

Hypocrisy over taxing farmers must end, and in any case, they are taxed even today in some form by some states

With 3.9m farmers earning R5-10 lakh, taxing them yields Rs 42,000 crore more. If it's ok to forgo this income, go ahead. Also, a dairy farmer pays income tax even today!

The alacrity with which NITI Aayog vice-chairman Arvind Panagariya and finance minister [Arjun Jaitley](#) rushed to assure farmers they would not be taxed—after NITI member Bibek Debroy recommended this—is odd since it makes it look as if even the thought of this is anti-national. There can be little doubt farmers are doing a good job under trying circumstances and adverse government policies—like an export ban each time prices rise—but applying this yardstick would mean large parts of industry that have to deal with rapacious inspectors/taxmen and inexplicable government policy should also be exempted. So, the first thing to do is to bring some rationality into the debate. One newspaper has articulated the official position when it says that, thanks to fragmentation of land, farming has become unremunerative—it says that while income tax is charged only at incomes of Rs 2.5 lakh a year, a farmer needs to have at least 10 hectares to earn as much. So, quoting an NSS study, it concludes, only a minuscule minority of those with an agriculture income will come into the tax net.

The reality, as economist Surjit Bhalla has demonstrated, is that the NSS gets its consumption numbers horribly wrong, and the magnitude is increasing—and though it is income that is being talked of this time around, it is likely the numbers are just as wrong. A look at data from PRICE's latest all-India survey for 2014-15 suggests this is the case—PRICE is headed by Rajesh Shukla who has, for decades, conducted similar surveys for NCAER and most consider them quite reliable.

PRICE's data shows that while the bulk of farmers are below the Rs 2.5 lakh threshold, 3.9 million households earned Rs 5-10 lakh, with an average income of Rs 7.2 lakh. Even at a conservative tax of 15%, this adds up to a potential tax of Rs 42,000 crore. A similar exercise—with an effective tax rate of 25%—for the five lakh households earning over Rs 10 lakh, with an average income of Rs 16.6 lakh, yields a potential tax of Rs 20,000 crore. Certainly, urban incomes are higher than rural ones, but here too, the bulk of people are in lower income groups—94% of all urban households have an income of below Rs 10 lakh versus 99.5% in the case of agriculture households. In short, rather than looking at proportions, look at absolute numbers which, as we've just seen, are not small in the case of agriculture households. Also, as Debroy pointed out in his column in this newspaper on Wednesday, it is not as if agriculture is tax-free even today—it is taxed, but under the Constitution, by the states, not the Centre.

Around eight states have such a tax and even if they don't tax all agriculture, some do tax activities such as plantations. It gets even more interesting. While all agriculture income is tax-free as far as the Centre is concerned, what matters is its definition. Since agriculture relates to growing something from the land, dairy farmers are not exempt from tax—provided their incomes are above Rs 2.5 lakh a year right now—nor are those who are engaged in pisciculture. Surely this is an injustice or is it that someone raising cattle is not as bechara as someone growing wheat? If that is the case, what matters is the cutoff at which the tax is to be made applicable, not the fact of the tax in itself.

There is also the case of those abusing the agriculture exemption. Going by the NSS report, someone owning 10 hectares of land—the minuscule minority—earned, in FY13, just under Rs 5 lakh. In which case, if someone with 10 hectares of land declared an agriculture income of Rs 10 crore—along with, say, non-agriculture income of a similar amount—that person must be prosecuted for false declaration of income.

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How widespread is this? No one knows, but in response to an RTI by a former tax official last year, the tax department said 6.6 lakh persons had declared an agriculture income of Rs 2,000 lakh crore. Since this is several times higher than the country's GDP, the data is clearly incorrect. A report by the Standing Committee on Finance found that, in 838 cases between FY07 and FY15, while the verified agricultural income was Rs 1,395 crore, that entered in the data tabulation was Rs 4,31,617 crore—with tax officials saying this was due to tabulation errors, it is not clear what the actual numbers are. Sooner, rather than later, the revenue department needs to collate actual data on how much agriculture income is being declared by

people and start correlating this with the farmland assets they are declaring.

Judging by the political reaction to Debroy's suggestion, it would appear prime minister [Narendra Modi](#) has decided it is not worth his while to impose a central agriculture tax—this will require a constitutional amendment—given the furore this will cause. Big farmers, who are the target, will push small farmers to agitate against this in the streets in the same way school children in Kashmir are being used for pelting stones at the army/CRPF. At some point, though, the issue of taxing rich farmers will just have to be addressed.