

INCIDENCE OF DIRECT TAXES ON INDIAN AGRICULTURE

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AGRICULTURE contributes about 45 per cent to the national income of India and provides livelihood to 70 per cent of the population. Accordingly it has been accorded a high priority in our Five-Year Plans. However, it is unfortunate that the Plan documents do not state any policy regarding the mobilisation of surpluses from the agricultural sector nor have the State Governments laid down any guiding principles for the purpose. The object of this paper is to state clearly that the incidence of direct taxes on the agriculturists is declining and thus there is sufficient scope for mopping up surpluses from this sector to accelerate the economic development of the country.

Table 1 shows that during 1950-51 to 1955-56 there was some increase in the burden of direct taxes on the agriculturists but since then, except for marginal variations, it has been declining. We may emphasise here that even during the period 1950-51 to 1955-56, the increase in the tax burden on the agriculturists was not due to the upward revision of agricultural tax rates or due to the imposition of more taxes on this sector. It was a case of increased yield from direct agricultural taxes, primarily due to abolition of intermediaries in land and increase in area under cultivation. Whereas in 1938-39, direct agricultural taxes, namely land revenue, formed 4 per cent of the income originating in the agricultural sector;¹ this percentage at present is less than one.²

Land revenue and agricultural income tax are the two most important direct taxes on the agriculturists. Land revenue is a tax on the net produce and is regressive in nature as it is levied at a flat rate on all land holders. It is inequitable as it provides no exemption

¹ See the author's Paper on "Agricultural Taxation and India's Fourth Five Year Plan", *Agricultural Situation in India*, February 1969, p. 1125.

² The Fifth Finance Commission rightly emphasised that, "Direct taxation on agriculturists so far is out of accord with modern concepts of progressivity", *Report of the Finance Commission, 1969*, p. 83.