# DR. Ambedkar's views on Agriculture Income Tax

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## Introduction:

Dr Ambedkar's personality was towering and multi-faceted. He had extensively written on both most complex and technical, as also theoretical issues, including pressing day-to-day economic problems. He was essentially an economist by academic training and a recognized researcher in problems pertaining to public finance and political economy. This paper deals with his views on taxes on agriculture income in India and its relevance in the present context. From last two decades or so there is debate on taxing on agricultural income, most of the leading economists are in favor of taxing agriculture income. However, land lords, have strong lobby in Indian politics and consistently they are opposing taxes on agriculture income. Dr. Ambedkar have argued this issue before eight decades or so and favored the taxing agriculture with sound reasoning his views are very much relevant even in present context.

## Role of Taxation in developing country like India

According to Dr. Ambedkar, the socio-economic development of an economy depends primarily upon the availability of adequate finances and their proper utilization. In India, taxation was assigned the central task of collecting sufficient revenue to finance economic development program in spite of low ability to pay taxes due to extremely low levels of income and consumption. The essence of revenue function of taxation policy in the initial stage of development was to cut down the existing level of consumption, particularly of well-off sections, and mop up the savings for public investment. However, as income rose consumption levels were to be prevented from rising and additional revenue generated[1]. The strategy was to channel an increasing proportion of incremental income into building development infrastructure. Taxation was the main fiscal weapon available to the government for this purpose and it has to be used to the hilt. Taxing at progressive rates partly as revenue and partly as equity measure, the government attempted to make both direct and indirect tax rates progressive. However, it is to be noted that the merit of progressiveness has been lost while implementing it in letter and spirit.

**Trends in Tax-GDP Ratio**

Taxation level of a country is traditionally judged in terms of the ratio, which taxes bear to some measure of national income aggregate. Change in the ratio is determined by variations in both the numerator (Total Tax Revenue) and the denominator (National Income). Tax-GDP ratio is generally regarded as an index of relative tax burden in a country over a period of time or when countries are compared for the same period.

Tax-GDP ratio indicates the percentage of national income that is compulsorily transferred from private pockets to the public exchequer. Hence, it signifies the relative share of the government in the disposition of national income. Tax-GDP ratio is determined by such factors as the level of per capita income, composition of national income, size of the foreign trade sector, and the degree of monetization in the economy. With the launching of the five-year plans in 1951, and expansion in administrative and welfare activities of the government at different levels, the need for revenue increased and it was met mainly by additional tax

[1] Dwivedi, D. N. [1994], *Readings in Indian Public Finance*, P. 22, Wiley Eastern Ltd., New Delhi

efforts. Consequently, Tax-GDP ratio started increasing in India, being 4.78 per cent in 1960-61, 6.17 per cent in 1970-71, and 7.66 per cent in 1980-81, and 8.99 per cent in 1990-91. However, it declined to 8.05 per cent in 1995-96, but again it increased to 9.91%, 11.26% and 12.49% respectively during the 2000-01, 2005-06 and 2006-07. However, though it shows increasing trends but the growth rate is very slow as compare to the size of our corporate sector and service sector. Thus there is a lot of scope to increase tax net.

**Dr. Ambedkar's Approach**:

Dr. Ambedkar vehemently criticized the revenue system of British Government. His main criticism of the revenue pattern of British government of India was on the ground that it was against the interests of the poor people of India. Further, there was no justice or equity in tax policy. According to him, land revenue was highly oppressive. Therefore he argued that the government should undertake legislation to make the tax policy more equitable and elastic[i]. According to him, the first and most essential requirement of good tax system is that it should be reliable. It does not matter whether that revenue system brings in large revenue or small revenue but whatever it brings it ought to be certain in its yield[ii]. The main features of taxation policy as advocated by Dr. Ambedkar were as follows.

1) Tax must be levied on taxable capacity or income.
2) It must be progressive ie the rich must be taxed more and the poor less.
3) Exemptions to tax payers should be allowed to those who have income below a certain limit.
4) Land revenue item must not be rigid but elastic and subject to variations.
5) There should be equity in taxation.
6) No taxation system should be manipulated to lower the standard of living of the people.
7) There should be efficiency in taxation.

Dr Ambedkar emphasized the necessity of changing the attitude towards the taxes. Therefore, he suggested taking immediate efforts to rectify the inequalities in the general system of taxation. Particularly he had the great objections to the then prevailing system of levying land revenue. While participating in the debate in the Bombay legislative council, he said that, the tax system of the Bombay presidency was inequitable and hence indefensible. According to him the land revenue, whatever may be the play of words whether it was tax or whether it is rent, there was no doubt that, land revenue was a tax on the profits of the businessman and therefore, there should not be difference in the methods of levying the tax on the income from agriculture and business. But in the case of land revenue every farmer, whatever may be his income was brought under the levy of land tax, while under income tax no person is called upon to pay the tax, if he had not earned income during the year. Such system was not made applicable to the land revenue. Whether there is a failure of crops or abundance of crops the poor agriculturist was called upon to pay the revenue. Further, the income tax is levied on the recognized principle of ability to pay. Under the income tax, the holders of income below a certain minimum level are exempted from tax payment. But under the land revenue system the tax was remorselessly collected from every one farmer whether he is rich, holding more than hundreds acres of land or a poor farmer holding one acre of land. Therefore, he sought the redemption from oppression and exploitation of land revenue system immediately.

**Land revenue system**

The foundations of modern land revenue system in India were laid during the period of the Mogul dynasty, the East India Company strengthened the land revenue system by introducing permanent settlement in Bengal and Bihar and subsequently this was extended to the other parts of the country[iii]. Under the Government of India Act 1935 the land revenue was assigned to the states and the same is incorporated into the Indian Constitution in 1950 and then State Governments have attempted to have their own independent land revenue system, though the basic structure has not changed more. Even on the eve of Independence, land revenue was an important source of tax revenue in India. But thereafter its importance drastically declined. Land taxation in general has a great value of both revenue and non-revenue purposes. On revenue side land tax causes no distortion of output prices farmers are encouraged to produce at high level because they receive the full price for their crops.

**Arguments for taxation:**

Revenue argument is undoubtedly a strong justification for land taxation.

Non-revenue objectives of land taxes can encourage land reforms. If the land tax rates are very high and progressive and impose heavy burden on large landholders, they will be forced to prefer smaller holdings and that will be of help in reducing the concentration of land in the hands of a few landlords. Land revenue is a levy on acreage basis in India. Therefore land tax is not a progressive levy since there are no graded rates and also since the rates are not related to net income from agriculture. In its present from it is highly inequitable because it is levied at a flat rate per acre without taking in to consideration a large and small size of landholdings[iv]. Therefore, the tax burdens not equitably distributed.

The Taxation Enquiry Commission (1953-54) recommended the revision or tax taking into consideration the changes in prices of agricultural products. But government of India did not take it seriously. In India, political considerations are more important in the case of land taxation than in any other from of taxation. Therefore it is difficult to get political support for any move that leads to an increase in the tax burden on the agricultural sector. Farming lobbies act as interest groups and put up strong resistance whenever the government attempts to mobilize more revenue from the agricultural sector. Several proposals were made in the fifties and the sixties for reform of land revenue system, but none of them were accepted and implemented. A very valuable and by far the most comprehensive study of agricultural taxation is the one undertaken by the committee on taxation of agricultural wealth and income (1972) familiarly known as K. N. Raj Committee. Unfortunately, the recommendations of this committee also went into cold storage. To remove the deficiencies of the existing system of taxation of agricultural income, a drastic change in the system is needed. What is needed is a unified system of taxation of agricultural and non-agricultural incomes and for this purpose taxation of agricultural income must be taken out of the state list through a constitutional amendment and an integrated system of taxation of agricultural and non-agricultural incomes must be introduced.

The Central Government and the Planning Commission have emphasized on the necessity of raising additional resources from the agricultural sector. Yet, the fact of the situation is that when it comes to practical implementation the central government cannot do anything in the matter, as agriculture is a state subject. The long-term fiscal policy (December 1985), recognized that taxing agricultural income presents many conceptual and administrative problems. Land revenue and taxation of agricultural income are states subjects under the constitution. The centre has no intention of seeking any change in the position. On such inability of central government the Sarkaria commission observed that such an approach however does not solve the problem and the reforms in sphere of agricultural taxation are long overdue. There is in general unanimity that at least the large landlords should be taxed. A suggestion often made is that in order to overcome the resistance by interested groups and in the interest of uniformity in taxation the union may levy a tax on agricultural income and its net proceeds be assigned to states.[v] It has also suggested that in the interest of the raising revenue and uniform tax on agricultural sector the Union Government might levy this tax as per arrangements under Article 268 of the Indian Constitution.

**Political domination of Land Lords:**

Taxes on agriculture have remained generally untouched since several years in India. On the contrary, land revenue on agriculture has been either dropped or reduced considerably. On many occasions the State Governments competed with each other to provide relief to the agriculturists by giving them tax concessions or by abolishing some taxes altogether rather than taxing them[vi]. As many economists point it out, land revenue from agriculture income is inelastic. It does not increase with the increase in prices of agricultural products. This trend is in the favor of pretty agriculturist. The affluent peasantry, who constituted perhaps the most powerful group within the Indian coalition, successfully imposed three conditions on economic policies.

1) Land reforms should not be pushed beyond a certain point,

2) There should be no taxation of agricultural income and wealth,

3) And the state should maintain high prices for outputs and low prices for major inputs and thereby maintain a budgetary policy with heavy subsidies.[vii] With the provision of irrigation and modern farm techniques production has became more stable. The farmer also gets an assured price for his product. Agricultural income is now quite high and stable. It is fit enough to be taxed like any other income.

It is necessary that agricultural income is now brought under taxation. The surpluses generated in the farm sector are large and are increasing year after year. The upper income groups are taxed in the urban areas, but their counter-parts in the agriculture sector are not being taxed. In principle, the agriculture income should be taxed the same way as urban income. The use of new technology and diversification in agriculture to horticulture and shrimp farming has raised income from agriculture. Now even with the land ceiling there is a case for taxing agriculture[viii]. The small or marginal farmer will not be against the large farmer being taxed. In any case, there is a very good economic rationale for taxing agriculture.

From, the point of view of horizontal equity, as far as possible, all incomes should be treated in the same manner for tax purposes. Hence, income from agriculture should be subjected to the same tax treatment as non-agricultural income with the necessary adjustments to take care of the special characteristics of agriculture[ix]. The economic rationale is impregnable. That does not mean that agricultural income tax will be introduced in the next budget or so. That is because there has not been any change in the political perception. If at all, farmers have been pampered more than ever, farm inputs like fertilizers, electricity, diesel, etc are heavily subsidized. That is the price the politicians have to pay for winning their supports.

**Conclusion**:

Taxation on agriculture income is good for economic health of the nation. But the powerful landlords lobby is constantly creating obstacles in the way of implementation. Therefore, this sector is remained untouched from any changes in tax pattern. Hence, change in political attitude and determination is necessary for taxation on agriculture income in India.

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[ii] Dr. Babasaheb Ambedkar Writing and Speeches (1982) Vol 2, Government of Maharashtra, p. 164, Mumbai.

[iii] Sreekantaradhy B. S. Structure and Reform of taxation in India, Deep and Deep Publications, New Delhi 2000, p.72

[iv] Shrivastava Madhuri (1981) Fiscal Policy and Economic Development in India, Chug Publication, Allah bad P.168.

[v] Sarkaria Commission Report Government of India (1983) p. 263.

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