



# AGRICULTURE INCOME

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# INTRODUCTION

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 numerous schemes, policies and other measures to promote growth in this sector – one of them being an exemption from income tax.

Agricultural income is exempted from tax under the Income-tax Act, 1961. It is important to note that income from allied agricultural activities like poultry farming, wool rearing, etc. are not considered as agricultural income. Hence, tax may be levied on incomes from such activities. However, many states levy a tax on agricultural income as per their respective State's policy.

Agricultural income is not taxed under the Income Tax Act, 1961, because agriculture being a State subject, it is the State Government alone which is competent to tax income there from.

The exemption to this income is provided under Section 10 (1) of the Act. Since, it is not taxed, the definition thereof has assumed significance. The assesses would naturally be interested in classifying his income as agricultural incomes; however, distantly it might have been related to agriculture.

On the other hand, the tax authorities would like to interpret the term conservatively and, thus, there is a possibility of some dispute between the parties as regards the meaning of the term. The Income Tax Act, 1961, has defined the term 'agricultural income' under Section 2 (1A) exhaustively.

Agricultural income as defined under Section 2(1A) means any rent or revenue derived from land which is situated in India and is used for agricultural purposes. The definition makes it very clear that any rent or revenue (in cash or kind) will be agricultural in nature only if the following conditions are fully satisfied:

- ❑ **Rent or revenue earned from agricultural land situated in India:-** Rent is the amount received to grant the right to use the land. There are many possible sources of income that can be derived from land. An example would be fees received for renewal of grant of land on lease. However, the amount received on the sale of land is not covered under the definition of agricultural income.
  
- ❑ **Income from agricultural land in the following ways:-** 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; 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 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 product 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.

Through the 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. Through the 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.

Operation	Agricultural Income	Non-Agricultural Income
Growing and Manufacturing Tea	60%	40%
Manufacturing Rubber	65%	35%
Growing and curing Coffee	75%	25%
Coffee grown, cured, roasted, and grounded with or without mixing chicory or other flavoring ingredients	60%	40%

- ❑ **Income derived from farm building required for agricultural operations:** The conditions for classifying income derived from farm building as agricultural income are as follows:- The building should be on or in the surrounding area of the agricultural land. Also, the rent receiver or cultivator of the land, 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 kinds of situations. 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. 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.

# Kinds of Agricultural Income

- 1. Any rent or revenue derived from land (Section 2(1A) (a)):-** Rent or revenue derived from land situated in India and used for agricultural purposes is agricultural income. Rent is received by one person from another for the grant of right to the other person to use land. It may be in cash or in kind and the recipient of rent may or may not be the owner of the land. If the land has been let out by the person on rent and the rent is in the nature of produce, he is termed as 'receiver of rent in kind'. Where the land is used by the receiver of rent in kind for carrying out any process to make the produce marketable or where he derives any income on the sale of such produce, this will be treated as agricultural income in his hands too.
- 2. Income derived from such land by agriculture or from manufacturing process [Section 2(1A)(b)]:-** The words 'such land' are of significance here. These words limit agricultural income to the land situated in India which is used for agricultural purposes; the income generated by the following activities is considered agricultural income: a) Agriculture b) Process ordinarily employed by a cultivator to render the produce marketable c) Sale by cultivator of the produce without any further processing except the one mentioned in (b) above. Tobacco leaves are generally dried before being sold, and therefore, the income from the sale of dried tobacco leaves will be agricultural in nature. However, the income from the sale of beedies made out of the same tobacco will not be treated as agricultural income, because marketable produce has been further processed and made more valuable.

**3. Income from agricultural house property or farm buildings [Section (2 (1A) (c):-** Income derived from any building in the following cases will be agricultural income:

- a) The building is owned and occupied by the receiver of rent or revenue of any such land.
- b) The building is on or in the immediate vicinity of the agricultural land in India.
- c) The agriculturist needs it by virtue of his connection with the land and uses it as a dwelling house, store house or as an outhouse.
- d) The land on which such building is situated must be subject to land revenue in India or subject to a local rate assessed and collected by the officers of the said Government.
- e) If the land is not subject to land revenue, it must be outside the urban area, i.e., area comprising a cantonment board, municipal board, notified area, town area, municipal corporation or any other name by which it is known and which has a population of 10,000 or more;
- f) If it is notified by the Central Government in the Official Gazette, it must not be situated within 8 kilometers or within the area of such lower limits from the jurisdiction of such municipal board etc. as the Central Government may notify in this regard.

However, non-agricultural income does not become agricultural merely on account of its indirect connection with the land. A rural society has its principal business of selling butter which was made from the cream sold to them by farmers. The butter resulting from the factory operations separated from the farm was not an agricultural product and the society was, therefore, not entitled to exemption under section 10(1) in respect of such income.



# Instances of Non-Agricultural Income

The following incomes though connected with land are not agricultural in nature:

1. Annuity payable to vendor of agricultural land or to a person giving up his claim to a piece of agricultural land.
2. Commission for selling agricultural produce.
3. Income from Dairy Farm.
4. Forest produce resulting from wild growth.
5. Fisheries Ginning of cotton.
6. Harvesting of crop on purchased land.
7. Letting out of land for stocking timber or crops.
8. Dividend paid out of agricultural income.
9. Commission earned by the landlord for selling agricultural produce.
10. Profit earned on purchase of standing crop.
11. Rearing of silkworms.
12. Income from stone quarries.
13. Royalty income of mines.
14. Income from poultry farming.
15. Income from land used for brick making.
16. Income from producing water fruits in a tank.



# Taxation of Agricultural Income

The Income-tax Act has laid down a method to indirectly tax such income. This method or concept may be called 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 to individuals, HUFs, AOPs, BOIs, and artificial juridical persons, when the following conditions are met:

- Net agricultural income is greater than Rs. 5,000 during the year; and
- Non-agricultural income is above the basic exemption limit:
  - Greater than Rs 2.5 lakh for individuals below 60 years of age and all other applicable persons (old regime)
  - Greater than Rs 3 lakh for individuals between 60 – 80 years of age (old regime)
  - Greater than Rs 5 lakh for individuals above 80 years of age (old regime)
  - Greater than Rs 3 lakh irrespective of the age of the person (new regime)

# Calculation of Agricultural Income

Income from other sources is Rs.7,00,000 and Net agriculture income Rs.2,00,000. The calculation of agriculture relief and net tax payable under the old tax regime is as follows

- 1.Total taxes on Rs.9,00,000 (Non-agricultural income + net agricultural income) = Rs.92,500 (before education cess @ 4%)
- 2.Total taxes on Rs.4,50,000 (Basic exemption limit + net agricultural income) = Rs.10,000 (before education cess @ 4%)
- 3.Net tax payable shall be Rs.82,500 (Rs.92,500 - Rs.10,000) + education cess @ 4%

Tax liability on agricultural income over and above the basic exemption limit shall be allowed as a relief. The higher the proportion of agriculture income in your total income higher the agriculture tax relief one can enjoy.