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TOPIC

**UNIFORM TAXATION IN
AGRICULTURE: OPPORTUNITIES AND
CHALLENGES**

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UNIFORM TAXATION IN AGRICULTURE: OPPORTUNITIES AND CHALLENGES

Context

- India's agricultural sector is a cornerstone of its economy, contributing significantly to GDP, employment, and livelihoods. However, inefficiencies, price fluctuations, and policy inconsistencies plague the sector.
 - ♦ A uniform taxation system for agriculture has been proposed as a solution to these issues, but it carries both opportunities and challenges.

Historical Context of Agricultural Taxation in India

- **Pre-Colonial Era:**
 - ♦ India's economy was predominantly agrarian, with local rulers collecting land revenue as a primary source of income.
 - ♦ Revenue systems were often based on local customs and practices, with sharecropping and other arrangements in place.
 - ♦ Tax rates and systems varied regionally, often dependent on the local ruler's policies.
- **Colonial Period:**
 - ♦ During British rule, agriculture became heavily taxed under **exploitative revenue systems**.
 - **Permanent Settlement (1793):** Introduced by the British in Bengal, landlords were tasked with collecting taxes, often at fixed rates. This system led to the exploitation of farmers and widespread rural distress.
 - **Ryotwari System:** Introduced in southern and western India, farmers (ryots) directly paid taxes to the British, often based on the assessed productivity of their land.
 - **Mahalwari System:** In northern India, the tax was collected from entire villages (mahals), which were collectively responsible for paying revenue.
 - ♦ **Impact on Farmers:** Excessive taxation rates often exceeded 50% of the produce.
 - Frequent crop failures and inability to pay taxes led to indebtedness and land loss
 - These systems prioritized revenue extraction over agricultural development, leaving the rural population impoverished and vulnerable.
- **Post-Independence Era:**
 - ♦ To address the historical injustices of colonial rule, the Indian government exempted agricultural income from taxation under **Section 10(1) of the Income Tax Act, 1961**.
 - ♦ This move was aimed at relieving farmers from financial burdens and encouraging agricultural growth.
 - ♦ While agricultural income was **exempt from central taxation, states were given the authority to tax agricultural income**. However, most states chose not to impose such taxes or restricted them to specific activities like plantation crops.
 - ♦ **Green Revolution (1960s):** While taxation was largely absent, subsidies, and minimum support prices (MSPs) were introduced to promote agricultural productivity and ensure food security.
- **Contemporary Challenges:**
 - ♦ **Challenges in Taxation:** Agricultural income tax exemption has been misused for tax evasion, with non-agricultural entities disguising income as agricultural.
 - State-level agricultural taxes, where implemented, remain fragmented and inconsistent.
 - ♦ **Policy Discussions:** Proposals to tax agricultural income above a certain threshold have faced resistance due to concerns about farmer distress and political opposition.

Agriculture in India

- It is primarily a **State Subject in Schedule VII of Indian Constitution**. It covers agricultural education and research, protection against pests, and prevention of plant diseases.
 - ♦ It means that state legislatures have the exclusive power to legislate on matters related to agriculture under normal circumstances.
 - ♦ Some aspects like trade and commerce fall under the **Concurrent List**.
- **Directive Principles: Article 48 of the Constitution** directed the state to organize agriculture and animal husbandry on modern and scientific lines, reinforcing the government's commitment to supporting the sector.

Some Facts

- **GDP Contribution:** 18.2% (2023-24).
- **Employment:** Agriculture employs nearly 45% of India's workforce.
- **Livelihood:** About 42.3% of India's population depends on agriculture for their livelihood.

Arguments for Uniform Taxation

- **Equity and Fairness:** Proponents argue that uniform taxation would address the inequities in the current system, where non-agricultural incomes are taxed while agricultural incomes are not.
 - ◆ This disparity has led to tax avoidance and evasion, with some individuals disguising non-agricultural income as agricultural income to benefit from tax exemptions.
- **Revenue Generation:** Uniform taxation could provide a significant source of revenue for both state and central governments.
 - ◆ It could be reinvested in the agricultural sector to improve infrastructure, research, and support services.
- **Data Collection and Governance:** Implementing a uniform tax system would necessitate better data collection and record-keeping, leading to improved governance and policy-making.
 - ◆ Accurate data on agricultural incomes would help in designing targeted subsidies and support programs.
- **Curbing Tax Evasion:** There are concerns that some non-agricultural entities misuse the exemption to evade taxes by declaring non-agricultural income as agricultural income.
- **Enhanced Market Efficiency:** Uniform taxation would facilitate smoother interstate trade by removing barriers and reducing price disparities. This would lead to more efficient markets, where supply and demand can be balanced more effectively.
- **Mitigation of Price Fluctuations:** With a uniform tax system, the volatility in agricultural prices could be reduced. This would provide more stable incomes for farmers and more predictable prices for consumers.
- **Encouragement of Entrepreneurship:** Uniform taxation can foster a competitive environment, encouraging innovation and investment in the agricultural sector.
 - ◆ It could lead to increased productivity and the development of value-added agricultural products.

Challenges and Concerns

- **Burden on Farmers:** Critics argue that taxing agricultural income could place an additional financial burden on farmers, many of whom are already struggling with low incomes and high input costs.
 - ◆ It could exacerbate rural distress and lead to increased farmer suicides.
- **State Revenue Concerns:** States rely on local taxes for revenue. Transitioning to a uniform tax system may lead to revenue losses, making states hesitant to adopt the change.
- **Implementation Issues:** The diverse nature of agricultural activities across different states makes uniform taxation challenging to implement.
 - ◆ States with varying levels of agricultural productivity and income may resist a one-size-fits-all approach.
- **Political and Stakeholders Resistance:** The proposal for uniform taxation is likely to face political resistance, particularly from states that view it as an encroachment on their fiscal autonomy.
 - ◆ The federal structure of India requires careful negotiation and consensus-building to implement such reforms.
 - ◆ Various stakeholders, including local traders and middlemen, benefit from the current system.
- **Infrastructure and Technology:** Implementing a uniform tax system requires robust infrastructure and technology to ensure seamless integration and compliance across states. This can be a significant logistical challenge.
- **Initial Implementation Costs:** The initial costs of setting up a uniform tax system, including technology, training, and administrative changes, can be substantial.

Recent Discussions and Proposals

- **NITI Aayog:** It suggested that **agricultural income above a certain threshold** should be taxed to curb tax evasion and increase revenue.

- A **nominal fee for administrative purposes**, like collecting real-time data, could be beneficial. It aligns with the **'One Nation, One Tax' principle**, which could improve governance, mitigate food inflation, and stabilize price fluctuations.

Conclusion

- Uniform taxation of the agricultural sector in India presents both opportunities and challenges.
- While it promotes equity, generates revenue, and improves governance, it also risks burdening farmers and faces significant implementation hurdles.
- A balanced approach, considering the unique needs and conditions of different states, is essential for any successful reform in this area.

Source: IE



Mains Practice Question

Discuss the arguments for and against the implementation of uniform taxation on the agriculture sector in India. Analyze the potential economic, social, and political implications of such a policy change.

