

# TAXATION

3<sup>rd</sup> SEMESTER

**TOPIC:**

**TYPES OF AGRICULTURAL  
INCOME IN INCOME TAX  
ACT**

**DR. J. VIJAY KUMAR**

LECTURER IN COMMERCE

# TYPES OF AGRICULTURAL INCOME

Assessments of 'AGRICULTURAL INCOME

On the basis of definition of agricultural income given above, it can be classified into five broad categories. These types of agricultural incomes are :

## **1. Any income received as rent or revenue from agricultural land**

Rent can very simply be defined as a payment in cash or in-kind which the owner of the land receives from another person in consideration of a grant of a right to use land.

When the owner of land is not performing agricultural operations himself but gives his land on contract basis, any amount received from the actual cultivator by the owner of the land shall be agricultural income. Such rent may be in cash or in-kind, i.e., a share in the produce grown by the cultivator.

The Privy Council decided in a case [C.i.T. vs. Karnakshya Narian Singh (1948) I.T.R. 395] that interest on arrears of rent payable in respect of agricultural land cannot be agricultural income, because it is neither 'rent' nor 'revenue derived from land'.

The word revenue is used in a very broad sense of return, yield or income and not only in a narrow sense of land revenue [C. I. T. v. Kamakshya Narain Singh]. This term embraces income other than rent and that is why mutation fees received from the tenants on their getting occupancy holdings and fees paid by the tenants at the time of renewal of their lease, are revenue derived from land and as such exempted from tax.



Assessment ....

**AGRICULTURAL INCOME**

In the above mentioned case the Privy Council has clearly laid down that revenue is derived from land only if the land is immediate and effective source of the revenue and not the secondary and indirect source. So any income or revenue which is indirectly derived from land cannot be presumed to be the agricultural income. This point is further clarified by the Supreme Court in a case Bacha Guzdar v. C.I.T. and not the land.

that dividend paid by a company to its shareholders out of its agricultural income is not an income derived from land since the immediate and effective source of dividend income to the shareholder is the shareholding in the company. Income from sale of agricultural land. The Finance Act, 1989 has added an explanation to section 2(IA) as a result of which any revenue derived from land shall not include and shall be deemed never to have included any income arising from the transfer of any land mentioned in section 2(14) (iii) (a) or (b).

It has been made applicable retrospectively from 1-4-1970. It simply means that any income from transfer of urban agricultural land will not form part of agricultural income. It will be taxable income under the head “capital Gains. “.

## **2. Income derived from Agriculture**

Income derived from land situated in India by applying agricultural operations shall be agricultural income. If all the basic operations like preparation of land for sowing,



planting, watering, harvesting etc. are applied, any income resulting from such operations shall be agricultural income. On the other hand, if grass, trees etc. have grown spontaneously or without the aid of human skill, effort, labour etc., any income resulting from the sale of such grass, trees or lease rent of such land shall not be agricultural income.

Agricultural income also includes income from orchards or from horticulture.

It is further to be noted that if a particular income is derived from land but without applying agricultural operations, such an income although derived from land cannot become agricultural income and so any income having remote connection with land cannot be called as agricultural income. Income from poultry and dairy farming, fisheries, mining, stone quarries, breeding and rearing of livestock,

all these incomes although remotely linked with land but cannot be called agricultural incomes because of the absence of important characteristics of agricultural income, i.e., cultivation of land. Income which is in the nature of by-products of agricultural land such as selling of milk, the pasturing of cattle etc. can safely be included in agricultural income provided the endeavour is agricultural and it is reasonably connected with land used for agricultural purposes [Beohar Singh vs. CIT. 16 I.T.R. 433, 443].

3. Any income accruing to the person by the performance of any process to render the produce marketable

If, in the ordinary course, a process is to be employed by the cultivator himself or the landlord who receives the produce as rent-in-kind, any income derived from such a process shall be agricultural income. Such a process must be employed to render the produce fit for marketing. The process may be manual or mechanical.

- It should be noted that the produce should not change its original character in spite of the processing unless the produce cannot be sold in that form or condition.
- *Following points are to be noted in this connection :*
  1. The process must be one which is ordinarily employed by the cultivator.
  2. The process is employed to render the produce fit to be taken to the market.

3. The produce must retain its original character in spite of process unless the produce is having no market if offered for sale in its original condition.

**This can further be elaborated with following examples**

1. Unginned cotton can be sold in its original form and if any profit is attributable to the ginning operation, such a profit shall not be agricultural income as ginning operation is not a must to render the produce fit to be taken to the market [Sheolal Ramlal v. C.I.T. 4 I.T.C. 375].

2. Tobacco leaves need to be dried to make them suitable for the market and thus profit earned by selling dried tobacco shall be agricultural income. [C.L.T. v. Katragadda Madhusudhana Rao 12 I.T.R. 1]

3. Drying and curing of coffee after picking beans, husking of paddy, conversion of latex into sole crepe or smoked sheets. [C.I.T v. Woodlands State Ltd. (1965) 58 I.T.R. 612] etc. are other examples of processes carried on to make the produce marketable.

4. Any income received by the person by the sale of produce raised or received as rent-in-kind

Any income derived by any person by the sale of agricultural produce raised by him or received as rent-in-kind shall also be agricultural income.

Sometimes such person puts some extra effort by selling the produce through his own shop, any extra profit raised due to shopping activities shall not be agricultural income.



## 5. Income from buildings used for agriculture

Any income derived from a building used for agricultural operations shall be agricultural income provided

1. The building from where the income is received, is in the immediate vicinity of the land and is occupied by the owner, or by the cultivator or by the receiver of rent-in-kind.

2. Building is used as a dwelling house or a store house or other out-building.

3. The cultivator or the receiver of the rent-in-kind, by reason of his connection with the land, is in need of the house as a dwelling house or as a house to store the goods required for agricultural operations.

4. The land if assessed to land revenue in India or is subject to a local rate assessed and collected by officers of the Govt. and in case the land is not assessed to land revenue or to local rate, it should not be situated within the urban areas.

# **Partly Agricultural and Partly Non-agricultural Income**

Sometimes, income comprises of both agricultural as well as non-agricultural income. Such a situation arises in case of certain 'Agro based industries where agricultural produce is used as raw material and it (i.e., raw material) is produced by the same person (i.e., industrialist) who manufactures industrial product by using such raw material. Such industries (i.e., persons), earn income by selling the industrial product manufactured from self grown agricultural raw material.

In such a situation, it becomes necessary to disintegrate (bifurcate) the two incomes because agricultural income is exempt from tax and non-agricultural income is taxable.

***Rules 7, 7A, 7B and 8 of Income Tax Rules, 1962*** provide the method of segregating the two incomes. These rules deal with calculation of agricultural income and non-agricultural income in such cases of composite income.

## **(A) Income from Growing and Manufacturing of any product other than Tea [Rule 7]**

An assessee may have composite business income which is partially agricultural and partially non-agricultural, for example, where XYZ Ltd. grows potatoes and further processes its produce to sell them as wafers. In this case the company has composite income i.e. from agriculture and from business. The composite income has to be disintegrated and for computing business income the market value of any agricultural produce raised by the assessee or received by him as rent in kind and utilised as raw material in his business is deducted.

No further deduction is permissible in respect of any expenditure incurred by the assessee as a cultivator or receiver of rent in kind. For computing agricultural income the market value of agricultural produce will be total agricultural receipt on account of potatoes. From such agricultural receipts, expenses such as cultivation expenses etc. incurred in connection with such receipt will be deducted and balance will be agricultural income which will be exempt.

*For example*, in the above case, if the market value of the potatoes grown by the company, which have been used for the purpose of making its own wafers, is Rs. 5 lakhs and the cost of cultivation of such potatoes is Rs. 4 lakhs, the agricultural income shall be Rs. 1 lakh (5 lakhs - 4 lakhs). This agricultural income of Rs. 1 lakh shall be exempt. Further for the purpose of computing business income from the sale of wafers produced from such potatoes, the company shall be allowed deduction of `5 lakhs as the cost of potatoes, being the market value of potatoes grown by it.

## **(B) Income from Growing and Manufacturing of Rubber [Rule 7A]**

1. Income derived from the sale of centrifuged latex or cenex or latex based crepes (such as pale latex crepe) or brown crepes (such as estate brown crepe, re-milled crepe, smoked blanket crepe or flat bark crepe) or technically specified block rubbers manufactured or processed from field latex or coagulum obtained from rubber plants grown by the seller in India shall be computed as if it were income derived from business, and 35% of such income shall be deemed to be income liable to tax.



2. In computing such income, an allowance shall be made in respect of the cost of planting rubber plants in replacement of plants that have died or become permanently useless in an area already planted, if such area has not previously been abandoned, and for the purpose of determining such cost, no deduction shall be made in respect of the amount of any subsidy which, under the provisions of section 10(31), is not includible in the total income.

## **(C) Income from Growing and Manufacturing of Coffee [Rule 7B]**

1. Income derived from the sale of coffee grown and cured by the seller in India, shall be computed as if it were income derived from business, and 25% of such income shall be deemed to be income liable to tax.

2. Income derived from the sale of coffee grown, cured, roasted and grounded by the seller in India, with or without mixing chicory or other flavouring ingredients shall be computed as if it were income derived from business, and 40% of such income shall be deemed to be income liable to tax.

## **(D) Income from Growing and Manufacturing of Tea [Rule 8]**

Where the assessee has a business of growing tea leaves and then processing it (or manufacturing the same), the procedure adopted to disintegrate is as under:

**Step 1:** Compute the income of growing as well as manufacturing tea under the head 'profits and gains of business or profession' after claiming the deductions available under that head.

**Step 2:** 60% of the income computed in Step 1 will be treated as net agricultural income and 40% of such income, so arrived at, is treated as business income.

# TABLE - PARTLY AGRICULTURAL AND PARTLY BUSINESS INCOME

<i>Corp</i>	<i>Rule</i>	<i>Agricultural Income</i>	<i>Business Income</i>
<b>Growing and Manufacture of Tea</b>	<b>8</b>	<b>60%</b>	<b>40%</b>
<b>Rubber manufacturing business</b>	<b>7A</b>	<b>65%</b>	<b>35%</b>
<b>Coffee grown and cured by seller</b>	<b>7B(1)</b>	<b>75%</b>	<b>25%</b>
<b>Coffee grown, cured, roasted and grounded by the seller in India with or without mixing chicory or other flavouring ingredients</b>	<b>7B(1A)</b>	<b>60%</b>	<b>40%</b>

*THANK YOU*