ROLE OF AGRICULTURAL INCOME TAX IN BROADENING TAX BASE

SYNDICATE MEMBERS

IMRAN ALI SHAH

MONA BAQIR

ASRA FAROOQ

HASSAN MABROOR

FARHAN BADAR SOLANGI

ABDUL KARIM

DIRECTORATE GENERAL OF TRAINING AND RESEARCH (INLAND REVENUE), LAHORE.

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ROLE OF AGRICULTURAL INCOME IN BROADENING TAX BASE OF PAKISTAN

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INTRODUCTION

The economy of Pakistan has been in a very deplorable situation especially for the previous three decades and it has kept on deteriorating ceaselessly throughout this period. It has entrapped in a vicious cycle due to high inflation, unemployment, credit cost and income disparity on the one hand and poor resource generation, low investment, dismal law and order situation and extremely influential political cum feudal forces. A major reason for the economic stagnation is foreign debts that have been on the rise at alarming rate especially in the previous few couple of years. It has made our country a dependent parasite at one end and corrodes our public exchequer annually in the form of huge foreign debt servicing payments at the other. The total foreign debt and liabilities of Pakistan has reached $58.512 billion, while it was just $47 billion a couple years ago (Butt, H.A.2010).

Pakistan had to pay a total of $5.614 billion as debt serving in the fiscal year 2009-2010, which account for almost more than 33% of the entire foreign exchange reserves of country (The Economic Survey of Pakistan,2010).

The taxation of agricultural sector has always been a controversial issue in Pakistan throughout the history of the country. There have been divergent views of expert policy makers and legislators on the said issue. It is known to all of us that Pakistan and India both inherited the same revenue collection system on their independence, but now we see there is

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a huge difference between India and Pakistan with regard to their taxation regimes.

There has been a growing bent all over the world towards the concept of welfare state for the last few centuries. A welfare state has to provide three basic needs to its citizens that are health education and employment. The provision of all these facilities needs a healthy public exchequer. When we study the social security networks of advance welfare states, it becomes evident that the people of the countries contribute massively to their public exchequers.

Taxation is the price of civilization of a society. The degree of civilization of a society depends upon the participatory polity which becomes vague if there is no participatory economy. In a civilized society equals must pay equally to public exchequer to make a country economically sovereign so that its political sovereignty can be secured. All the developed countries like UK, USA and Canada have brought agricultural income under tax net and even India is far ahead than Pakistan in this regard.

Agriculture is the back bone of economy of Pakistan contributing almost 22% to GDP but its share in tax is only 1% (The Economic survey of Pakistan, 2010). This is a very dismal situation of affairs. There have been sporadic efforts to bring such a big sector of economy in tax net but all the efforts have remained almost ineffective and we have failed to harness a huge source of public exchequer. The biggest argument against

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agricultural income tax has been the cost benefit analysis factor which shows that perhaps there is a very nominal potential in this sector.

Pakistan inherited agriculture outside the purview of income tax. Agriculture sector is characterized by backwardness in Pakistan like other developing countries where poverty and illiteracy are rampant. In economic development, "modern sector" consisting of industry and service sectors receives top priority. "Modern" sector is comparatively more developed with higher literacy, income and documentation. On the other hand, agriculture is primitive and primarily of subsistence nature. Peasants grow food essentially for their own use involving little commercial activities. There are millions of farmers scattered throughout the countryside. There is little documentation in the agricultural activities. The Government procures food at cheap prices for sale in cities. Even prices of cash crops like sugarcane are fixed by the Government so that cheap raw materials are provided to industries in order to accelerate the pace of economic development. But the government has been keen in providing credit as well as agricultural inputs on subsidized rates.

Over the course of years, however, the scene has been changing. Export of agricultural products has been quite significant. Because of Green Revolution and rising prices of agricultural commodities, agricultural income has continued to grow although as a proportion of gross domestic product, it has been declining. In the initial years, major share of revenue originated from customs duties. With industrialization over the period, the share of excise and sales tax began to rise replacing customs duties. However, the revenue collection could not contribute its

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due share towards the public exchequer which resulted in financial budget deficit.

The issue of agricultural income tax has been raised by Taxation Department from time to time over the last four decades but was always shelved on one pretext or another. It has been argued by landlords that they pay land revenue and Ushr and, more importantly, the prices of agricultural commodities are kept artificially low. Since colonial era, landlords have acquired immense political power. Obviously, they are in a position to block any move towards agricultural tax. A recent, well-known argument has been that agriculture is a provincial subject and therefore, only provincial assemblies are empowered to legislate for agricultural tax. But provincial assemblies dominated by landlords always blocked any such move.

There are so many explanations offered for the exemption to agriculture like its poor documentation, least organized and underdeveloped sector, but all these arguments are no more relevant because it has been seen that no segment of economy can develop by exemptions or support prices. Rather it has been observed that the countries where agriculture was streamlined with other sectors of economy it developed at a very high pace. Agricultural output and yield, that is, output per acre, has not risen fast enough to offset rapid population growth and higher consumption level. That is why wheat, edible oil, pulses, etc. continue to be imported costing millions of dollars. Time has come that agriculture becomes buoyant through jump in production as well as yield. Pakistan has one of the lowest yields, even

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lower than India and other regional countries in respect of certain crops. It is essential that breakthrough in yield as well as in area under cultivation is achieved through well-orchestrated program for agricultural development with consequential favorable impact upon the rest of the economy such as industry, export and tax revenues. The issue of agricultural income tax, agricultural production, and area under cultivation, yield total tax revenues and export earnings are all inter-twined. Therefore, attack on one end (e.g. agricultural income tax) would have positive impact on others (e.g. agricultural production, yield and so on).

As mentioned earlier, the need for levying agricultural income tax was exacerbated by huge fiscal deficit over the last few years. The total deficit in 1991-92 amounted to Rs. 90 billion or 7.4 per cent of G.D.P. which went up to Rs. 108 billion or 7.9 per cent of G.D.P. in 1992-93. Such a heavy deficit forced the Government to look for other avenues of taxation which would enable it to reduce the size of deficit to manageable proportion. In order to contain the deficit, the Government took a number of measures in the 1993-94 annual budget to generate additional revenue of Rs. 22 billion (Hassan, A.S.1994). The fiscal deficit is mounting ever since now it stands at an alarming rate of… 6.3% of GDP which worth Rs930 billion for fiscal year 2010 (Zaidi, E.2010)

However, one thing is quite clear: the government is fast running out of time to increase its tax revenues. It must raise the abysmally low tax-to-GDP ratio of less than 10 per cent, which is at the heart of the

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budgetary problems staring the government in the face (Dawn editorial, 2010).

The issue of taxing agriculture has become so much distorted that there are always divergent and confronting opinions from experts and neutral people even in a talk show on Waqt TV two economic figures Dr. Ashfaque and Aqueel Dadi were of the antagonistic view holding string argument in and against the agricultural income tax respectively (Waqt TV, 2011).

This research work was conducted by a group of probationary officers of 37th STP to see the efforts done so far in this regard, various hindrances to implement agricultural income tax, the standing of the stake holders, the role of agriculture in economy and public exchequer, comparison with agricultural contribution of advanced countries to their public exchequers, the suggestions and standing of world bank and IMF on agricultural taxation and current political will to bring such a big sector in to the tax net.

This research paper comprises of the following chapters.

1. Introduction
2. Literature review
3. Research methodology
4. Observations and results
5. Limitation of research
6. Conclusion

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7. Suggestions and recommendations

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LITERATURE REVIEW

The objective of this research is to see how the agricultural income tax broadens the tax base. Over the year Pakistan's income tax base has been more or less stable at 1% or less of the total population. Agricultural sector is considered to be the largest sector of the Pakistan Economy which generates 22% of GDP, occupied by b50% of the total population and 42.5% of the total labor force (i.e. 20 million) pays zero income tax to the federal exchequer because it is 'exempt' from payment of income tax under the statue i.e. the income tax ordinance of 2001 – in fact this sector has been exempt since 1947 and the income Tax ordinance of 2001 is the third income tax statue to 'renew' the exemption originally available for agriculture in 1947 when the income tax Act of 1922 was adopted as the income tax Statue for Pakistan.

In view of the poor revenue potential of agricultural income tax, it is necessary to look for an alternative which can yield higher revenue. In my view, the obvious choice is the rehabilitation and reform of land revenue which is an old and familiar tax, a 'heritage of immemorial antiquity'. It has a vast revenue potential. In our enthusiasm for imposing an elusive agricultural income tax, we have lost, in the bargain, one of the most productive sources of government revenue.

To rehabilitate land revenue as a major agricultural tax, the following measures suggested buy the I. U. Khan Committee need to be undertaken [Government of Pakistan (1966)]:

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(a) The period of settlement should be reduced to 15 years; and

(b) The legal restriction whereby the land revenue demand cannot be increased by more than 25 percent of that imposed at the last settlement should be removed.

To reform the land revenue assessment system the following measures suggested by the 1937 Land Revenue Committee need to be adopted [Government of the Punjab (1938)]:

(a) A sliding-scale system should be introduced according to which assessment of land revenue could be varied up or down according to changes in prices; and

(b) A graduated surcharge upon the amount of land revenue due from the larger owners should be continued and made an effective instrument of resource mobilization**.**

The paper written by Asad.S.Hassan, seeks to highlight the controversy by pinpointing arguments for and against agricultural tax. Pakistan inherited agriculture outside the purview of income tax. Agriculture sector is characterized by backwardness in Pakistan like other developing countries where poverty and illiteracy are rampant.

The issue of agricultural income tax has been raised by Taxation Committees from time to time over the last four decades but was always shelved on one pretext or another. It has been argued by landlords that they pay land revenue and Usher and, more importantly, the prices of

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agricultural commodities are kept artificially low. Assemblies are dominated by landlords and they come in a position to block any move towards agricultural tax. A recent, well-known argument has been that agriculture is a provincial subject and empowered to legislate for agricultural tax. The exclusion of agricultural income from tax has led to tax evasion by those earning from non-agricultural sources showing it as agricultural income.

The caretaker regime in 1993 took a very bold initiative by extending wealth tax and income tax to agriculture. In addition to wealth tax, a tax on agricultural income was levied at the rate of Rs. 2 per Produce Index Unit (PIU) with the exemption limit of 4,000 PIUs which is roughly equal to 60 acres of irrigated land. Then government set up a task force which recommended exemption to income up to 4,000 PIUS which was expected to generate a nominal amount of Rs.56 million. The principle of levying direct taxes on agricultural income and wealth has been accepted for the first time in principle (Hassan, A. S.1994).

It was suggested by the counter exemption lobby that just as business and salary incomes below a certain level are exempted from income tax, the same principle should be extended to agricultural income. Levy of income tax on agricultural income is also recommended to reduce the evasion of income tax in Pakistan which is by all accounts, considerable. The availability of statutory exemption for agricultural income has resulted in the systematic exploitation of this exemption by those earning non agricultural income. Through the simple expedient of

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attributing part of their income to agricultural activity they are able to secure substantial tax benefits (Qureshi, M. M.2001).

The Ministry of Finance was planning to-impose agriculture income tax in the next fiscal year, 2000-2001 (July-June) that will take in its purview only top 7 per cent agriculture land holders. The agriculture tax would be slapped in the next fiscal year after years of wrangling and pressures from multilateral organizations and top domestic political families (Asia plus news, 2001).

The government of Gen. Pervez Musharraf has issued firm directive to all the provincial governments to levy a tax on agriculture income at a uniform rate w.e.f. 1.7.2001. Although basic exemption have been raised generously, it may be viewed as a good beginning provided enforced with a strong will. As recommended by the committee, the provinces will issue notifications making only owners of 50 acres or more to file a two-page Agriculture Income Tax return. It will be applicable to only those whose taxable agriculture income exceeds the exempted limit of Rs. 80,000. The total number of such farmer assesses is reported to be only about 20,000 in the entire country with an average of no more than 200 such agriculture income tax payers per district.

It has been a considered view of independent economists in the country and has been repeatedly vouched by IMF and World Bank that "It is criminal to keep farm income out of tax net," but the powerful feudal lobby, which dominated the Parliament, always successfully and tactfully

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defied all attempts by various governments in the past to bring this highly potential segment into normal tax net (Rizvi, S. A.2001).

The World Bank has proposed imposition of a withholding system for the agriculture income tax (AIT), where tax is withheld on the purchase of agricultural inputs, with an exemption limit for small farmers or alternatively for the sale of cash crop outputs. This has been highlighted in the WB 'Pakistan Tax Policy Report' jointly prepared by Federal Board of Revenue (FBR) and the Andrew Young School of Public Policy released here in Sep,2009 at a dissemination conference organized by the World Bank (WB proposal,2009).

The federal cabinet has decided to levy uniform agricultural income tax in the four provinces and undertake a country wide survey for the documentation of agricultural economy from next financial year to bring maximum landlords in the tax net. It has also decided to introduce land based income tax in the country and in future there would be no land exemption as every farmer will be required to pay the tax. The ratio of the tax will be determined later on. Sources said that abiana will continue to be recovered from the farmers (Asia plus news, 2000).

A group of experts brought together at the federal level to address Pakistan's woeful tax-to-GDP ratio — but it appears reform isn't even on its agenda. According to a report in the Dawn newspaper, the RCG's mandate has been limited to plugging loopholes in the existing tax structure, leaving the issue of a tax on agricultural income off the table altogether. Once again, the powerful landed lobby has prevailed in the

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corridors of power. Landowners put forward all manner of excuses for why they should be kept out of the income-tax net, arguing that they are already indirectly taxed, poor farmers will not be able to bear the burden, etc. But those are weak excuses. Just like salaried and self-employed individuals in urban areas are exempt from paying income tax below a certain threshold income, the same should be done to accommodate poor farmers (Dawn editorial, 2010).

Different grower's organisations have strongly criticised the government for levying 3. 5 percent withholding tax on agriculture produce and urged the government to immediately withdraw the decision. FAP spokesman, Dr Mohammad Tariq Bucha said that there is some unfaithful hand in the bureaucracy that creates such anomaly, which is totally detrimental to the interest of farmers and the agriculture sector. Government's contention that this tax has been levied on the middleman is totally devoid of true facts because no farmer sells his produce directly because no such appropriate marketing system exists. He further said that FBR has secretly imposed this 3. 5 percent WHT on agriculture produce through a SRO 1161 (I) 2010 issued on 31st December 2010 applicable from 1st January 2011 (Business recorder, 2011).

In theory, agricultural income should be taxed in the same way as other forms of income. But it is easier said than done as the difficulty is how to ascertain the declared income in the case of agriculture sector. The performance of Income Tax department in Pakistan is abysmally poor for even those sectors which are less hard-to-tax in other countries. How would it ascertain the declared income from agriculture?

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Not surprisingly, even though the laws provide for two alternative calculations of the tax, one based on land area and the other one on agricultural income, it is the land area method which is actually used in provinces. Owing to the administrative level difficulties, writers on fiscal policy also support a presumptive norm-based levy on land, in proportion to potential output as the basis of agricultural taxation (Dr. Shah. H.2011).

The Muttahida Qaumi Movement (MQM) in Jan, 2011 filed with the Senate Secretariat a draft bill for a constitutional amendment to impose the income tax on agriculture. The proposed piece of legislation is aimed at amending an article of the Constitution to bring the agriculture income under the tax net.

Explaining the objective of the initiative, the legislator contended that agriculture income over Rs600, 000 should be taxed and this would generate revenue of Rs200 billion per annum (The News editorial, 2011).

A report published Sep, 2010 by The News International says Gilani and his cabinet members have not paid income tax for the last five years….Finance Minister Abdul Hafeez Sheikh, who said earlier that it was difficult to extract taxes from influential people, has ironically himself not paid any income tax, according to the affidavit submitted to the senate in 2010 (The Hindustan times editorial, 2010).

The late Dr. Mehboob ul Haque is on the record as saying that the deficit in the 1985 budget of 65 billion could have been met had the government chosen to impose tax on agriculture (Khan, R. H.2011).

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During the course of literature review, the research syndicate have found that there is sufficient literature available on the topic. There is one thing lacking in all these studies that most of the studies have been conducted in isolation and the basic research requirement which needs the representation of all the stake holders has been neglected. There exists a strong case to conduct a research on the said topic involving the entire stakes holder's view points i.e. peasants, feudal, revenue department, IT department, legislatures and model farmers. The said effort has been done by our research group.

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RESEARCH METHODOLOGY

Extensive syndicate meetings were conducted to analyze all the aspects of research topic, some suggestions and recommendations were finalized during these meetings. Besides that primary as well as secondary data was used to interpret and analyze the problem.

PRIMARY DATA

Primary data was obtained using interview guides. The interviews were either personal or telephonic. Following persons were interviewed:

1. Land lords
2. Model farmers
3. Small farmers
4. Revenue department
5. Agricultural department
6. FBR

SECONDARY DATA

Secondary data was obtained using:

1. Research journals
2. Newspapers
3. Current affair programs on TV
4. Net search
5. Public documents
6. Economic survey of Pakistan

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OBSERVATIONS

PRIMARY DATA

EDO revenue Sialkot[1]

1. All the taxes that we are receiving in Sialkot are basically Abiana and land revenue.
2. The Abiana is only received in the areas where there is arable land under the canal system and obviously no tax is received from the areas where canal system is not prevalent.
3. The agriculture taxed is levied on flat rate i.e.12.5-25 acre at the rate of 85 rupees per acre, 25-50 at the rate of 150 per acre, 50-100 at the rate of 250 and above 100 acre at the rate if 300 per acre. The other form of levying tax on the basis of income is not being practiced for the time being.

JUSTICE (RETD) IFTIKHAR CHEEMA MNA[2]

1. There are no big land lords in upper and central Punjab but a few and most of the people are with very small land holdings.
2. It would be unjust to levy any tax on them as I very honestly think that they are already over burdened with heavy input expenditures.

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[1] Telephonic interview (EDO revenue Sialkot)

[2] Telephonic interview (Justice (retd) Iftikhar cheema)

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3. There should be imposed an Islamic tax that is accepted by most of the people of Pakistan and it is usher system of taxation.
4. Even the big feudal of the southern Punjab and Sind will come under this taxation system and it will also promote the religious outlook of the taxation as it is seen by some elements of the society to be an un Islamic practice. It would be applied without discrimination as everybody whether having a big or small land holding will come under tax net automatically.

AHMAD HUSSAIN[3]

1. I have 4 sons and three daughters, previously two of my sons were involved in the tilling of my land.
2. I have only 4 acre of land as the prices of the agricultural input have risen in previous few years I have sent one of them to Sialkot city, he works there in a factory.
3. We can not afford any form of taxes those landlords who have the potential to pay must be taxed. I have seen throughout my life that rich has become richer in Pakistan and poor has grown poorer. The elite class must be taxed and we poor peasants should be given soft loans otherwise small peasants will leave farming and land will turn barren.

[3] Personal interview with Ahmad Hussein, a farmer of village Rangore, Sialkot.

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4. There are so many young boys and middle aged men who have already left village as the agriculture has no profitability to meet the expenditures of the households.

SECONDARY DATA

Agricultural income was used for rate purposes in the repealed ordinance of 1979 (Income Tax Ordinance, 1979). Wealth tax was also collected under the wealth tax ordinance 1963. Agriculture was exempted under the income tax ordinance 2001 and wealth tax ordinance was altogether repealed by Musharraf regime

Khyber Pakhtunkhwa did not even provide the definition of "agricultural income" in its "Northwest Frontier Province Agricultural Income Tax Ordinance, 1993"! The tax levied under the name of "income tax" was, in fact, a land tax on the basis of produce index unit. The same is the case with Sind Agricultural Income Tax Act of 1994 and The Punjab Agricultural Income Tax of 1997 amended from time to time. No effort was made till 2000 to impose income tax on total income earned from this source. A face-saving device has been restored to levy yet another levy on acre basis for different rate in respect of irrigated and un-irrigated lands. In Baluchistan, the position was no different. From 1993 to 1999, the Baluchistan Legislature promulgated various Agricultural Income Tax Ordinances, amended from time to time, following the same pattern as in three other provinces. In 2000, it passed The Baluchistan Tax on Land and Agricultural Income Ordinance, 2000 that contained the same definition of "agriculture income' as in income tax law promulgated

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by the federation.

The taxation structure of Pakistan is both Federal and provincial in nature. This structure was derived from the revenue-sharing provisions of the Government of India Act, 1935 and has been incorporated into successive constitutions delineating the respective revenue powers of the Federal and Provincial Governments. Under the present constitution, the Federal Government has the constitutional right to levy a wide range of direct and indirect taxes.

Over the years, the taxation system has undergone major changes both in policy and procedures. The resource mobilization aspect of the system was substantially diluted through the pursuit of secondary objectives of promoting industrialization, savings, exports, welfare and charities, and other key economic activities. Various tax measures including tax exemptions, investment and tax credits, tax rebates, accelerated depreciation of capital assets, lower tax rates and higher exemption limits were used as the medium for achieving the desired objectives. Exemption of agriculture income was extended to the agro-based industries and agricultural services.

Historically in undivided India while taxing agricultural income two things were of special interest one the year of its imposition and two its coverage. It was as imposed as early as 1860's and its coverage was very wide .Agriculture at that time was subject to a major tax in form of land revenue which was considered as counterpart of income tax. Agricultural income tax was imposed in India in 1860 it remained for five years and then was abolished and was re imposed in 1869.However it

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remained operational for five years. Land revenue always remained basis for its exemption.

Since 1947 almost every tax committee or tax commission both in Pakistan and India has recommended the imposition of income tax on agriculture income but the constitutional ban inherited from the government of India act 1935 has stood in its way of implementation.

Agriculture constitutes one quarter of our economy yet successive governments have failed to effectively tax income generated by this sector. Agricultural income tax as a result has remained stagnant at less than Rs1bn for more than decade despite the prices of agricultural commodities having risen manifold over the years.

As things stands today agricultural income tax is mainly collected in Punjab and Sindh ,its collection remain insignificant and there is hardly any recovery in Baluchistan and Khyber Pakhtunkhwa. The stagnation in agricultural income tax recovery is blamed on the presumptive nature of the tax and exemption given to small land holders. A uniform application of income tax, in Pakistan ,is also constrained by the nature of constitutional provision under the present constitution taxing of agriculture income is the jurisdiction of provinces while taxation of incomes and profits of non agricultural sources is the sole responsibility of the federal government. The federal government has not taken initiative in imposing agricultural income tax.

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The first ever attempt to extend income tax to agriculture sector was made in 1977 when the national assembly adopted bill allowing the federal to levy agricultural income tax .The law was later suspended by the martial law regime (national taxation reform commission report 1986).A more recent attempt was made in August1993 by the government of Moeen Qureshi. His government introduced land tax based on quality index or PIU (production index units) of land. As PIU has been considered as income tax, its implementation has to await legislative measures by the assemblies.

The primary objective assigned to the taxation system in Pakistan remains to be resource mobilization. However, as stated above, over the years, the taxation system has also been used as a vehicle for achieving several secondary objectives As a consequence; the present tax system is characterized by the presence of multiple exemptions and incentives, which have riddled the tax system, thus constraining its revenue-generating capacity.

Over the period 1979-80 to 1991-92, net direct tax receipts (other than wealth tax) increased from Rs 5,225 million to Rs 27500 million. The tax base, however, continues to be composed of a small number of corporate taxpayers. Justice in equity demands that equals should be taxed equally. In the debate of agricultural taxation, it is the "intersectoral equity" approach which has received the most attention. It implies that equal amount proportion of income should be taken from each sector of the economy by way of taxation. Agriculture income contribution does not follow this approach.

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It has been observed that misuse of the agricultural exemption to shelter from tax other incomes has increased over recent years. Specifically, the exemption of agricultural income has given rise to various methods of tax evasion which inter alia include purchase of agricultural land by industrialists, who claim it as the source of other income, operation of non-agricultural businesses by agriculturists who claim income generated from such businesses as agricultural income, and fictitious loans made by agriculturists to industrialists and other traders help this class of taxpayers to evade tax on their commercial incomes.

With limited tax potential of many subsistence farmers, the land revenue systems need to be replaced by agriculture income tax for any significant increase in revenues from this sector. The justification for agricultural income tax is built on criticism of land revenue system as an outmoded, regressive and price and income inelastic system of taxation .Thus the system of agriculture income tax is helpful in achieving the most cherished goal of economic development.

The current tax structure in Pakistan has tremendous room for improvement. Taxing of agricultural income will play a great role in the expansion of the Pakistan's tax base. During a seminar on pre-budget public consultation by NA committee on Finance and Revenue on Change in Collective National Behavior.
The question was how to expand the Tax base in Pakistan: Ideas for the budget 2010-2011, most of the parliamentarians agreed that tax culture is

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necessary for expanding the tax-base. Experts pointed out that rich people in rural area are paying 14 percent less income tax as compared to those in urban areas. To remove this distortion, there is a need to impose tax on agricultural income to make income tax enforcement equitable. Most of the participants including the members of the Parliament suggested bringing agriculture, real estate and stock exchanges into the tax net. While strongly supporting agriculture income tax, senator argued that the depressed salaried class in urban areas is paying tax, than why the income from agriculture is not being taxed by the government. Senator opined that agriculture tax would be considered as a potential area for increase in tax base. The provincial autonomy would have a good impact on tax to GDP ratio and broadening the tax base.

The issue of taxing agriculture has become so much distorted that there are always divergent and confronting opinions from experts and neutral people the same phenomenon was seen in a program of Waqt news in which PPP Senator Gul Mohammad Lot was arguing against the agricultural income tax and Irshad Jilani a senior journalist in the favor of the tax (Waqt news, 2011).

About taxing the agriculture the former finance minister Mr. Sartaj Aziz said in his answer to a query, that agricultural tax is a provincial matter but the centre can suggest an improved system for the collection of farm tax. Such a system can be based on the principle of presumptive tax (final tax) (Kashif, M, Dawn, 2011).

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WB PROPOSAL FOR AGRICULTURE INCOME TAX[*4]

The world bank has proposed imposition of withholding tax on agricultural income, where tax is withheld on the purchase of agricultural inputs, with an exemption limit for small farmers or alternatively for the sale of cash crop outputs. It has considered two reforms scenario one is land based and other is income based.WB has also proposed inclusion of estimates of costs of inputs and gross receipts by crops, as the produce index unit system, into the records (Khasra Girdawari).

Under the first option, progressive rate structure (independent of crop): 7.5 acre exemption for irrigated or un-irrigated land; 7.5 to 25 acres taxed at Rs 100 per acre, 25 to 50 acres at Rs 150 per acre, 50 to 150 acres at Rs 200 per acre, and Rs 300 per acre for farms greater than 150 acres

Un-irrigated land would be taxed at half the rate of irrigated land and orchards would be taxed at Rs 300 per acre. The simulation by farm size gives a result of an 11 percent revenue increase in Khyber Pakhtunkhwa and a 21 percent increase in Punjab. The resulting distribution of tax burden is more progressive than the present system under this reform scenario.

As per second option, flat rate structure by crop type: 7.5 acre exemption for all farms (except orchards); wheat taxed at Rs 100 per

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[4] WB proposes withholding system for agriculture income tax, 2009 sep. http://www.pakistanviews.com/business/wb-proposes-withholding-system-for-agriculture-income-tax.html

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acre, cotton taxed at Rs 200 per acre, rice taxed at Rs 300 per acre, and sugarcane taxed at Rs 350 per acre. (These amounts were chosen based on the relative level of profitability of these crops).

Un-irrigated land taxed at Rs 150 per acre regardless of the crop. Orchards would be taxed at Rs 300 per acre. The WB simulations show that revenues would increase by 27 percent in Khyber Pakhtunkhwa and 37 percent in Punjab. This option imposes a tax structure based on farm size, but adjusted for crop type. Adjusting the land-based rates by type of crop is admittedly a more complicated way to go.

However, this type of reform brings the agricultural income tax closer to a tax on potential income than the tax structures based on land alone. The estimates have been made considering four crop types: wheat, cotton, rice, and sugarcane. For these purposes, we collapse other grains and fruits and vegetables into the wheat category. These categories can easily be changed. The revenue impact for Khyber Pakhtunkhwa is an increase in all of 27 percent and the increase in Punjab is 37 percent under this structure.

Explaining the third option, tax presumptive net income based on crop yield and profitability, with exemption of Rs 100,000 and progressive rates from 5 to 15 percent. The simulations show that revenues would increase 20 percent in Khyber Pakhtunkhwa and 10 percent in Punjab.

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Finally, under this option, it has been estimated that the revenue potential of a tax based on potential income, where income is estimated based on the average profit/loss including land rent per crop, per acre. As per estimates, the potential revenue assuming an average net profit per acre of Rs 4,000 (lower bound of all crops) and Rs 8,000 per acre (an upper bound estimate of the average crop yield).

With a threshold of Rs 100,000 for tax purposes, on average, only farms of 25 acres or more would be taxable. The revenue analysis suggests that this structure could yield Rs 280 million in Khyber Pakhtunkhwa (a 20 percent increase) and approximately Rs 2.9 billion in Punjab (a 10 percent increase), assuming that such a tax could be fully administered. The main two types of options for a reform program are land-based presumptive options or income based presumptive options.

Land-based presumptive reforms have the advantage of simplicity, but they may perpetuate a presumptive system and prevent the agricultural income tax from growing. However three land-based reform components could be:

Reduce the exemption level in Punjab. This would raise administrative and compliance costs but would expand the tax base to cover the entire sector.

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Secondly, the tax rates could be increased. Thirdly, a more progressive rate schedule could be developed.

The income-based presumptive reforms have the benefit of keeping the agricultural income tax a direct tax on income. This would allow such a tax to be ultimately integrated with the general income tax. However, given the constitutional issue related to the taxation of agricultural income, it might be difficult to treat agricultural income like other forms of income for tax purposes. However a reform could be to define a presumptive net income amount by farm, based on farm size and crop type. The rates could be flat or variable. A subsistence level of income could be exempt from tax, similar to the personal income tax exemption of 100,000 rupees.

Using data from the Agricultural Census, Board of Revenue, and Agriculture and Crop Reporting Center, we can estimate the revenue impact of these proposals under the assumption of full collection.

Substantial revenue can only be increased if the efficiency of administration is enhanced.

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LIMITATIONS

The limitations of this research are as follows;

1) We were intended to interview many people like members of the provincial assemblies of all the provinces, agriculture department, revenue department, feudal, model formers and officials of the revenue department but could not do so due to certain inevitable reasons.

2) We liked to have statistical data regarding agriculture and make projections for the possible revenue generation but we could not get such a data to make our research more influencing on the basis of statistical evidence.

3) The primary data that has been collected in the form of interviews has been collected from the people and officials of Punjab province so these observations can not be generalized to the entire of the country

It is recommended that any other group can conduct a research on the same topic bridging the said gaps.

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CONCLUSION

We have always looked in a sympathetic way towards agriculture; it has rather deteriorated the potential of agriculture despite making it progressive and competitive in the economy. There are two basic reasons for this sorry state of affairs. One is the political and the other is purely technical and economic. Firstly, the politicians of the feudal class have managed it very efficiently that agriculture is the profession of poor segment of the society, it should not be taxed, they have basically played their politics very wisely to get their benefits because it is only a small chunk of land that is with the poor farmers and the major portion of land is with them. Secondly, the exemptions, subsidies and support prices for food items have made it a parasite of economy. Due to the half baked economic and political steps the agriculture of Pakistan is characterized by a very low per acre yield for a variety of seed born and soil born diseases, poor seeds, lake of irrigation knowledge, classical farming and absence of research. A well-orchestrated program for agriculture involving the withdrawal of exemptions and subsidies will encourage agriculture production, optimum utilization of agricultural land research and innovation in agricultural inputs and agricultural practices. This program must include soft loans, technical assistance to farmers and agricultural research in agricultural institutes. It will increase per acre yield and improve nutritional value of food at the one end and exert a pleasant impact on the industry, national and international competitiveness in food market and revenue including tax revenue potential at the other end. It is not a far cry the example of Japan can be cited here, during the Meiji

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period a policy of high land tax was adopted which encouraged competitiveness in agriculture and it showed a very rapid growth. A very big support to this thesis comes from a very senior economist Dr. Karamat Ali, head of the economics department at Bahawalpur University, saying that that all exemptions should be withdrawn and everyone who earns beyond a certain level irrespective of the source should pay income tax. But there must be certain measures in the form of loans and facilities to make agriculture more dynamic and progressive (Dawn editorial, 2011).

It is quite evident that we have always considered or manipulated to consider agriculture to be the weak segment of the economy. The best illustration of this distortion can be seen in the repealed ordinance where agriculture was used for rate purposes only if a person had income from other heads of income along with agricultural income while the feudal who declared only agricultural income were exempt. More over Musharraf was persuaded by his military comrades to repeal wealth tax to immune themselves from the wealth tax on their agricultural land and precious real state. But the exemptions and subsidies have cost a negative effect on agriculture and stifled the progress of this sector despite giving it any boost. Agriculture accounted for about 53% of GDP in 1947. While per-capita agricultural output has grown since then, it has been outpaced by the growth of the non-agricultural sectors, and the share of agriculture has dropped to roughly one-fifth of Pakistan's economy (The Economic survey of Pakistan, 2005).

Another excuse given for not levying agricultural income tax is the absence of documentation of agriculture and cost benefit analysis

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consideration. We think it is perhaps the most documented sector of the country we have a much protected record of even a single Marla of agricultural land. The other one is also irrational because during the studies and compilation of thesis we have found and recorded that there is a big potential in the sector.

At the other end the countries where agriculture sector has been subject to open market it has become competitive and invites massive investment, such countries are searching for agricultural land to invest in. South Korea and Gulf States are deeply interested in buying or taking on lease the agricultural land of Pakistan (Haq, R.2009).

There may arise so many hurdles in the collection of agricultural tax but there are certain healthy signs as well the leaders of the prominent parties have realized that Pakistan needs to be self reliant if it likes to be politically self reliant. The charter of democracy was signed between two former prime ministers Benazir Bhutto and Nawaz Sharif it was pledged by both the leaders that both the parties would take measures to make country economically independent (Charter of Democracy, 2006).

Nawaz Sharif has said it recently in his interview that the leaders of the political parties have to set example by paying tax to be economically and politically independent (Aaj TV, 2011).

Mr. Sharif has also said that we must try to develop our own indigenous sources to be among the community of developed and independent nations (Daily Ausaf, 2011).

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There is no doubt that tax collection is the most difficult job but it is not only with the agricultural income tax it is with all the types of taxes people do not want to give any kind of tax be it income tax, agricultural tax or any other levy. Even in that absence of any audit for the previous so many years there have been people who not only paid tax but paid it very honestly. It is no doubt that there will be people who would not pay it so easily but it does not provide any excuse of not levying agricultural income tax. There is a strong move in every sphere of life for agriculture many political parties have raised a very genuine voice for the imposition of agricultural tax the strongest one is from the MQM. Talking to media persons Mr. Shabaz Sharif said that Pakistan is under the heavy burden of foreign debt which has marred the pace of development of the country Pakistan has to break the shackles of foreign dependence to make progress (Media persons, 2011). A very healthy move has been seen from the farmers as well these days. Leaders of the farming community of southern Punjab including Syed Fakhar Imam supported the imposition of agricultural income tax. He said that farm owners should pay tax on their agricultural income to prompt fairness in the tax regime. He however said that care should be taken to minimize the problems being faced by the farmer community (Dawn editorial, 2011).

Every annual budget of the country is invariably characterized by a huge fiscal deficit, which is met by domestic and foreign borrowings obviously with strings attached to it much of it can be reduced by levying agricultural income tax. The total collection of agriculture related tax in 2009 was below Rs. 2 billion against the actual potential of Rs. 200 billion

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(share of agriculture in GDP was about 22 percent) (Bukhari, H and Dr. Haq, I. 2010). It is high a time to devise a well thought agricultural tax policy and implement it and luckily most of the stakeholders are well aware of the need of economic sovereignty of the country. Even the people who are hostile to tax are talking of Ushr let the understanding of the Islamic scholars be used also. An agricultural tax committee consisting of men of sight and sense from all the stake holders should be constituted to deliberate upon the issue deeply and seriously. It should be made mandatory for the committee to come with practical solution with in a rational duration of time because it is already too late.

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RECOMMENDATIONS

Our research syndicate recommends a stepwise levying of agricultural income tax in the following steps, in all these steps or modes the taxes that are already being paid will in the form of land revenue or Abiana will be treated as tax credit;

1-RATE PURPOSE

In the first stage we can use agricultural income for rate purpose and proportionate relief will be given for agricultural income;

A-In case of agricultural and income from other sources, agricultural income will be clubbed with the income from other heads of income and tax will be calculated. Proportionate relief and tax credits will be granted and total payable tax will be determined.

Illustration-I

INCOME FROM OTHER HEADS OF INCOME	300000
INCOME FROM AGRICULTURE	400000
TOTAL INCOME	700000
TOTAL TAX @10%	70000
PROPORTIONATE RELIEF	(40000)
TAX CREDIT (SUPPOSE RS. 500 ABIANA PAID)	(500)
NET PAYABLE TAX	25500

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B-In case where there is only agricultural income, the income from other heads of income will be taken as zero and proportionate relief will be given 80% of the entitled relief.

Illustration-II

INCOME FROM OTHER HEADS OF INCOME	0
INCOME FROM AGRICULTURE	400000
TOTAL TAXABLE INCOME	400000
TAX @7.5%	30000
PROPORTIONATE RELIEF (80%)	(24000)
TAX CREDIT (ABIANA PAID)	(500)
NET TAX PAYABLE	5500

2. WITH HOLDING TAX

The second stage for the taxation of agriculture can be with holding on the total consideration received for the sale of agricultural produce. The rate of this tax can be 3.5%.

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Illustration:

AGRICULTURE RECIEPTS	400000
WITH HOLDING TAX @RATE OF 3.5%	14000
TAX CREDIT(ABIANA PAID RS.500)	(500)
NET TAX PAYABLE	13500

3. HEAD OF INCOME

In the final stage agricultural income can be treated as a separate head and all the expenditures incurred on deriving income can be admitted as expense. For example agricultural inputs like seeds, fertilizer, medicines and labor involved. The expenses allowed can be the lesser of:

a. Actual expenses occurred
b. 50% of the total considerations received for agricultural produce.

Income from all other heads	300000
Income from agriculture	400000
Expenses	(100000)
Net taxable income	600000
Tax at the rate of 10 %	60000
Tax credit(Abiana paid rs.2000)	(2000)
Net tax payable	58000

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The time frame to meet all the three stages can be decided by the agricultural taxation committee as recommended already to be constituted.

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