



TAXATION OF AGRICULTURAL INCOME IN INDIA

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ABSTRACT

Taxation of agricultural income in India as a subject of study has drawn the special attention of academicians, policy-makers and social activists in recent times. While the economists and government-appointed committees have strongly argued for the levy of taxes on agricultural incomes in India on equity and efficiency considerations, there have been many others who are opposing the taxation of the agriculture sector on some ground or the other. The present research paper examines different aspects of the taxation of agricultural income at the State level as well as the tax treatment of agricultural income under the Income-Tax Act, 1961. As observed by the author, the taxation of agricultural incomes in different States has proved to be ineffectual in terms of coverage of farmer-assessees as well as revenue generation. While agricultural income taxes have not been imposed at all in some States, the levy of such taxes is limited to incomes arising from plantations only in some other States. As far the tax treatment of agricultural income at the Central level, agricultural incomes are taken into consideration under the Income Tax Act (along with non-agricultural incomes) only for the determination of income tax rates of the farmer-assessees. Therefore, there have been persistent demands to empower the Central government to levy and collect taxes on agricultural incomes across different States and Union Territories on an uniform basis. In regard to this proposed taxation of agricultural income under the Central income tax law, the present paper emphasises upon the need to address certain paramount issues such as estimation of agricultural incomes, deductions to be allowed from such incomes, basic exemption limit on such incomes, tax rates, tax administration, etc.

Key words: Agricultural income, Central level, Equity, Efficiency, Subsidies.

1.Introduction

Taxation of agricultural income has been a subject of considerable debate in India especially due to the peculiar socio-economic structure of the Indian population. This subject has drawn the special attention of academicians, policy-makers and social activists as the macro-economic policies being pursued within our country are guided by both efficiency and equity considerations in order to fulfil the varied needs and aspirations of different sections of the Indian society. Most of the tax experts have argued for the taxation of agricultural income on account of a number of reasons. The untaxed agricultural sector in India has led to the problems of both avoidance of taxes and tax evasion. In fact, serious inequities in the tax system have been noticed due to increasing evidence of the growing wealth of the rural agriculturists who have been the main beneficiaries of non-taxation of agricultural income



under the Central income tax. Although agricultural income tax legislations exist in certain States (including Tamil Nadu, Kerala, Odisha, Bihar, West Bengal and Assam), the actual implementation varies from such taxes not being levied at all to being levied upon income from plantations only. Therefore, the contribution of taxes levied by the States on the agricultural sector has been extremely negligible. In view of these reasons, there have been persistent demands from both the economists and the government-appointed committees for the imposition of taxes on agricultural income in India.

As against the above-mentioned arguments, there have been many others who have been resisting the taxation of the agricultural sector on the ground that the cost of collecting taxes from this sector would be extremely high and even exceed the tax revenue likely to arise from it. It must be acknowledged that the biggest challenge to the taxation of agricultural income has been political in nature as about two third of the population living in the rural areas are dependent upon agriculture as their main source of livelihood. Most of them have been living in poverty and, therefore, taxing this sector will convey the signals that the government is pursuing anti-poor policies. Since Independence, the agriculture sector has been supported through fertiliser subsidy and subsidy on electricity being used for irrigation purposes, minimum support price (MSP) to farmers for certain crops, etc. At the same time, distribution of food grains at affordable prices to people under the public distribution system (PDS) has continued to exist in India. In fact, the public distribution system (PDS) has become an integral part of the government's policy for the effective management of the food economy in the country. These policy initiatives at the government level have been guided by considerations of achieving self-sufficiency in food production and ensuring that every individual gets adequate supply of food grains for both sustenance and nutrition.

In the light of the aforementioned observations, the present paper attempts to explain the meaning of agricultural income and reviews the available literature regarding the taxation of agricultural income in India. This paper also provides a description of the background of levy of agricultural income tax at the State level as well as the tax treatment of agricultural income under the provisions of the Income-Tax Act, 1961. Subsequently, attempts have been made to examine both the rationality and the feasibility of taxing agricultural income at the Central level with provisions for uniform application across different States and Union Territories. In the end, certain important issues or problems pertaining to the taxability of agricultural income at the Central level have been examined, and necessary suggestions offered in relation thereto.

2. Agricultural Income Defined

As specified in Article 366 of the Constitution of India, the expression 'agricultural income' refers to agricultural income as defined for the purpose of the enactment relating to Indian Income tax. Therefore, the term agricultural income defined under the provisions of the Income-Tax Act, 1961, becomes relevant in the context of levy of tax on such income. According



to Section 2(1A) of the Income-Tax Act, 1961, the expression 'agricultural income' includes the following:

- “1. Any rent or revenue derived from land which is situated in India and is used for agricultural purposes, Section 2(1A) (a);
2. Any income derived from such land by agricultural operations including processing of the agricultural produce, raised or received as rent-in-kind so as to render it fit for the market or sale of such produce, Section 2(1A) (b); and
3. Income attributable to a farmhouse subject to the condition that the building is situated on or in the immediate vicinity of the land and is used as a dwelling house, store house or other out-building and the land is assessed to land revenue or a local rate, or alternatively, the building is situated on or in the immediate vicinity of land which (though not assessed to land revenue or local rate) is situated in a rural area, Section 2(1A) (c).”

Thus, it can be noted that the primary condition to treat an income as agricultural income is that the land in question should be used for agricultural purposes. Since the terms 'agriculture' and 'agricultural purposes' have not been defined under the Income Tax Act, the meaning of these terms can be inferred from the decided Court cases. In the famous case of CIT versus Raja Vinay Kumar Sahas (1957) 32 ITR 466 (SC), Justice Bhagwati laid down certain principles that can be applied in determining the scope of the terms 'agriculture' and 'agricultural operations'. In clarifying the meaning of these two expressions, Justice Bhagwati distinguished between 'basic operations' and 'subsequent operations' connected with the process of agriculture. As observed by Justice Bhagwati, basic operations refer to those operations which require the expenditure of human skill and labour upon the land itself (prior to the germination of the crop) so as to make it fit for cultivation. Some of the examples of basic operations are tilling of land, sowing of seeds, planting and similar operations on the land. In addition to basic operations, there are certain operations to be performed after the produce sprouts from the land i.e., weeding, digging the soil around the growth, removal of undesirable undergrowth and all operations which foster the growth and preserve the same not only from insects and pests but also from degradation from outside tending, pruning, cutting, harvesting and rendering the produce fit for the market. It may be further noted that the subsequent operations can be classified as agricultural operations only when these are performed in conjunction with or in continuation of basic operations.

In addition, it would be worth mentioning that agriculture not only implies raising of food and grains for consumption by human beings and animals but also includes all products raised through the performance of both basic and subsequent operations. As mentioned by Singhania (2000, p.385), “These products, for instance, may be grain or vegetable or fruits including plantation and groves or grass or pasture for consumption of beasts or articles of luxury such as betel, coffee, tea, spices, tobacco, etc. or commercial crops like cotton, flax, jute, hemp, indigo, etc.” These products also include certain forest products such as Sal and Pyasal trees, Timber,



Tendu leaves, etc. Similarly, saplings or seedlings grown in a nursery will be regarded as agricultural products and any income derived from their sale will be deemed to be agricultural income. However, it must be pointed out that merely some connection with land itself does not lead to an activity being classified as agricultural activity. Therefore, dairy farming, breeding and rearing of livestock, poultry farming, etc. will not constitute agricultural activities.

The Income Tax Act has stipulated the rules for disintegrating composite business incomes which are partly agricultural and partly non-agricultural in nature. These rules have specified the portions of incomes arising from certain activities to be classified as agricultural incomes : (i) Growing and manufacturing tea in India (60 %); (ii) Sale of centrifuged latex or cenex or latex based crepes or technically specified block rubbers manufactured or processed from field latex or coagulum obtained from rubber plants grown by the seller in India (65 %); (iii) Sale of coffee grown and cured by seller (75 %); and (iv) Sale of coffee grown, cured, roasted and grounded by seller in India with or without mixing chicory or other flavouring ingredients (60%)” (Singhania, 2020, p.387). The remaining portions of such incomes will be regarded as business incomes and taxed accordingly.

3. Review of Literature

In the present section, an attempt has been made to review the literature regarding various aspects of taxation of agricultural income in India. Sengupta(2012) discussed the current system of taxation and its actual implementation in India. In addition to explaining the macro-economic reforms in India, the author discussed the benefits of agricultural income tax and argued in favour of its imposition in India. This research paper sought to reignite the debate at two different levels i.e., by advocating the comprehensive taxation of incomes including agricultural income and also by highlighting the need for making suitable legislations in order to offer the required base level of exemption on the taxation of agricultural income in India.

Ojha (1969) attempted to discuss the taxability of agricultural income in India and pointed out the difficulties involved in its implementation with regard to the issue of equity. According to the author, amendments may be made in the Indian Income Tax Act in order that certain incomes derived from agriculture will be treated as non-agricultural income and taxed accordingly. In the views of Ojha, income derived from letting out of land for agricultural use should not be classified as agricultural income.

Gandhi (1969) explained the benefits and costs of taxing agricultural income within the purview of Central income tax. The author proceeded to estimate the revenue benefits likely to arise from the integration of State level agricultural income taxes with the Central income tax. Based upon his estimates, the author found that the extra tax revenue generated therefrom can be utilised to finance the development plans under the planning process. If such integration is to be implemented, there would be a need to address certain issues regarding 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, administration of agricultural income tax including its distribution between the Centre and the States, etc. In addition, the author stated that in case such proposal of integration is accepted and implemented, then necessary amendments in the existing Income Tax Act will become paramount.

Alagh (1961) contended that agricultural income tax levied at the State level can be viewed as a significant source of resource mobilisation, and it can be utilised for implementing development schemes in rural areas. According to him, ceilings on land holdings in different States have not diluted the case for levy of agricultural income tax. Even after the application of such land ceilings, agricultural incomes will still be above the exemption limit in the case of many landowners. As found by Alagh, the revenue generation from agricultural income tax has grown more or less in proportion to total tax revenues. Although there are certain administrative difficulties in the levy and collection of agricultural income tax, the technique of presumptive assessment already being used in the assessment of land revenue in the country can be used to assess the tax liability of small landholders on their agricultural incomes.

Mishra and Kulkarni (2017) specifically studied the occurrence of both tax avoidance and tax evasion in the agricultural sector as well as their effects in India. As noted by them, many of the taxpayers are misusing the exemption of agricultural income as a means of showing their non-agricultural incomes as agricultural incomes and thereby avoiding the payment of taxes. Therefore, Mishra and Kulkarni emphasized upon the need to impose tax on agricultural income so that the large farmers and agricultural companies earning huge incomes from agriculture can be brought within the tax net. In addition, the authors observed that there is a significant difference between government's valuation of agricultural land and its market price. Therefore, at the time of sale of land, lot of black money is generated with the consequent loss of tax revenues. Thus, there is a need for the government to revise agricultural land values from time to time.

Khan (2001) studied the experiences of certain developing countries within Asia, Africa, Middle East, North America and Latin America in the areas of taxation of agricultural income, including tax structure and tax administration. Khan's research study analysed both the conceptual and practical problems that existed within the tax regimes of these developing economies. Although the governments in these countries have reduced export taxes (indirect taxes) on the exports of agricultural products, the revenue generation from direct taxes on the agricultural incomes of farmers in these countries has not increased simultaneously. In addition, the author noted that different measures of presumptive assessment of agricultural income have been employed by these countries with varying degrees of success. The taxation of agricultural income has the potential for increased revenue generation in most of these countries but the implementation process is constrained by a number of administrative and political considerations.



James (2004) examined different aspects of taxation of agricultural income in India and offered necessary justifications for the levy of such tax. Although the agricultural income taxes have been imposed by certain States, such incomes are taken into consideration only for income tax rate purposes under the provisions of the Central Income Tax Act. As suggested by James, the Central government should be given complete powers to tax all incomes including agricultural incomes. The personal agricultural income tax so collected can be utilised to finance the required investments in agriculture and also to address the needs of the rural poor through the introduction of a comprehensive social security net and through the improvement of health and education infrastructure in the rural areas. In this context, the author discussed the issues of equity and administrative feasibility of implementing the taxation of agricultural income tax.

4. Agricultural Income Tax at the State level

The present section deals with the background information and the present status regarding the taxation of agricultural income at the State level in India. In 1935, the Government of India Act, 1935, provided for a separate provincial levy on agricultural income for the first time. Under this Act, the States and the Provinces were authorised to tax agricultural incomes. In fact, the segregation of agricultural incomes and non-agricultural incomes and the power to levy tax on agricultural income tax at the State level are the two main features of the said Act that have continued to exist even at present under the Constitution of India. In 1938, Bihar emerged as the first state in India to impose tax on agricultural income in order to compensate for the loss of revenues arising due to the introduction of prohibition in certain parts of the Bihar Province, separation of Odisha from this Province and the comparatively lesser yield from land revenue. Until 1951, agricultural income was being levied in seven different States such as Bihar (1938), Assam (1939), West Bengal (1944), Odisha (1948), Uttar Pradesh (1948), Hyderabad (1950) and Travancore (1951). This was followed by the levy of such taxes in 1954 in two more States such as Rajasthan and Madras. It is noteworthy, however, that 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 tax, namely, Odisha, Bihar, Assam, West Bengal, Madras, Mysore and Kerala. At present, the agricultural income tax legislations exist only in a few States including Odisha, Bihar, West Bengal, Assam, Tamilnadu and Kerala.

It may be stated that the States levying tax on agricultural income have adopted the provisions of Income Tax Act with a few modifications to suit the local conditions. Agricultural income tax is charged for each financial year with respect to the total agricultural income of an assessee including an individual, HUF, Association of persons, a Firm or a Company. The rates of levy of such tax are fixed under the State-level enactments in some States while in a few other States, the rates are fixed annually under the Finance Acts. In addition, the States have fixed their respective exemption limits below which agricultural incomes will not be chargeable to tax.



However, the present position is that such taxes are not being levied at all in some States while the levy of such tax remains confined to incomes arising from plantations only in some other States.

5. Treatment of Agricultural Income under Central Income Tax

According to Section 10(1) of the Income Tax Act, 1961, agricultural income has been exempted from the scope of income tax liability. 'Agriculture' as a subject has been included in the State list under the Constitution of India and, therefore, the Centre is not allowed to levy taxes on agricultural income. In fact, such taxes can be levied only by the States as discussed beforehand. However, agricultural income is to be considered for income tax rate purposes under the provisions of the Income Tax Act provided the following three conditions are satisfied:

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

It may be noted that the above scheme existing under the Income Tax Act is known as the scheme of partial integration of non-agricultural income with agricultural income for the determination of income tax rates, applicable to the above-mentioned assesseees. 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. First, the net agricultural income of the assessee will be calculated as if this was the only income chargeable to tax. 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. The net agricultural income as computed will be increased by the exemption limit and the income tax is calculated on such increased net agricultural income of the assessee. 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. 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.



6. Case for Taxing Agricultural Income under Central Income Tax

As mentioned beforehand, the power of the Central government to tax incomes remains confined to non-agricultural income only even though agricultural incomes are taken into account under the Income Tax Act for income-tax rate purposes. The power to levy and collect agricultural income tax has been vested with the State governments under the Eleventh Schedule of the Constitution of India. It must be pointed out, however, that all the State governments have not utilised their power to tax agricultural incomes; only a few States are levying tax on agricultural incomes to a limited extent especially on incomes arising from plantation crops such as tea, coffee and rubber plantations. Again, it is noteworthy that the tax revenues collected from agricultural incomes have been very marginal or insignificant. As noted by James (2004, p.4), "The tax collected from agricultural income has been less than half of a percent of the tax revenue collected by each of the States." In this context, the Task Force on Direct Taxes appointed by the government of India in 2002 under the Chairmanship of Mr Vijay Kelkar recommended that "there was an urgent need for the Central government to step in and take from the State government the power to tax agricultural income. This according to the Task Force was necessary because the almost negligible taxation of this sector by the States has resulted in serious distortions in horizontal and vertical equity and that it encouraged laundering of taxable non-agricultural income as agricultural income and has been a major route for tax evasion" (James, 2004, p.2). In this context, James has offered some justifiable reasons for the effective taxation of agricultural income in India and suggested that the Central government should be given complete power over the taxation of all forms of incomes including agricultural incomes, as discussed below:

It has been observed that the share of agriculture sector (including agriculture, forestry and fishing) in the total GDP of India has been declining over the years; it was 17.7 percent, 17.9 percent and 17.1 percent of the GDP in 2015-16, 2016-17 and 2017-18 respectively. This decline in agricultural income is noticeable particularly because about 42 percent of the workforce in India have been employed in the agriculture sector in recent years. Therefore, the per capita income of people living in rural areas has been much lower than those in urban areas. However, it must be emphasized that the rich farmers living in rural areas have been the main beneficiaries of the government policy to exempt agricultural incomes from taxation. In fact, the incomes of certain sections of farmers in the rural areas of Punjab, Haryana and Western Uttar Pradesh have been increasing very fast, far exceeding the incomes of the middle class in urban areas. This has led to serious distortions in equity and made the middle class to raise their voice for the levy of increased taxes on the rich agriculturists.

At present, the taxes being levied in the agriculture sector at the State level include tax on agricultural income and land revenue. Although the land revenue is being levied and collected by almost all States, the levy of agricultural income tax remains confined to a few States and that too on income from certain plantation crops including tea, coffee and rubber plantations. Therefore, the revenue collections from agricultural incomes in the States have been extremely



low. In addition, the collections from land revenue have been very less mainly due to low land revenue rates in almost all States while the survey and settlement procedures involved in land revenue administration have been very costly. Therefore, there is an urgent need to augment revenue collections from both these taxes through suitable tax reforms.

It is often argued that the agrarian structures in India are characterized by an unsupportive regulatory environment, export restrictions, etc. While these restrictions have been removed to a great extent, the agricultural incomes of rich farmers have been rising very fast as aforesaid. The increased profitability from agriculture can be seen from the increasing levels of agricultural exports over the recent years. Since our country has achieved self-sufficiency in food production, the economists have argued for the reduction of subsidies on agriculture being offered to farmers at present in the form of fertilizer subsidy and power subsidy. At the same time, some others have justified the need to continue with subsidies as a means of resource transfer to the poor farmers and thereby enjoy their political support. However, it remains doubtful as to which section of the farmers are mostly benefiting from such subsidies as maximum quantity of food grains is being procured from Punjab and Haryana where the poverty level among farmers has been much lower than their counterparts in other States. All these factors provide ample justification for the imposition of taxes on agricultural income-tax across the States on a uniform basis.

In addition, it has been noticed that large Corporations have started entering the agriculture sector in recent years. These Corporations have been entering into structured arrangements with farmers by which they provide finance, fertiliser, seeds and other inputs to the farmers and also buy back the latter's agricultural produce at an agreed price. Since such activities have been increasing and the agriculture sector is getting increasingly commercialised and profitable, it becomes all the more necessary to levy and collect taxes on the increased incomes of rich farmers.

7. Issues or Problems Relating to Taxation of Agricultural Income at the Centre

The preceding section has shown that the levy and collection of agricultural income taxes at the State level have proved to be inefficacious. Therefore, there is ample justification for the integration of State agricultural income taxes with the Central income tax and for making it uniformly applicable across all States. This kind of integration is necessary from the viewpoints of both the enhancement of tax revenues for the government and for ensuring greater equity across different sections of the Indian society. In this connection, it becomes pertinent to discuss certain issues or problems relating to the taxation of agricultural incomes by the Central government and the feasible solutions in relation thereto.

In the first place, it becomes necessary to address the question of estimation of agricultural incomes if such incomes are to be made taxable under the Central income tax law. According to Section 145 of the Income Tax Act, 1961, agricultural incomes will be computed on the basis of the method of accounting regularly employed by the assessee. Where no method of accounting



is being regularly followed by the assessee, the income tax authorities will assess the total income of the assessee according to their best judgement. In practice, however, this income tax provision is likely to become ineffective as the taxpayers having agricultural incomes do not generally maintain necessary accounts. In this case, the feasibility of making presumptive assessment of agricultural income cannot be ruled out. There are many foreign countries where presumptive technique is being used to estimate the agricultural incomes of peasants. Under this presumptive technique, different types of land are assessed on the basis of gross income per hectare, estimated on the basis of such indicators as fertility of the land, utilisation of capital equipments on a farm, expected crop yield, family size, value of marketable surplus, etc. However, if a farmer is not satisfied with the computation of his agricultural income based on the presumptive technique, he must be allowed to pay tax on his actual income but the onus of furnishing proper accounts in relation to such incomes must be fixed on him.

The next important issue relates to different deductions to be allowed from the gross agricultural income of an assessee. The agricultural income tax legislations of different States provide for a number of deductions such as land revenue, local rates and cesses, depreciation of capital assets including plant and machinery being used for farming, maintenance cost of such capital assets, interest on borrowed capital, expenses incurred on cultivation, harvesting, transportation and marketing of agricultural produce, etc. Under Section 37(1) of the Income Tax Act, however, a general deduction is allowed in respect of expenses (not being in the nature of capital expenditure or personal expenses of the assessee) incurred by the assessee for purposes of his business or profession in order to compute his taxable income under the head 'Profits and gains of business or profession'. This provision of the Income Tax Act, however, requires that proper accounts of farm incomes are maintained and furnished by the assessee. Such accounts are not readily available in the case of many farmers and, therefore, this income tax provision is likely to become redundant. In this case, a better option would be to allow a certain percentage of estimated agricultural income as deduction in calculating the net agricultural income of an assessee.

Another significant issue relates to the administration of agricultural income tax in India. In case the State-level agricultural income taxes are to be integrated with the Central income tax, the Centre would be vested with the power to levy and collect such tax on agricultural incomes across different States and Union Territories. In this context, the Kelkar Committee on Direct Tax Reforms (2002) suggested that "the Centre take up the taxation of agricultural income. The report recommended that this could be achieved by asking the States to voluntarily give up their powers under Article 252 of the Indian Constitution so as to avoid a lengthy Constitutional Amendment" (James, 2004, p.7). However, the State governments cannot be forced to give up their taxing powers with respect to agricultural incomes. In fact, this method of taxation is unlikely to get the support of all the States. An alternative to this method is to go for a Constitutional Amendment that brings the taxation of agricultural incomes under the purview of the Centre. Such an amendment will not only require two third majority in both the Houses of Parliament but also need ratification by a majority of State legislatures. In any case, the net



tax receipts arising from the taxation of agricultural incomes under the Central income tax should be apportioned among different States in proportion to the source or origin of agricultural incomes or the residence of agricultural income tax assesses. Another solution would be to put such agricultural income tax receipts in the “divisible pool” to be allocated among different States according to the recommendations of the Finance Commission.

8. Conclusion and Suggestions

An objective analysis of taxation of agricultural income in India indicates that the levy of such taxes under the Central income tax is justifiable not only on economic grounds but also from the viewpoints of equity and efficiency considerations. In this context, the relevant issues or problems involved in the implementation of this method of taxation of agricultural income were discussed previously, and necessary solutions to such problems were also suggested. In this conclusion part of the research paper, it would be worthwhile to make a few important observations. Farm incomes in India have increased enormously on account of the Green Revolution and the cultivation of high yielding varieties of crops on the vast areas of agricultural land. However, the benefits of enhanced agricultural incomes have accrued mostly to large farmers or to large mechanised and specialised farm owners, who have been reaping a large part of the benefits of public investment, subsidies, and extension of credit facilities in the agriculture sector. In fact, the small and medium farmers have not benefitted much from the prosperity in the agriculture sector in our country. In addition to giving rise to problems of both avoidance of taxes and tax evasion, the present tax system has failed to check the growing disparities in the distribution of agricultural income and wealth. This has resulted in serious disparities in equity not only within the farming community but also across different sections of our society.

The biggest opposition to the taxation of agricultural incomes in India has been political in nature as most of the people living in rural areas are dependent upon agriculture in a direct or indirect manner. This position is not surprising particularly because there is a virtual absence of a scheme of social insurance offered by the government to the large majority of farmers who depend upon the rains for their agricultural produce and who are barely above the poverty line. Therefore, any increase in the tax liability of those farmers will not be accepted by them without any protest. This situation has been to the advantage of rich farmers who have been more vehemently opposed to the increased taxation of agricultural income in India.

In view of the present tax scenario prevailing in the agriculture sector, a few important suggestions may be offered to streamline the taxation of the agriculture sector in India. As suggested by the Kelkar Committee on Direct Taxes, a high basic exemption limit on agricultural income may be fixed with the result that only the rich farmers would be taxed. The basic exemption limit can be gradually brought down in the future years so as to realign it with the other sectors of the economy. In addition, the opposition to the increased taxation of agricultural income can be reduced through increased government expenditure on social



insurance schemes for small farmers and farm labourers in rural areas. Specific programmes for improving their work efficiency and income levels need to be prepared and implemented by the government. The additional resources generated through the levy and collection of agricultural income tax may be kept in a special fund that could be utilised for the development of the agriculture sector and for improving the economic condition of small and marginal farmers who constitute a vast majority of the farming community in India.

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