

CHAPTER VIII  
GRANT ON ACCOUNT OF WEALTH TAX  
ON AGRICULTURAL PROPERTY

Under paragraph 4(f) of the President's Order, we are required to make recommendations regarding "the principles governing the distribution among the States of the grant to be made available to the States on account of wealth tax on agricultural property."

2. Though the Wealth Tax Act had been enacted as early as 1957, agricultural property was exempt from the levy of wealth tax upto and inclusive of the assessment year 1969-70. The Finance Act of 1969 amended the Wealth Tax Act so as to extend the levy of wealth tax to agricultural property (except such property situated in Jammu & Kashmir), subject to certain exemptions, with effect from the assessment year 1970-71. The decision to subject agricultural property to wealth tax was taken by Government with a view to bring about equality of treatment as between persons having investments in non-agricultural property and those having investments in agricultural property.

3. Wealth tax is not one of those taxes or duties which, under the provisions of the Constitution, are to be shared with the States either on an obligatory or permissive basis. It is also not a tax levied and collected by the Centre and assigned in their entirety to the States, as for example, is the case with estate duty on property other than agricultural land. However, when in 1969, agricultural land held by individuals and Hindu undivided families was made liable to wealth tax, subject to certain limits, the Central Government decided *suo motu* that the net proceeds of wealth tax on agricultural land would be passed on to the States as grants-in-aid.

4. We have obtained the views of the State Governments on the principles to be evolved for the distribution amongst them of the grant-in-aid to be made available to them on account of wealth tax on agricultural property. Briefly they are :—

- (i) Distribution on the basis of location of property. While one State had specifically suggested that the grant should be distributed in proportion to the gross value of agricultural wealth located in each State in the same way as estate duty is distributed in proportion to the gross value of immovable property located in each State, another had suggested that each State should get the amount which it would itself have collected if it had the power to levy and collect the tax itself. Another State would prefer the grant being distributed amongst the States according to their respective population, in case data were not available for distribution

of the grant in proportion to the gross value of agricultural land located in each State and brought into assessment in each year;

- (ii) Distribution on the basis of population;
- (iii) Distribution on the basis of collection;
- (iv) Distribution on the same basis as for income tax;
- (v) Distribution partly on the basis of population and partly on the basis of backwardness;
- (vi) Distribution in proportion of the rural population living below the subsistence level to the total of such population of all States taken together;
- (vii) Distribution in such a manner as to make available more funds to agriculturally less developed States in comparison to those which are highly developed.

5. We have considered the relative merits of these suggestions carefully. Wealth tax on agricultural property is comparable in its incidence to estate duty in so far as the latter relates to immovable property. The location of property in each case is clearly identifiable and provides therefore a reliable basis for distribution of the proceeds of the tax among the States. We therefore feel that the grant on account of wealth tax on agricultural property should be distributed among the States in proportion to the value of agricultural property situated in the State and brought into assessment. Population would not seem to be a suitable basis for distribution of the grant since it has no bearing on the extent or value of agricultural property brought within the tax net. Collection would not also be an appropriate basis as the tax collected may in some cases relate to property located outside the State. Backwardness or need for development of any particular area would also not seem to be relevant in the distribution of the grant. Accordingly, we recommend that the grant-in-aid to be made available to the States on account of wealth tax on agricultural property should be distributed among the States in proportion to the value of agricultural property located in each State and brought to assessment in that year.

6. It is presumed that the grant payable to the States would be equivalent to the net collections of wealth tax on agricultural property less collections attributable to Union Territories. If our presumption is correct, we would recommend that the share attributable to Union Territories should be in proportion to the value of agricultural property situated in the Union Territories and brought to assessment.

7. We had asked the Central Board of Direct Taxes to let us know the nature of statistics that are at present required to be maintained for the purpose of assessment and collection of wealth tax on agricultural property, and whether it would be possible to maintain statistics relating to the agricultural property in each State brought under assessment. We have been advised that these data are not readily available. We have, however no doubt that arrangements could easily be made for compilation of relevant statistics relating to agricultural property located in each State and brought to assessment in that year.

8. The initial anticipations in regard to the yield of the tax would seem to have gone awry completely. In 1970-71, against the estimated yield of Rs. 4 crores, the actual collections amounted to only Rs. 8.72 lakhs. The actual collections in 1971-72 amounted to Rs. 49.43 lakhs and in 1972-73 to Rs. 69.51 lakhs against the anticipated receipts of Rs. 8 crores in each of the years. The Central Board of Direct Taxes has now set its sights lower and in the forecast of receipts for the five years ending 1978-79, the gross receipts from this tax have been placed at Rs. 1 crore per annum. As the cost of collection has been estimated at Rs. 55 lakhs a year, the net amount likely to become available for payment to the States as grant-in-aid

during the period of our recommendation would be only of the order of Rs. 45 lakhs a year. In view of the relatively low and uncertain yield from this tax, we consider that the grant likely to be made available to the States from out of the proceeds of this tax should not be taken into account in assessing the resources of the States for the period of our award. We have, therefore, left this amount out of account in computing the non-Plan revenue gaps of the States. Accordingly, the grant on account of wealth tax on agricultural property distributed among the States in accordance with the principles recommended by us may be reckoned as a resource for State Plans.

9. We have been given to understand that a sum of about Rs. 3.4 crores has already been given to the States, including Himachal Pradesh, Tripura and Manipur in 1970-71. The actual collection in that year amounted to only Rs. 8.72 lakhs on the basis of departmental statistics. In view of this, the grants on account of tax on agricultural property falling due for payment in the forecast period are likely to be offset substantially by recoveries of overpayments already made. This is another factor that has weighed with us in keeping this grant out of our estimates regarding the resources and needs of the States during the period of our award.