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Direct Agricultural Taxes in Pakistan

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M. Irshad Khan

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Direct Agricultural Taxes in Pakistan

by Mohammad Irshad Khan ^{*/}

Underdeveloped countries generally have a low ratio of tax revenue to their national income. Taxes falling directly on agriculture are still lower in relation to the income originating from agriculture. Agricultural taxes, particularly direct taxes on agriculture, can play a vital role in raising the share of tax revenue in the national income of underdeveloped countries, as the major portion of their national income originates from agriculture. The scope of this study is, therefore, limited to direct taxes on agriculture in Pakistan.

Direct taxes on agriculture in Pakistan are (1) Land Revenue, (2) Water Rates, (3) Agricultural Income Tax, and (4) Betterment Levy. Land Revenue and Water Rates are the major contributors of revenue from agricultural taxes.

Land Revenue:-

Levy on land is perhaps the most ancient form of taxation. Land was the main source of revenue for kings and conquerors. "King's share was usually abstracted by King's agents from the grain heaps on the threshing floor"^{1/}. In Indo-Pak sub-continent, land reforms were first introduced by Sher Shah Suri and were improved later by Emperor Akbar. One third of the produce was fixed as the government's share which was to be paid either in kind or in cash based on the average price of food grains during 19 years preceding the settlement.^{2/}

As the number of farmers grew a system of revenue farmer was introduced whereby some people (neither owners nor cultivators of land) were conferred right of collecting revenue. The collectors were entitled to retain one-tenth of the collections for their services. The British made a permanent settlement with revenue collectors, or zamindars, fixing the government's share at ten-eleventh for all times to come. Improvements on land and the increase in the prices of agriculture produce brought larger revenues to the zamindars who sub-let the rights of collection to

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^{1/} Government of Pakistan, Taxation Enquiry Committee Report Vol.I, 1960 (Karachi: Manager of Publications), p.215.

^{2/} Ibid, p.215

intermediaries resulting in, in some cases, as many as twenty links in the chain of intermediaries between the actual cultivator and the zamindar. The permanent settlement of 1793, applied to Bengal and parts of Bihar and Orissa. In former Punjab and Sind, a scheme of periodic settlements for 30 or 40 years was introduced. The system came to be known as "Mihalwari" in Punjab, in which the villagers were made individually and jointly responsible for the payment of land revenue, while in Sind, it was called "Ryotwari", in which each occupant of land, or Ryot, was individually assessed. Under these systems the rate of revenue depended upon the "net assets" defined as "the estimated average annual surplus produce of an estates or group estates remaining after deduction of the ordinary expenses of cultivation as ascertained or estimated".^{3/}

Water Rates:

Water rate is a service charge for the supply of water. One may, therefore, feel that it cannot be called a tax, since it is payment for a factor of production. We, however, call it a tax. The rationale behind this treatment of water rates is that the charge is almost nominal when compared with the opportunity cost of water to the farmer, so that it is more in the nature of a nominal tax than a payment for a factor.

There are two different systems of levying water rate in West Pakistan, the Punjab system and the Sind system. Under the Punjab system, the rate is chargeable primarily from the occupiers, or users of irrigation water, and is subject to acceptance of water by them. The rates vary for different types of canal (inundation, perennial, non-perennial). Within the same type of canal, rates vary from project to project, from crop to crop, and from season to season. According to latest legislation in Punjab, the tenant who pays 40 percent of the produce to the landlord must pay 60 per cent of the water rate and land revenue. In practice, however, land revenue is paid by the land owner, and the water rates are paid by the tenants. In case of share-cropping on a 50:50 basis, water rate and land revenue are sometimes paid fully by the landlord and sometimes equally shared with tenants. The principle on which water rates are fixed, takes into account (1) the total cost of the canal and its working expenses; (2) the amount of water required for watering a crop; (3) availability of water supply in different seasons; (4) value of the produce raised; and the capacity of the people to pay the charge.

Under the Sind system water rates were included in land revenue until 1959. The land revenues net of 6 per cent for cost of collection were credited to irrigation in the proportion of 90 per cent. Now water rates are separated from land revenue.

Agricultural Income Tax:

In India and Pakistan, a distinction is made between agricultural and non-agricultural incomes. Agricultural income tax was first imposed in Bengal in 1944 and the Government of East Pakistan continues to levy taxes on agricultural income. Net agricultural income after deducting land rent, cesses and costs of cultivation is taxed at the rates fixed by the Provincial Government in its annual budgets. In the former Punjab agricultural income tax was introduced in 1948 and the tax was assessed with reference to the amount of land revenue payable by an assessor rather than on the actual income of the tax payer in a particular year. This system was also adopted in NWFP and Bahawalpur State.

Betterment Levy:

Betterment levy is imposed on the land which is improved by some public projects and is not a recurring charge, though it is collected in instalments.

Estimates of Aggregate Direct Taxes on Agriculture:

The estimates of total direct taxes on agriculture in Pakistan along with separate estimates for East and West Pakistan are shown in Table I for the period from 1947-48 to 1963-64. The revenue from agricultural taxes in Pakistan has been steadily rising during the 17 years period; it has risen by about 2.5 times since 1948-49. In East Pakistan, its growth has been most rapid; starting with Rs.29 million in 1948-49, it has risen to Rs.153 million in 1962-63, almost a rise of 500 percent, greater ^{than 30} per cent average annual rate of growth.

Since the rates of agricultural taxes in East Pakistan have not changed much during these periods, the high rate of growth of agricultural taxes in East Pakistan means either the land under cultivation must have increased or the system of revenue collection must have been improved. Our belief is that the abolition of the zamindari system in East Pakistan in 1952 has brought about such a phenomenal rise in agricultural taxes there, since the land area has not changed much.

Agricultural taxes in West Pakistan have not risen as rapidly as in East Pakistan but total revenue from agricultural taxes in West Pakistan is much higher than the agricultural tax revenue in East Pakistan, mainly because of the

water rates in West Pakistan; if we separate the water rates from taxes, then the agricultural taxes in West Pakistan is not higher than in East Pakistan and, as a matter of fact the East Pakistan agricultural sector pays more taxes in later years.

There was a sharp rise in revenue from agricultural taxes in West Pakistan in 1956-57, presumably due to the integration of the former provinces into one until in 1955-56. The integration made it possible to apply the administrative set up of Punjab into all of West Pakistan. The officials responsible for the realization of revenue in Punjab, where a well set administrative system existed, were enabled to utilize their administrative experiences and superior organization in other parts of West Pakistan. As a result the revenue increased sharply. Revenue from agricultural taxes in East Pakistan sharply declined in 1962-63. The high agricultural tax revenue in East Pakistan in 1958-59 presumably due to the payments of arrears after the imposition of Martial Law in October, 1958.

The pattern of growth in agricultural tax revenue can be understood more clearly if we analyse the growth of individual direct taxes in East Pakistan and West Pakistan from 1947-48 to 1963-64.

Individual Direct Taxes:

Table II shows the growth of individual direct taxes in East and West Pakistan from 1947-48 to 1963-64. We shall analyse each of them separately.

Land Revenue:

Land revenue is a major contributor of revenue in East Pakistan. If we deduct the proportionate share of 3 months from the land revenue in 1958-59 we get a steady and rapid growth of land revenue in East Pakistan with the exception of the year 1962-63 where there was a sharp decline in land revenue. In West Pakistan, there is much fluctuation in land revenue and the growth of land revenue is also slow. After a sharp rise in 1956-57 due to integration of West Pakistan in 1955-56, land revenue has in fact gone down in West Pakistan. The figures for land revenue in West Pakistan suggest either one or all of the three things; (1) a significant proportion of land is rendered uncultivable because of water logging and salinity and/or any other factor like wind erosion etc; (2) the share of the irrigation department in the land revenue has been rising. (3) the landowners try successfully to get some of their lands classified as uncultivable or waste land. Since the proportion of the irrigation department in land revenue is fixed at 90 per cent in

4/ Upto 1958-59, the fiscal year in Pakistan was April to March. In 1958-59 it was changed to July to June as a result of which 1958-59 figures include data for 15 months i.e. April to June.

Sind and around 50 percent in Punjab, ^{5/} the first and second factors seem to have more influence on the collections of land revenue in West Pakistan.

Water Rates:

Water rate is practically non-existent in East Pakistan since there are no irrigation canals. The revenue under water rate in East Pakistan shows the realization from navigation channels.

Water rates are very important in West Pakistan where there is a net work of irrigation canals. The West Pakistan Irrigation Department collects water rates directly as well as claims a portion of land revenue collected by the Agricultural Department in canal irrigated areas on the plea that land revenue in these areas accrues mainly because of irrigation canals. Direct collection of water rates remained almost constant up to 1955-56, except for the year 1949-50 when it rose temporarily. When West Pakistan was integrated into one unit in the year 1955-56, the revenue from water rates rose sharply and continued to grow rapidly till it attained a level of 162 million rupees in 1960-61. After that it leveled off. The big jump in revenue from water rates in 1959-60 is due to the recovery of arrears by the Martial Law Regime.

Agricultural Income Tax:

The revenue from agricultural income tax has been larger in East Pakistan than in West Pakistan. In East Pakistan, it rose to a peak of 14.5 million rupees in 1957-58 as compared to only 2.7 million rupees in 1947-48, but there has been no discernible trend. In both wings it actually decreased in later years. The realization of agricultural income taxes in the two wings suggests that land-lords in West Pakistan get taxed very little even though they have large land holdings and consequently high incomes. The yield of agricultural income taxes in West Pakistan may be either due to the system of assessment on the basis of land revenue and not actual income or due to political influence of the landlords or due to both.

Burden of Direct Taxes on Agriculture:

It is very difficult to estimate the burden of direct taxes on agriculture when there is no satisfactory breakdown of rural-urban population and agricultural - non-agricultural income in the two wings of Pakistan. Nevertheless, we have made an

attempt to show how much taxes are paid per acre, per person² and in relation to the income in the agricultural sector of the country. Table III shows

tax revenue in the two wings in relation to the population in agriculture, acreage under principal crops, and agricultural income.

It is obvious that the agricultural population in West Pakistan is paying taxes per acre, per person, and as a ratio to the agricultural income, which are much higher than the corresponding figures in East Pakistan. This is mainly because of water rates which are the major portion of tax revenue in West Pakistan. The important point to be noted is that per acre, per person as well as per rupee of income, tax in agriculture show a steadily rising trend. The upward rising curves of per capita taxes, per acre taxes and per rupee of income, taxes are more smooth in East Pakistan than in West Pakistan except for the later years when Martial Law and crop failures seem to disturb the trend in East Pakistan in 1958-59 and 1962-63, respectively.

The abolition of Zamindari system in East Pakistan in 1951 seems to have increased the land revenue in East Pakistan. Upto 1950-51, the per acre taxes in East Pakistan were constant; they began to rise from 1951-52 due to the acquisition of property under the East Bengal Act of 1951. The same pattern holds true for per capita taxes and taxes as a percent of income. It can, therefore, be concluded that direct collection of revenue by Government from the agriculturists is more efficient from revenue point of view.

Comparison with Direct Non-agricultural Taxes:

To compare agricultural taxes with non-agricultural taxes, we have first calculated the per capita tax burden and then compared the ratio of taxes to the income in the two sectors. Non-agricultural taxes include only income and corporation taxes.

Table IV shows the growth of per capita taxes and the growth of taxes in relation to income in the two sectors. It is obvious that per capita taxes in the non-agricultural sector are much higher compared to per capita taxes in the agricultural sector. Moreover, the rate of growth of non-agricultural taxes is very high in relation to the rate of growth of agricultural taxes. On the other hand, taxes in relation to income have grown at a greater rate in the agricultural sector; although the ratios of taxes to income are a little higher in the non-agricultural sector except four years.

5/ There is a conceptual problem in computing per capita taxes. The agricultural taxes were taken as a ratio to rural population and non-agricultural taxes as a ratio to urban population. Since there are many people in rural areas whose incomes do not originate/~~this overstates~~ the per capita non-agricultural tax burden and

cal-

The above analysis suggests that taxes have grown in the non-agricultural sector at a rate faster than the rate of growth of population and the rate of growth of population has been much lower than the rate of growth of income in the non-agricultural sector. Per capita taxes and per capita income in the non-agricultural sector seem to grow at the same rate, as a result of which taxes as a percentage of non-agricultural income is more or less stationary over the period studied.

In the agricultural sector, the per capita taxes do not seem to grow at the same rate at which the ratio of taxes to agricultural income has grown. The higher rate of growth of taxes in relation to agricultural income suggests that population has grown at a higher rate or at least at the same rate at which the income has grown in the agricultural sector or the growth of income has been, either, stationary or has declined over the period studied. This means that per capita income must have gone down in the agricultural sector.

7/ John H. Power, Industrialization in Pakistan: A case of Frustrated Take-off, Pakistan Development Review, Op.... pp. 192-207.

CONCLUSION

Contrary to the general view which holds that agricultural taxes have been stationary, we have found that direct taxes on agriculture have been increasing since independence. There are also accusations by farmers that they are overtaxed and by the non-agricultural sector that it is also overtaxed. By looking only at direct taxes it is not possible to support either of these claims, since the ratio of direct taxes to income in the two sectors is not noticeably different. Naturally both these subjects need further study, for the inclusion of indirect taxes, other minor direct taxes, and the effect of other government policies could seriously change the evaluation suggested here. But it is important to note that this preliminary investigation does not support the strong claim of either the agricultural or the non-agricultural sector.

TABLE I

Direct Taxes on Agriculture in Pakistan (In thousand rupees)

Years	East Pakistan	West Pakistan	All Pakistan
1947-48	20,169	90,259	110,428
48-49	28,759	151,380	180,139
49-50	25,814	176,543	202,357
50-51	30,275	154,901	185,176
51-52	33,108	183,549	216,657
52-53	42,283	168,800	211,083
53-54	50,648	143,696	194,344
54-55	58,602	172,147	230,749
(Average)	(38,498)	(164,431)	(202,929)
55-56	60,819	158,964	219,783
56-57	61,991	230,320	292,311
57-58	82,308	238,645	321,033
58-59	120,566	215,592	420,197
59-60	106,283	298,085	404,368
(Average)	(86,409)	(228,321)	(331,538)
60-61	120,365	334,232	454,647
61-62	154,257	308,665	462,922
62-63	87,570	313,540	401,110
63-64	152,090	312,807	466,697
(Average)	(128,771)	(317,324)	(446,334)

Source: Table II.

TABLE II

Direct Taxes on Agriculture in Pakistan (1947-48 to 1963-64) (In thousand rupees)

Years	West Pakistan				East Pakistan					
	Land Revenue	Water Rate	Portion of Land Revenue due to Irrigation	Agricultural Income Tax	Total	Land Revenue	Water Rate	Agricultural Income Tax		
1947-48	22,166	30,479	46,614	1,000	90,259	17,371	30,696	103	2,700	20,169
48-49	33,182	49,406	68,792	--	151,380	18,992	30,696	122	6,700	28,759
49-50	32,733	70,287	73,520	-	176,543	18,992	30,696	122	6,700	25,814
50-51	35,153	50,673	68,972	100	154,901	2,359	30,696	116	7,300	30,275
51-52	58,443	52,596	65,210	7,300	182,549	26,328	30,696	130	6,600	33,108
52-53	58,218	48,348	60,109	2,125	168,900	37,783	30,696	200	4,300	42,283
53-54	31,105	46,030	62,767	2,860	143,696	43,518	30,696	300	6,830	50,648
54-55	46,732	56,372	67,523	970	172,147	50,169	30,696	233	2,200	58,602
55-56	32,746	50,408	71,755	3,975	158,964	50,869	30,696	200	9,750	60,819
56-57	118,061	76,940	31,569	3,750	230,320	51,548	30,696	293	10,150	61,991
57-58	72,672	76,410	85,343	4,190	238,645	67,546	30,696	295	14,547	82,338
58-59	77,578	73,528	69,535	5,050	215,592	104,450	30,696	299	15,817	120,566
59-60	81,547	134,970	75,693	5,675	298,085	93,466	30,696	300	12,517	106,283
60-61	89,892	120,270	79,136	2,984	334,282	103,308	30,696	-	12,057	120,365
61-62	60,835	161,580	75,800	2,400	308,665	145,457	30,696	-	2,800	154,257
62-63	67,975	163,170	80,748	1,647	313,540	80,000	30,696	-	7,570	87,570
63-64	78,066	159,900	74,041	NA	312,607	145,000	30,696	-	7,390	152,690

Source: Budgets of the Governments of East and West Pakistan.

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(Average)	(123,771)	(317,324)	(446,334)

Source: Table II.

TABLE III

Years	Direct Taxes in Pakistan								
	East Pakistan			West Pakistan			All Pakistan		
	Taxes per acres	Taxes per capita	Taxes as a percent of Agri. Income	Taxes per acre	Taxes per capita	Taxes as a percent of Agri. Income	Taxes per acres	Taxes per capita	Taxes as a percent of Agricultural Income
1949-50	1.14	0.64	0.4	7.19	6.47	3.7	4.29	2.84	1.9
50-51	1.30	0.71	0.5	6.08	5.58	3.3	3.79	2.56	1.7
51-52	1.40	0.77	0.5	7.57	6.53	3.9	4.53	2.95	1.9
52-53	1.74	0.97	0.6	7.06	5.89	3.8	4.39	2.82	1.9
53-54	2.06	1.14	0.8	5.54	4.92	3.1	3.85	2.57	1.8
54-55	2.42	1.30	1.0	6.59	5.71	4.1	4.59	3.01	2.3
55-56	2.68	1.32	1.0	5.75	5.24	3.3	4.37	2.82	2.1
56-57	2.72	1.32	0.8	3.18	7.46	4.3	5.74	3.68	2.3
57-58	3.56	1.73	1.1	3.69	7.53	4.0	6.35	3.97	2.4
58-59	5.32	2.48	1.7	7.57	6.72	4.6	6.58	4.08	2.6
59-60	4.41	2.14	1.3	10.43	9.12	4.7	7.67	4.81	2.7
60-61	4.82	2.37	1.3	12.22	10.04	4.9	3.69	5.30	2.9
61-62	6.28	2.97	1.5	10.66	9.10	4.1	3.60	5.27	2.6
62-63	3.54	1.65	0.9	10.64	9.07	4.3	7.38	4.47	2.4
63-64		2.31			3.33				

1)

Note:- Estimate of per acre tax: Acreage figures were obtained from the Ministry of Agriculture, Government of Pakistan, Karachi.

2)

Estimate of per capita tax: The population figures utilized here are those computed by John H. Power (See, John H. Power, Industrialization in Pakistan; / case of frustrated take-off? Pakistan Development Review, Vol. III, No.2, Summer 1963, op.cit.p.196. The total population of Pakistan as estimated by Dr. Power, is divided between East and West Pakistan and Rural and Urban areas in the ratios revealed by the Census population figures. (See, Sultan H. Hashmi, Main Features of the Demographic conditions in Pakistan, p.18.)

3)

Estimate of Taxes as a percent of agricultural income: Agricultural Income has been obtained from Economic Survey 1962-63 Government of Pakistan, Ministry of Finance, Rawalpindi, (Statistical Section P.9). The income is distributed between East and West Pakistan in the ratio of Dr. Mahbubul Haq's Estimates of regional agricultural income. (See, Mahbubul Haq, The Strategy of Economic Planning (Karachi: Oxford University Press), PP.252-253.)

TABLE IV

Direct Taxes in Agricultural and Non-Agricultural Sectors				
Years	Per Capita Direct		Percentage Ratio of Direct Taxes to	
	Agricultural Taxes	Non-Agricultural Taxes	Agricultural Income	Non-Agricultural Income
1949-50	2.84	11.96	1.9	1.7
50-51	2.56	13.24	1.7	1.9
51-52	2.95	16.35	1.9	2.3
52-53	2.82	16.23	1.9	2.1
53-54	2.57	16.22	1.8	2.2
54-55	3.01	17.53	2.3	2.4
55-56	2.82	17.99	2.1	2.4
56-57	3.68	17.03	2.3	2.0
57-58	3.97	18.65	2.4	2.1
58-59	4.08	24.96	2.6	2.3
59-60	4.81	21.85	2.7	2.3
60-61	5.30	22.08	2.9	2.3
61-62	5.27	24.15	2.6	2.5
62-63	4.47	15.65	2.4	1.1
63-64	4.33	15.52		

Note:- For the calculation of per capita non-agricultural taxes and the percentage ratio of non-agricultural tax to non-agricultural income. We have taken income-tax and corporation tax only.

(Source: Central Budget 1963-64, Explanatory Memoranda).

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