

TAXATION

3rd SEMESTER

TOPIC:

AGRICULTURAL INCOME

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AGRICULTURAL INCOME

Definition:

In India, agricultural income refers to income earned or revenue derived from sources that include farming land, buildings on or identified with an agricultural land and commercial produce from a horticultural land. Agricultural income is defined under section 2(1A) of the Income Tax Act, 1961. According to this Section, agricultural income generally means:

- (a) Any rent or revenue derived from land which is situated in India and is used for agricultural purposes.

(b) Any income derived from such land by agriculture operations including processing of agricultural produce so as to render it fit for the market or sale of such produce.

(c) Any income attributable to a farm house subject to satisfaction of certain conditions specified in this regard in section 2(1A).

(d) Any income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income.

Examples of Agricultural Income

- The following are some of the examples of agricultural income:
- Income derived from sale of replanted trees.
- Income from sale of seeds.
- Rent received for agricultural land.
- Income from growing flowers and creepers.

- Profits received from a partner from a firm engaged in agricultural produce or activities.
- Interest on capital that a partner from a firm, engaged in agricultural operations, receives.

Examples of Non-Agricultural Income

- The following are some of the examples of non-agricultural income:
 - Income from poultry farming.
 - Income from bee hiving.

- Any dividend that an organization pays from its agriculture income.
- Income from the sale of spontaneously grown trees.
- Income from dairy farming.
- Income from salt produced after the land has flooded with sea water.
- Purchase of standing crop.

- Royalty income from mines.
- Income from butter and cheese making.
- Receipts from TV serial shooting in farm house.

Is Agricultural Income Taxable?

As per Section 10(1) of the Income Tax Act, 1961, agricultural income is exempted from taxation. The central government cannot levy tax on the agricultural income received.

However, agricultural income is considered for rate purposes while assessing the income tax liability if the following two conditions are met:

- ✓ Net agricultural income is greater than Rs. 5,000/- for previous year.
- ✓ Total income, excluding net agricultural income, surpasses the basic exemption limit (Rs. 2,50,000 for individuals below 60 years of age and Rs. 3,00,000 for individuals above 60 years of age).

If these two conditions are met, tax liability shall be computed in the following manner:

Step 1: Let us regard agricultural income as X and other income as Y Tax computed on $X+Y$ is $B1$

Step 2: Let us regard basic exemption slab for income tax payment as A Tax computed on $A+X$ is $B2$

Step 3: The actual income tax liability shall be $B1-B2$

Note: If the individual's aggregate agricultural income is up to Rs. 5,000, the individual will have to disclose the agricultural income in the income tax return (ITR). In case the agricultural income crosses Rs. 5,000, the individual will have to disclose the agricultural income in ITR 2

Section 54B of the Income Tax Act, 1961

Section 54B of the Income Tax Act, 1961, provides relief to taxpayers who sell their agricultural land and use the sale proceeds to acquire another agricultural land. To claim tax benefit under Section 54B of the Income Tax Act, the following conditions will have to be satisfied:

- This benefit can only be claimed by an individual or a HUF
- The agricultural land should be used by the individual or his or her parents for agricultural purpose for at least two years immediately preceding the date on which the exchange of land occurred. In case of HUF, the land should be used by any member of HUF.

- The taxpayer should purchase another agricultural land within two years from the date of selling the old land. In case it is an incident of compulsory acquisition, the period of acquiring new agricultural land will be assessed from the date of receipt of compensation. It must be noted that under Section 10(37), capital gain shall not be chargeable to tax if agricultural land is compulsorily acquired under any law, and the consideration of which is approved by the central government or banking regulator and received on or after 01-04-2004.



Assessment

AGRICULTURAL INCOME

Agriculture is said to be the primary occupation in India. It is usually the only source of income for the large rural population in India. The country as a whole is entirely dependent on agriculture for its basic food requirements. The government has a numerous amount of schemes, policies and other measures to promote growth in this sector – one of them being an exemption to income tax.

It may seem like the fact of exemption to income tax is all that we need to know when it comes to the taxation of agricultural income but there is more to it. Let us take a look at the provisions of the law in this regard.

- ❖ Meaning of Agricultural Income
- ❖ Taxation of Agricultural Income
- ❖ calculation of Agricultural Income

1. Meaning of Agricultural Income

The Income-tax Act has its own definition of agricultural income which constitutes the following 3 main activities:

1. Rent or revenue got from agricultural land situated in India:

Rent is the consideration for the right to use the land. The scope of the possible sources of income that can be derived from land is many. An example would be fees received for renewal of grant of land on lease.

However, revenue from land does not include consideration received on sale of land.

2. Income derived from agricultural land in the following ways:

a. Agriculture: The meaning of agriculture though not covered in the Act has been laid down by the Supreme Court in the case *CIT v. Raja Benoy Kumar Sahas Roy* where agriculture has been explained to consist of two types of operations –

basic operations and subsequent operations.

The **basic operations** would include cultivation of the land and consequently tilling of the land, sowing of seeds, planting and all such operations that require the human skill and effort directly on the land itself.

The **subsequent operations** would include operations that are carried out for growth and preservation of the produce like weeding, digging soil around the crops grown etc and also those operations which would make the produce fit for use in the market like tending, pruning, cutting, harvesting, etc.

Income derived from saplings or seedlings grown in a nursery would also be considered to be agricultural income whether or not the basic operations were carried out on land.

b. Through performance of a process by the cultivator or the receiver of rent in kind that results in the agricultural produce being fit to be taken to the market:

Such processes involve manual or mechanical operations that are ordinarily employed to make the agricultural produce fit for the market and the original character of such produce is retained.

C. Through sale of such agricultural

produce: Where the produce does not undergo ordinary processes employed to become marketable, the income arising on sale would generally be partly agricultural (exempt) income and part of it will be non-agricultural (taxable) income.

The Income Tax has prescribed rules to make this bifurcation regarding agricultural and non agricultural produce for products like tea, coffee, rubber, etc.

3. Income derived from farm building required for agricultural operations:

The conditions for classifying income derived from farm building as agricultural income are as follows:

a. The building should be on or in immediate vicinity of the agricultural land and is one which the receiver of rent or revenue or the cultivator, by reason of his connection with the land, requires the building as a house to stay or as a storehouse, or uses it for these kind of situations

b. Either of the two conditions should be satisfied:

The land is assessed by either land revenue or a local rate assessed and collected by government officers; OR

If the above condition is not satisfied, the land should not be located within the following region:

Aerial distance from municipality*	Population as per last preceding census.
Within 2 kms	10,000 to 1,00,000
Within 6 kms	1,00,000 to 10,00,000
Within 8 kms	> Rs. 10,00,000

*Municipality includes municipal corporation, notified area committee, town area committee, town committee and cantonment board.

Note: Even where the local population is < 10,000, the land should also not be situated within the jurisdiction of the local municipality or cantonment board.

In cases where the activities have only some distant relation to land like dairy farming, breeding, rearing of livestock, poultry farming, etc. they do not form a part of agriculture income

2. Taxation of agricultural income

As discussed above, agricultural income is exempt from income tax. However, the Income-tax Act has laid down a method to indirectly tax such income. This method or concept may be called as the **partial integration of agricultural income with non-agricultural income**. It aims at taxing the non-agricultural income at higher rates of tax.

This method is applicable when the following conditions are met:

Applicability:

- Individuals, HUFs, AOPs, BOIs and artificial juridical persons have to compulsorily calculate their taxable income using this method. Thus Company, firm/LLP, co-operative society and local authority are excluded from using this method.
- Net agricultural income is greater than Rs. 5,000 during the year; and
- Non-agricultural income is:

- ❖ Greater than Rs. 2,50,000 for individuals below 60 years of age and all other applicable persons
- ❖ Greater than Rs. 3,00,000 for individuals between 60 – 80 years of age
- ❖ Greater than Rs. 5,00,000 for individuals above 80 years of age

In simple terms, the non-agricultural income should be greater than the maximum amount not chargeable to tax (as per the slab rates).

3. Calculation of Agricultural Income

(1) Calculate Tax on:
(Non-agricultural income + net agricultural income)



(2) Calculate Tax on:
(Net Agricultural income + Maximum exemption limit as per slab rates)



(3) Calculate final tax (1) - (2) as above and:
(-) Rebate, if available
(+) Surcharge, as applicable
(+) Education and Secondary and higher education cess

THANK YOU