

In paragraph 67 of the Budget 1992-93 Speech made on 29th February, 1992, the then finance minister, Dr. Manmohan Singh had mentioned:

“...The Chelliah Committee has suggested that, in order to encourage the tax payers to invest in productive assets such as shares, securities, bonds, bank deposits etc. and also to promote investments through Mutual Funds, these financial assets should be exempted from wealth tax. Wealth tax should be levied on individuals, Hindu undivided families and all companies only in respect of non productive assets such as residential houses including farm houses and urban land, jewellery, bullion, motor cars, planes, boats and yachts which are not used for commercial purposes. The Committee has further suggested that such tax should be at the rate of one per cent, with a basic exemption of Rs. 15 lakhs. I propose to accept this recommendation and I hope this change will encourage investments in productive assets and discourage investment in ostentatious non-productive wealth.”

2. Finance Act, 1992 made suitable amendments to the Wealth Tax Act and sec. 2(ea)(v)(b) defines “urban land”. But it does not clearly explain the status of **agricultural lands** situated in urban areas. In spite of that, the income tax authorities were giving exemptions to such lands till recently. This was evidenced by a document downloaded from that National Website of the Income Tax Department of India, a copy of which is [attached](#). The said document which showed the Tax Obligation under Wealth Tax Act, clearly stated by a note “Agricultural land situated in urban area is not liable to wealth-tax”. This html document was downloaded on 06/05/2010. But, subsequently, this document has been removed from the Website. Quite coincidentally, the tax authorities have commenced taxing such **urban agricultural lands** citing that the Act does not exempt such lands.

Relevant Para from [Document downloaded](#) is as follows :-

(5) *Urban land; “Urban Land” means land situated :*

- i. in any area which is comprised within the jurisdiction of a local authority and which has a population of not less than ten thousand according to the last proceeding census of which the relevant figures have been published before the valuation date; or*
- ii. any area within such distance, not being more than eight kilometres from the local limits of a local authority as the Central Government may, having regard to the extent, and scope for urbanisation of that may, and other relevant considerations, specify in this behalf by notification in the Official Gazette.*

However, the following urban land shall not be included in assets;

- i. land on which construction of a building is not permissible under any law for the time being in force in the area in which such land is situated;*
- ii. land occupied by any building which has been constructed with the approval of the appropriate authority;*
- iii. any unused land held by the assessee for industrial purposes for a period of*

two years from the date of its acquisition by him.
iv. land held by an assessee as stock-in-trade for a period of five years from the date of its acquisition by him. (Ten years w.e.f. A.Y. 1999-2000).

Note: Agricultural land situated in urban area is not liable to wealth-tax.

3. The present view of the tax authorities gives rise to the following questions:-

a) According to the Budget Speech, the intention was to tax only **non-productive** assets. If so, is it the view of the Government that agriculture is an un-productive activity?

b) The Act specifically exempts any land held by the assessee as stock-in-trade for a period of **ten** years from the date of acquisition by him. Going by this rule, if a **productive agricultural land** is converted as **unproductive** house plots and if they are held as stock-in-trade, it is exempted from the levy of tax for ten long years. What is the social justice of taxing an agricultural farmer who is toiling hard to grow essential food grain and at the same time encouraging a wealthy person to invest his surplus money in such land and keeping it idle until the price escalates?

c) The Act further exempts properties in the nature of commercial establishments and complexes. This provision also exempts those persons who are able to invest crores of rupees in such assets and can afford to pay taxes thereon, but tax the poor farmer who even finds it very difficult to make his both ends meet.

d) Direct income earned from industrial/commercial lands is normally high and the owners of such lands can easily afford to pay wealth tax thereon. But, an agricultural farmer, with his meager income from his land, can never be in a position to pay wealth tax. Actually, the incidence of wealth tax @ 1% on such lands is many times more than the income derived from them. The ultimate course left to the poor farmer is to sell his lands just to pay wealth tax. If the intention of the Government is to completely wipe out agricultural activities from the urban areas and to drive out the farmers to some remote places, does it not violate the fundamental rights of Right to Equality, Right against Exploitation and Right to Property guaranteed by the Constitution of India?