taken by excluding small and medium-scale farmers and imposing taxation only on corporates, even if it is a small amount like 5%, which can increase government revenue by a small proportion, and then gradually expanding it to farmers with more than 5 acres, which will increase the economy's tax base. Even though the GST was proposed around 2000, the final implementation happened in 2017. So things take time, but they will benefit the economy.

CONCLUSION:

The agriculture sector, which constitutes more than 80 percent of the gross value added in the country, provides employment to 54.4 percent of the workforce, and agriculture, which accounted for 18.29 percent of GVA in 2019–20, retains 45.6 percent of the workforce. Considering the present situation of farmers, the implementation of the tax will be a great step. After careful consideration and study, the prudent course of action would be to amend the definition of "agricultural income" in tax laws and impose an appropriate monetary threshold. Income that is not covered by this revised definition can then be subject to income tax. This would ensure that only the high-income farmers come under the purview of taxation and that the interests of small- and mid-scale farmers are protected. Considering the present situation of farmers, the implementation of the tax will be a great step.

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