Tax on Agricultural Income

Why in news?

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Niti Aayog member Bibek Debroy suggested of bringing agricultural income into the income tax structure.

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What is the legal position of tax on agriculture?

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- In the 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.
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- Therefore, it is in the State List.
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- Section 2 (1A) of the Income Tax Act defines agricultural income as rent/revenue from land, income derived from this land through agriculture and income derived from buildings on that land.
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- Section 10 (1) of the Income Tax Act excludes agricultural income from a computation of total income.
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What are his justifications?

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- The intention was to increase the government’s revenue.
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- There are also other following reasons.
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- Chartered accountants and lawyers have been misusing Section 2 (1A) and Section 10 (1).
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- Agricultural income was taxed till 1886.
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- We still have the Assam Agricultural Income Tax Act (1939), the Bihar Agricultural Income Tax (1939), the Kerala Agricultural Income Tax Act (1991), the Tamil Nadu Agricultural Income Tax Act (1955), the Orissa Agricultural Income Tax Act (1947), the Maharashtra Agricultural Income Tax (1962) and the Bengal Agricultural Income Tax Act (1944).
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- So it isn't true that states don't tax agricultural income.
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- It encourages laundering of non-agricultural income as agricultural income.
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- e.g In 2014-15, a company made profits of Rs 215 crores, but claiming the agricultural income exemption, it paid no tax.
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- Hence there must be a unified system of taxation across states.
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- Agricultural income taxation must be integrated with non-agricultural income taxation.
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Why it is wrong?

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- Agriculture's share in India's GDP is around 14-16% while it has 49% of the total manpower and 64% of rural manpower.
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- The main reason for a large part of the population being dependent on agriculture is small land holdings and less productive farming techniques.
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- Moreover, agricultural output fluctuates far more than the industrial and services sectors.
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- Given the level of informal occupation prevalent in agriculture, implementing an agricultural tax will not be easy.
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- Any agricultural tax system would have to evolve crop-specific norms of return to the land, while accommodating external shocks like droughts, floods or pests.
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- Imposing tax on value of goods produced, the mechanism would fail to take individual farm economics into account, thereby taxing a farmer even if he

makes a loss on sale.
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- Lack of clarity on land titles and cropping patterns based on lease/share-cropping shall further introduce randomness to the system.
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- It shall disincentivise farmers to sell through organised formal channels, thereby increasing risk to farmer’s income.
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- Many farmers save seeds from one harvest for the next and the practice remains critical to running Indian agriculture — proposals based on value of goods produced would end up taxing such sustainable practices as well.
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- Further complications arise if farmers suffer from multiple crop failures followed by one successful crop, for the income in that period may be subjected for tax payment.
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- In this bleak situation, the proposal to tax agricultural income is irrational.
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Source: The Hindu, The Indian Express

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