**[Issues in the collection of Agriculture Income Tax](https://nation.com.pk/06-Feb-2020/issues-in-the-collection-of-agriculture-income-tax" \t "_new)**

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The issue of agriculture income tax has remained controversial ever since the independence of the country. It is highly regrettable and reflects adversely on successive governments which failed to develop a consensus on such an important matter, having a direct bearing on the financial landscape of the country. In the past, different governments, hailing mostly from rural areas and landed classes, deliberately glossed over the issue and let the matter remain under the carpet for such a long time. The general argument advanced against the agriculture income tax is that this sector is already impoverished and is kept, by design, hostage to the interests of urban classes/centres. The prices of agriculture commodities remain much below the market potential and severely erode the income of farmers------thus reducing, to a great extent, their ability to contribute to the tax revenues. On the other hand, a straightforward economic view is that income derived from agriculture should be added to one’s total income and tax deductions made according to the formula/tax brackets devised in the general taxation system. However, in our context, it is easier said than done. There are some intricate issues which make it very difficult to develop a workable mechanism to tax agriculture which is equitable and easy to operate at the same time.

Regardless of the arguments on both sides of the issue, a judicious view is that agriculture should be made to contribute its due share to the tax collection of the country. After all, this entire sector is almost one fifth of the economy (18.9%) and generates more than $ 60 billion or 9 trillion rupees worth of gross income annually (total GDP of the county is $ 300 billion), whereas its share to the tax receipts is only negligible. Like any other developing country, mobilization of enough financial resources is our biggest economic challenge. Pakistan’s current budget is around 8.2 trillion rupees and only 3.4 trillion or 42 % is contributed by net revenue receipts. The wide short-fall is made up by deficit finance, local and foreign debt, and non-tax receipts. Our debt figures are astronomical: foreign debt exceeds 106 billion US dollars and domestic debt is close to 25 trillion rupees. Total debt and liabilities of the country have surpassed 41.48 trillion rupees at the end of September 2019. In dollar terms total debt is $ 265 billion which is close to the Gross Domestic Product of the country. This, of course, is a dire situation and puts a tremendous pressure on the management of the financial resources of the economy, leaving huge gaps to meet the country’s development needs.

All said and done, agriculture sector cannot be allowed to go untapped and evade the payment of tax that is due from it. At the same time, one cannot overlook the massive problems and difficulties that are likely to be faced in the implementation of a viable agriculture income tax policy. First of all the fragmentation of land holdings is the main cause of low productivity and also low capacity of the farmers to pay taxes. According to the estimates prepared on the basis of Punjab, Sindh and Khaber Pakhtunkhwa, 85% of land holdings are in blocks of less than 12 and a half acres--------the unit of economic holding in the country. Farmers in this category would naturally claim exemption from payment of agriculture income tax. So we are left to work on a very small canvas of about 15 % of landowners in the country unless limit of economic holdings is revised.

Secondly, computation and assessment of farm income is a difficult task. Per acre yield of wheat, for instance, varies from 10 to 60 maunds per acre. The cost of production of one acre of wheat, as calculated by the Punjab Agriculture Department is about thirty thousand rupees, meaning thereby that at least 25 maunds per acre of wheat are necessary to cover the cost of producing it. Lo and behold, 28 maunds per acre is the national average, leaving very little margin for the imposition of agriculture income tax. But there are other crops like rice and sugarcane where the margins are better. The big landlords and progressive farmers who get maximum yields are the ones who should contribute to the agriculture income tax.

Preparation and compilation of recurring cost estimates is yet another problematic area. Agriculture in Pakistan is primitive and most of sale and purchase transactions are carried out in the informal sector without being properly expressed in monetary terms. It becomes very difficult to keep a complete track of input costs and sale proceeds of crops in a particular cropping season. Then, there is a question of determining the extent of “disguised labour” used in agriculture. Normally, the whole family of a farmer participates in cultivation but there is no measurable way to assess family members’ contribution to the production of the farm. One also has to consider the question of customary help from the neighbours------borrowing of implements, money and water in many cases. It is not easy to devise a system to cover such transactions and convert them to monetary terms. The Punjab Agriculture department has prepared cost of production estimates of various crops and in case of wheat alone they have identified over two dozen transactions to be carried out during one production cycle. Can one expect that a farmer in Pakistan who does not have formal education and is ill-equipped can keep or prepare a complete record of such expenses to work out cost-benefit ratios? Likewise, it is very cumbersome to carry out formal audit of farm incomes as it would not make an economic sense and would be administratively unwieldy. So the idea that agriculture may be brought under the existing tax structure straight away may not be a feasible proposition. We need to devise a much simpler system that can fit into our rural culture. This will obviously take time and a lot of planning before it is accomplished.

Last but not least, there is an apparent duplicity in the income tax laws of the federal and provincial governments. In Punjab, for instance, agriculture being a provincial subject is covered under the Punjab Agriculture Income Tax Act 1997. At the same time, agriculture income has to be shown/declared under the provisions of the Income Tax Ordinance promulgated by the federal government. This creates confusion and gives rise to coordination and tax collection issues besides exposing the farming communities to multiple organizations and departments to deal with.

In the present circumstances imposition of fixed tax on per acre basis may look to be the only option but it would require categorization of the land in each village according to its productivity i.e. more productive land would be subjected to higher fixed taxes. This can be done by the existing revenue staff under the supervision and control of provincial governments. In order to fully integrate this sector with the income tax system of the country, a reliable method to measure the productivity of different farms shall have to be devised, may be, by involving the private sector to work it out with the revenue department. For the present, the imposition and collection from agriculture income tax should be left to the provincial governments to handle and it should be a fixed charge on per acre basis rather than variable income. However, it needs to be ensured that investors from industry and big landlords (say having more than 50 acres) are not allowed to camouflage their hefty incomes under this arrangement. In their case, it would be appropriate to ask them to pay fixed agriculture tax or income tax whichever is higher through filing income declaration.

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