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ARTICLE

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INTERPLAY OF AGRICULTURAL LAW AND FISCAL POLICY IN RURAL DEVELOPMENT: A REVIEW

PRATIK SOM[1]* AND ARGHA KARMAKAR[1]

Tax and law making in rural settings exemplify a unique point of revenue devolution, agricultural policy, and social reality. The different layers of the rural tax?structure in India is shaped by the convergence of constitutional provisions, statutory powers and administrative capacity. The taxation in rural India is less studied and the researches in this field have a limited scope, considering only one or two aspects of taxation system in rural economies, the aim of this review article is to bring together these fragments of taxation literature in the context?of rural India by examining the interrelationships among legally assigned taxing power, property taxation, land reform implications and the role of Goods and Services Tax (GST) in rural economies. After outlining some of the most important obstacles-tax bases are narrow, institutional capacity is weak, and there is political resistance to taxing the sector-the paper proposes a set of policy reforms to enhance fiscal sustainability and equity?in rural governance.

Introduction

Taxation in the rural space is an essential but frequently neglected aspect of the fiscal framework in India. While urban areas are a formalised economic environment with strong tax compliance, rural areas have informal exchange systems, seasonal incomes, and weaker administrative systems[1]. Such limits render rural taxation not simply a matter of economics but one of law and institutions. The taxing powers in India are distributed between Union and State governments by the Constitution and local bodies levy some less significant taxes under the laws of the respective states. The absence of agricultural income from central taxation, in conjunction with the small size of landholdings, generates and politically sensitive, narrow tax base[2]. A deep comprehension of these interactions between law, taxation and rural governance is crucial in the making of policies that would not only enhance fiscal equity but also sustainable development.

* Assistant Professor Department of Law, Brainware University, Kolkata, India

Corresponding Author: ps.law@brainwareuniversity.ac.in

Legal Framework: Constitutional and Statutory Dimensions

Taxation powers are divided between Union and States as per Article 246 and the Seventh Schedule of the Indian Constitution. Entry 46 of the State List relates to the taxation of “agricultural income”, and Entry 82 of the Union List relates to tax on non-agricultural income[3]. Through section 10(1) of the Income Tax Act, 1961 agricultural income is exempt from the tax of the central government, but it does not constitute an exemption in the matter of State Governments. States really only have constitutional power to tax agricultural income, but virtually none do so because of political and administrative feasibility. PRIs were empowered through the 73rd Constitutional Amendment to have the legal authority to levy certain taxes on property, markets and professions[4]. While the introduction of GST in 2017 (where multiple indirect taxes were combined into a single tax on goods and services) had some positive and some negative impact on rural producers and micro enterprises.

Historical Context: Land Reforms and Fiscal Implications

Land reforms after independence—abolition of zamindari, regulation of tenancy, and ceilings on landholdings—sustained these transitions in the agrarian structure of India. The reforms were fundamental to breaking down great land relations, but they also produced a very fragmented pattern of landholding[5]. Fragmentation made cadastral systems and property taxation mechanisms cumbersome. While land records have been computerized on a large scale, ownership disputes and delays in mutation have continued to do the undoing, preventing rural bodies from assessing property tax correctly.

Operational Challenges in Rural Taxation

Rural taxation is also filled with all kind of challenges. Rural India has a limited tax base because of the exemption of agricultural sector from central taxation and predominance of smallholdings and self-consumption[6]. India has a respect for its farmers and also it has a realization that if we put tax on farmers than the prices of the food will grow rapidly and hence it become hard to manage the food on plates for a billion people. In addition, there are some political incentives would not allow rural tax to be enforced. Old surveys make it difficult to assess property taxation, and PRIs do not have trained manpower or digital tools. Digital illiteracy leads to many of these enterprises facing challenges in GST compliance[7].

Recent Policy Developments and Judicial Trends

Karnataka and Maharashtra have initiated programs to bring previously unregistered rural properties under tax regime. High Court judgments have clarified that panchayats cannot impose tax on industrial areas managed by state development boards unless clearly authorized. The Samarth Panchayat and e-GramSwaraj portals enhance accountability and real-time monitoring of rural fiscal performance. In Raja Benoy Kumar Sahas Roy vs. CIT (1957) the Hon'ble reiterated that agricultural income includes direct and indirect income from agricultural land[8].

Policy Recommendations

The following policies can be carefully considered to reinforce the tax recovery system in rural areas.

1. Fortify land record management through integrated digital platforms.
2. Enhance local fiscal independence via performance-based grants.
3. Rationalize agricultural taxation by targeting high-income agribusinesses.
4. Simplify GST compliance for rural MSMEs using mobile-based systems.
5. Build administrative capacity through training and partnerships.

Also, can create a web portal for centralized data hub to gather all relevant data of different district that would help the Government to understand the existing gaps in the fiscal policies along with the efficiency of previously implemented policies in this matter.

Conclusion

The success of taxation and law in the rural environment depends on the alignment of legal authority, administrative capacity, and political will. India's rural taxation framework, while constitutionally sound, remains constrained by weak institutions, incomplete land records, and socio-political sensitivities. Reforms should focus on digital integration, capacity-building, and targeted legal amendments to strengthen local fiscal governance. ❐

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