

Issues with taxing Agriculture income

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What is the issue?

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The recommendation of NITI Aayog to tax agriculture income stirred a distress among the farming community.

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What is History of Taxing Agriculture income?

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- The issue of taxing agricultural income (and wealth) goes back to the 1960s.
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- Seventh Schedule, entry 82 in the Union List mentions taxes other than agricultural income, while **Entry 46 in the State List mentions taxes on agricultural income**. Therefore, arguing that this is in the State List is valid.
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- **Income Tax Act of 1860** (which introduced income tax in India) it taxed agricultural income till 1886.
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- **Income tax act 1961** had provisions for taxing agricultural income.
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- Agricultural Income Tax Acts are present in Bihar, Assam, Bengal, Orissa, Uttar Pradesh, Hyderabad, Travancore and Cochin and Madras and Old Mysore State.
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- Therefore, states tax some kinds of agricultural income, such as plantations.
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What is the need of taxing farming income?

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- Farm income has been recognized as one area where **money is channeled to avoid paying taxes.**
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- Considerable amount of money that is channeled here to escape tax by diverting funds to agriculture on paper or showing property owned as farmland which may be used for a penthouse.
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- This taxation is like any other economic activity, if individuals and companies can be taxed, so should farmers, provided they go beyond the exemption limit.
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What are the Challenges in Agricultural taxation?

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- The idea is reasonable; **the issue is so political** that it will automatically ring in negative points for the implementer.
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- Any such tax would be interpreted as affecting the lives of 600 million people and can be perceived to be a disaster during elections.
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- If agriculture has to be taxed, it would be by the **State as our federal structure would not permit the Centre to do so.**
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- The major problem is identifying the individuals given that many of them own small pieces of land or are landless laborers.
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- **The majority of the farmers are classified as socially and economically deprived.**
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- Deciding what is to be taxed whether the value of output or the net income earned by farmers, is tedious.
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- If implemented, this tax will be finally passed on to the consumer who will then have to pay a higher price for the product.
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What could be done?

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- The taxes collected by the Centre would however be assigned to the states. Most agricultural farmers would continue to remain out of the tax net. (95% of farmers would be below the threshold).

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- There must be a **unified system of taxation across states**. Agricultural income taxation must be integrated with non-agricultural income taxation. Land revenue tax hasn't quite worked and must be replaced.

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- If implemented this would be an indirect tax on commodities, like an excise or sales tax, which will get subsumed under GST. The income of the farmer will still be outside the ambit of income tax.

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- In the case of large farmers thresholds for exemption can be decided for specific crops.

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- If National Agricultural Market attains a reasonable density, then tracking persons who evades with large transactions becomes easier.

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Source: The Hindu & The Indian Express

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