

### **Agriculture tax: EAC proposal on transfer of collection to FBR opposed**

Economists and tax experts have opposed the proposal by the Economic Advisory Council to transfer collection of agricultural income tax from provinces to the Federal Board of Revenue (FBR).

Strongly opposing the proposal of granting such powers to the FBR, former Finance Minister Dr Salman Shah told Business Recorder here on Monday that the federal government has no clue about agriculture land holdings and details at a local level. Local governments at provincial levels must be empowered to collect and recover agricultural income tax. Local governments are working at the grass root level and they have the best knowledge about the size of land holdings and income of the land owner. However, federal government does not have such kind of information about agriculture lands.

Salman Shah added that the work of recovery of agricultural income tax could be undertaken by allowing local governments to do so. Presently, provincial governments provide funds to local governments for undertaking different projects. Local governments can generate maximum revenue at its level by collecting agricultural income tax, which could be effectively utilized at the local level.

Dr Ashfaque Hassan Khan, Principal and Dean, School of Social Sciences & Humanities, National University of Sciences & Technology (NUST) and a member EAC said that globally income is a federal subject. Irrespective of source of income, agriculture income tax should be collected by the federation. The government can prescribe an exemption threshold for excluding small farmers from the ambit of agriculture income tax.

Shahid Jami, a tax consultant stated that instead of entrusting the levy and collection of agricultural income tax to FBR, it would be appropriate to keep the status quo whereby Provincial Boards of Revenue (PBRs) are authorized to collect the said tax. However they have neither the requisite infrastructure nor the skills to assess agricultural income, despite having record of land-holding.

As per Sr.No.47 of the Fourth Schedule of the Constitution, enumerating the Federal Legislative List, the levy of tax on income other than agricultural income is the mandate of the federal government. Thus, the levy of income tax on the agricultural income is only the right of provincial governments.

He said that as per Article 260 of the Constitution, agricultural income means "agricultural income" as defined for the purpose of law relating to income tax.

The said definition of "agricultural income" is presently contained in section 41 of the Income Tax Ordinance, 2001. He said that all provincial governments enacted provincial agricultural Income Tax Acts. For example the Punjab Agricultural Income Tax Act, 1997 was enacted and initially the agricultural income tax was levied on fixed basis on landholdings. Later, in 2001 the tax was levied on agricultural income above Rs 80,000. The levy and collection of this tax has been entrusted to the provincial revenue department which was maintaining record of land-holdings.

Since then, the legal framework and the administrative structure to levy and collect income-based agricultural income tax exists in all the four provinces but due to political reasons the enforcement is lacking and provincial revenue departments are not issuing notices to the cultivators and the landholders to file their income-tax returns, the format of which is on the pattern of Federal Income Tax Return, he said.

During 2000, all four provinces through Provincial Ordinances levied sales tax on services which under the Constitution is a provincial subject. However, the levy and collection of the same was entrusted to the federal government and it was enforced through the FBR's field formations till creation of provincial revenue authorities in 2012 onwards.

At present, provincial revenue authorities are fully functional and collecting sales tax on services and have also established field offices. In the presence of provincial revenue authorities, proposal to levy and collect income tax on agricultural income to the federation would be a step backwards. This is also contrary to the Constitutional mandate as well as the concept of provincial autonomy protected in the Constitution and backed by the 18th amendment.

Therefore, provincial revenue authorities should levy and collect provincial agricultural income tax, Shahid Jami concluded.

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