Problems of taxation on farm income

Agriculture
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By Ihtasham ul Haque

THE government is facing difficulties in convincing the provinces to levy and collect tax on agricultural income in the budget for 2001-2002 - Sindh is the first to oppose it on the ground that 50 acres of land for this tax has been worked out by making Punjab as its base.

Chief executive Gen. Pervez Musharraf is said to have been told by his advisor on agriculture, Mr. Shafi Niaz that the ministries of finance, agriculture and the Central Board of Revenue (CBR) have failed to work out any uniform and workable formula for the recovery of tax on agricultural income in the provinces. This has led to differences with the provinces and Sindh has specially refused to accept the federal government's decision to recover the tax on all holdings of more than 50 acres.

Mr. Niaz also wrote to the concerned ministries as to why there was a delay in firming up an acceptable formula. Some of the senior officials of the concerned ministries and the CBR were not feeling comfortable to work with CE's advisor on agriculture and that is why they are not reportedly cooperating with him on a number of issues.

Mr. Shafi has given his latest assessment to the CE that a sum of Rs 6 to 7 billion could be recovered from tax on farm income by the provinces.

The province of Sindh is reported to have expressed its inability to collect tax on agricultural income by saying that in the first place it was not acceptable to it to recover this tax on the basis of 50 acres of land. Secondly, it does not get the required water and that it does not expect to have good crops in the future. Therefore it can not levy tax on the basis of 50 acres of land.

The issue of tax on agricultural income in Punjab was spoiled by a decision of former Finance Minister Shahid Kardar to impose tax on every acre of land in the province. Punjab and Sindh have reportedly informed the centre that hardly Rs2 billion could be collected on account of this tax during the next financial year. They also called for developing a consensus among all the provinces without caring what the IMF was asking to do. The CE's advisor on agriculture is said to have told Gen. Musharraf that the measures suggested by the IMF would harm the agriculture sector.

The chief executive has been told by Mr. Shafi Niaz that there will be 10.8 million bales of cotton this year and due to drought, the production may be less— at 10 million bales in 2002. Similarly, sugarcane production has been estimated at 43 million tons while it is likely to be 38 million ton in next year. Rice production will be 4.6 million tons this year and it may be around 4 million tons in 2002. The production of wheat has been estimated at 18 million tons this year and 19 million tons next year. Under these circumstances, he believed, there would not be good crops to recover tax on agriculture income. Mr. Niaz reportedly agreed with Sindh that under the prevailing circumstances it is not possible to accept the 50 acres of land as the basis for the recovery of this tax during the next financial year.

The Chief Executive also is said to have been informed, by private experts also that farmers are not being offered Rs 300 support price per 40 kg of wheat as was decided by the cabinet earlier. They are being offered Rs 260 to Rs 270 for the procurement of wheat from them. Also there is a slow procurement of wheat.

Concerned officials when approached said that they had been directed by the Chief Executive to accelerate the slow pace of procurement of wheat at Rs300 per 40 kg. However, they concede that the IMF officials currently visiting Pakistan have opposed the provision of support prices for four major agricultural crops. The government had decided previously that farmers of wheat, cotton, rice and sugarcane will continue to receive support price. Only oil seed was left by the government which could not be assured any support price. The IMF review mission is said to have been given the examples of the United States, the countries of the European Union, Canada and Australia whose farmers were given support prices in one shape or other.

The IMF review mission which is pressing for effectively imposing tax on agricultural income by the provinces from 2001-2002 has been told that the government has no alternative but to offer support prices for four main crops and that this will be done six weeks before the sowing time.

"We have told the Fund officials that agriculture will be destroyed if we leave it to the market forces and that the intervention of the government is necessary", said an officials of the ministry of agriculture.

Those who are opposing tax on agricultural income had been blaming Finance Minister Shaukat Aziz for not delaying documentation in the first year of the present government. They alleged that the business community which is still opposing documentation was ready to pay 25 to 30 per cent more taxes last year, provided there was no documentation. They said that documentation process should have been taken up in the second year of the government which could have helped to recover tax on agriculture income in the third year of Musharraf regime.

What is the potential of tax on agricultural income is anybody's guess. Late Dr. Mahboob ul Haq used to say that landed gentry earns Rs 600 billion annually but it doesn't pay Rs 60 billion taxes on their agriculture income. Former Minister for Finance Sartaj Aziz had been contesting this figure but always maintained that there existed fairly a good potential for the recovery of tax on agriculture income. So

The issue of tax income in Punjab decision of former Shahid Kardar tc every acre of land Punjab and Sindh informed the centr billion could be account of this tax financial year.

was the view of another PML Finance Minister Ishaq Dar as well as another former Advisor on Finance, Hafeez Pasha. Likewise former advisor on finance during the PPP's first government V.A. Jafarey and later its all the finance ministers - Ahsan ul Haq Piracha, Makhdoom Shahbuddin Din and Naveed Qamar believed that there did exist good potential for the recovery of tax on agricultural income.

Nevertheless when it came to transforming the issue into a reality, they all clandestinely supported the landed gentry for not paying tax on farm income. It was also seen that rich agriculturists of both the PPP and PML parties joined hands which resulted in scuttling the move to have any new resource mobilisation through agriculture tax. Now the present government is saying the same thing. Will it succeed is a big question mark specially when there is no consensus among the provinces over the issue. On the other hand the IMF seems to be taking a tough line and many insiders believe that unless the government effectively imposes this tax, the $2 to 2.5 billion Poverty Reduction and Growth Facility (PRGF) along with $3 billion exceptional funding to have any fiscal space can not be made available by the IMF, the Paris Club and other donors.

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