

**AGRICULTURAL
INCOME
&
ITS TAX TREATMENT**

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AGRICULTURAL INCOME & ITS TAX TREATMENT

- **AGRICULTURAL INCOME is exempt from the payment of Income-Tax under section 10(1).**
- **Central Government is not empowered to tax Agricultural Income.**
- **Constitution of India gives exclusive power to the State Legislature to make laws with respect to taxes on Agricultural Income.**

- **On the recommendation of Dr. K.N. Raj Committee, w.e.f. Assessment Year 1974-75, Scheme of assessment of Agricultural Income was introduced.**
- **Now Agricultural Income is integrated with Non-Agricultural Income for rate purposes under certain circumstances.**

DEFINITION u/s 2(1A)

- ❖ **Any rent or revenue derived from land which is situated in India and is used for agricultural purposes only.**
- ❖ **Any income derived from such land by agricultural operations or from processing of agricultural produce raised or received as rent-in-kind so as to render it fit to be taken to the market or by sale of such produce.**
- ❖ **Any income derived from Farm house subject to certain conditions.**

INCOME FROM BUILDINGS USED FOR AGRICULTURE

- ❖ **Building should be occupied by the cultivator(as a landlord or as a tenant) or receiver of rent-in-kind(as a landlord);**
- ❖ **It should be on or in the immediate vicinity of land situated in India and used for agriculture;**
- ❖ **Cultivator or receiver of rent in kind should by reason of his connection with agricultural land requires the building as a dwelling house or a store house or other out building; and**
- ❖ **The land is assessed to land revenue or local rate or alternatively the land(though not assessed to land revenue or local rate) is situated outside the urban areas**

URBAN AREAS

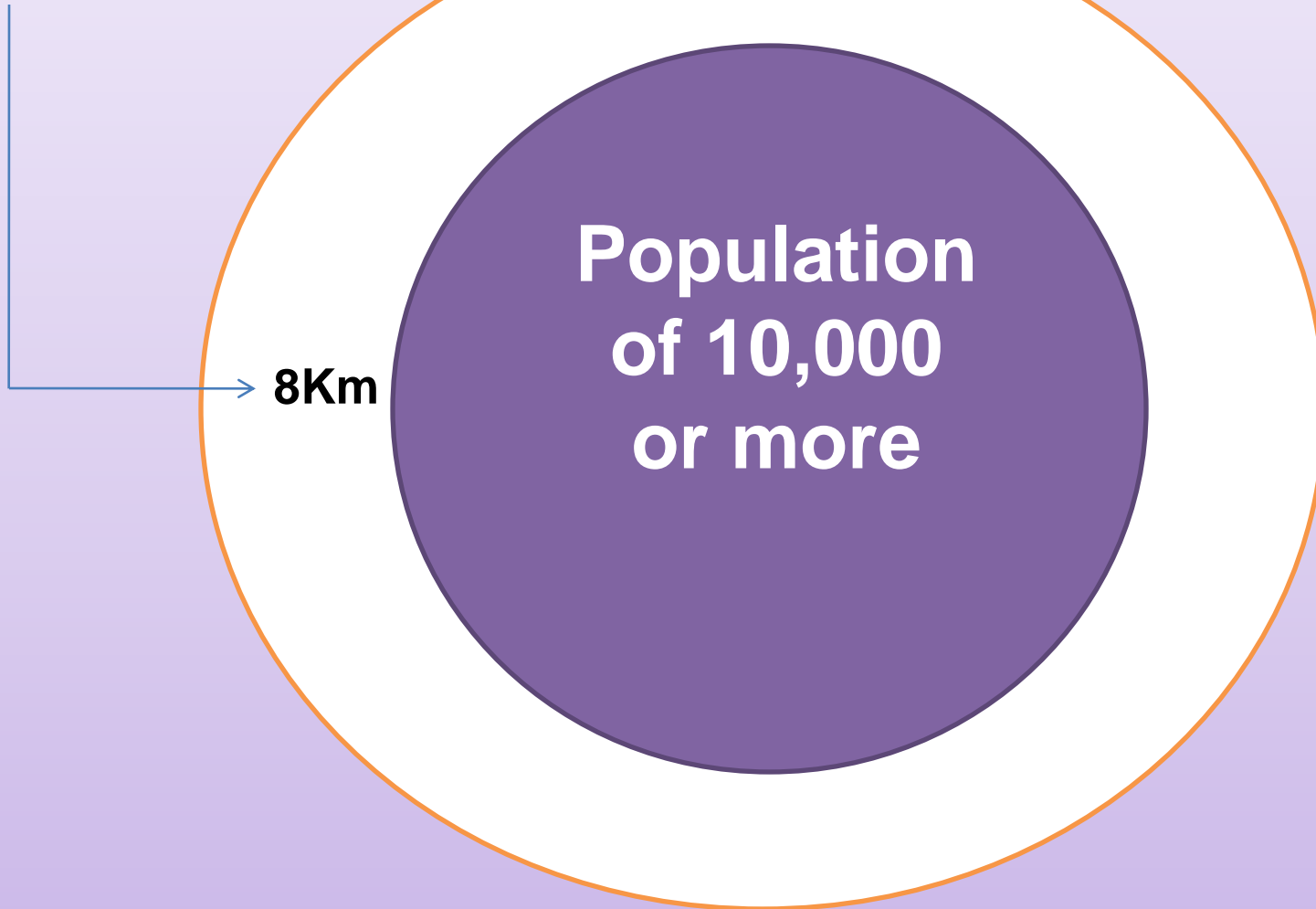
❖ Any area which is comprised within the jurisdiction of any municipality/ cantonment board having a population of 10,000 or more.

or

❖ Within notified distance (Up to maximum of 8 km) from the limits of an such municipality/ cantonment board.

URBAN AREAS

Notified Distance



8Km

**Population
of 10,000
or more**

CONDITIONS

- ❖ Income is derived from Land.
- ❖ Land should be used for Agricultural purposes.
- ❖ Land should be situated any where in India.

INCOME IS DERIVED FROM LAND

❖ Land must be effective & immediate source of Income.

Following are not Agricultural Incomes

- **Dividend** received by a shareholder from a company carrying out agricultural operations.
- **Interest on arrears of cess or rent** payable by a tenant to his Landlord.
- **Salary of Manager** for managing Agricultural Farms
- **Breeding & Rearing of Livestock, Dairy Farming, Poultry Farming etc.**

Land should be used for Agricultural purposes

❖ Performance of Basic & Subsequent Operations

Basic Operations

- Tilling of Land
- Sowing of seeds & planting
- Similar other operations

Subsequent Operations

- Weeding
- Digging the soil
- Watering
- Pruning
- Harvesting etc.

LAND SHOULD BE SITUATED ANY WHERE IN INDIA

Exemption u/s10(1) is available only if the Agricultural Income is derived from land situated in India.

TYPES OF AGRICULTURAL INCOME

- ❖ **Any Income received as Rent or Revenue from Agricultural Land**
- ❖ **Income derived from Agriculture**
- ❖ **Income accruing to Cultivator(Landlord or Tenant) or Receiver of Rent-in-Kind by performance of any process to render the Produce Marketable**
- ❖ **Any Income accruing by Sale of Produce raised or received as Rent-in-Kind**
- ❖ **Income from Buildings used for Agriculture**

1. ANY INCOME RECEIVED AS RENT OR REVENUE FROM AGRICULTURAL LAND

- ❖ **Rent includes a payment in Cash or in Kind as consideration for granting the right to use the Land for Agriculture**
- ❖ **Revenue includes**
 - Mutation Fees for granting occupancy holdings to Tenants
 - Fees paid by Tenants for renewal of Lease
- ❖ **Revenue doesn't include**
 - Interest on arrears of rent
 - Capital Gain on sale of Agricultural Land

2. INCOME DERIVED FROM AGRICULTURE

- ❖ **Any income derived from land situated in India by applying agricultural operations**
- ❖ **It Includes**
 - Income from Orchards
 - Income from Horticulture, Floriculture
 - Income from Nursery operations
 - Income from the byproducts of agriculture such as sale of milk, pasturing of cattle.
- ❖ **It doesn't include**
 - Income from forests of spontaneous growth
 - Income from fisheries, mining, stone quarries

3. Income accruing to Cultivator(Landlord or Tenant) or Receiver of Rent-in-Kind by performance of any process to render the Produce Marketable

❖ It Includes

- Income from sale of dried Tobacco Leaves
- Husking of Paddy
- Conversion of Latex into Smoked Sheets

❖ It doesn't include

- Ginning of Cotton
- Conversion of Sugarcane into sugar or jaggery

4. Any Income accruing by Sale of Produce raised or received as Rent-in-Kind

❖ It doesn't include

- Extra Income earned by selling the produce through own shop in grain market
- Income earned by sale of wild grass
- Commission earned by a broker for selling agricultural produce of an agriculturist.

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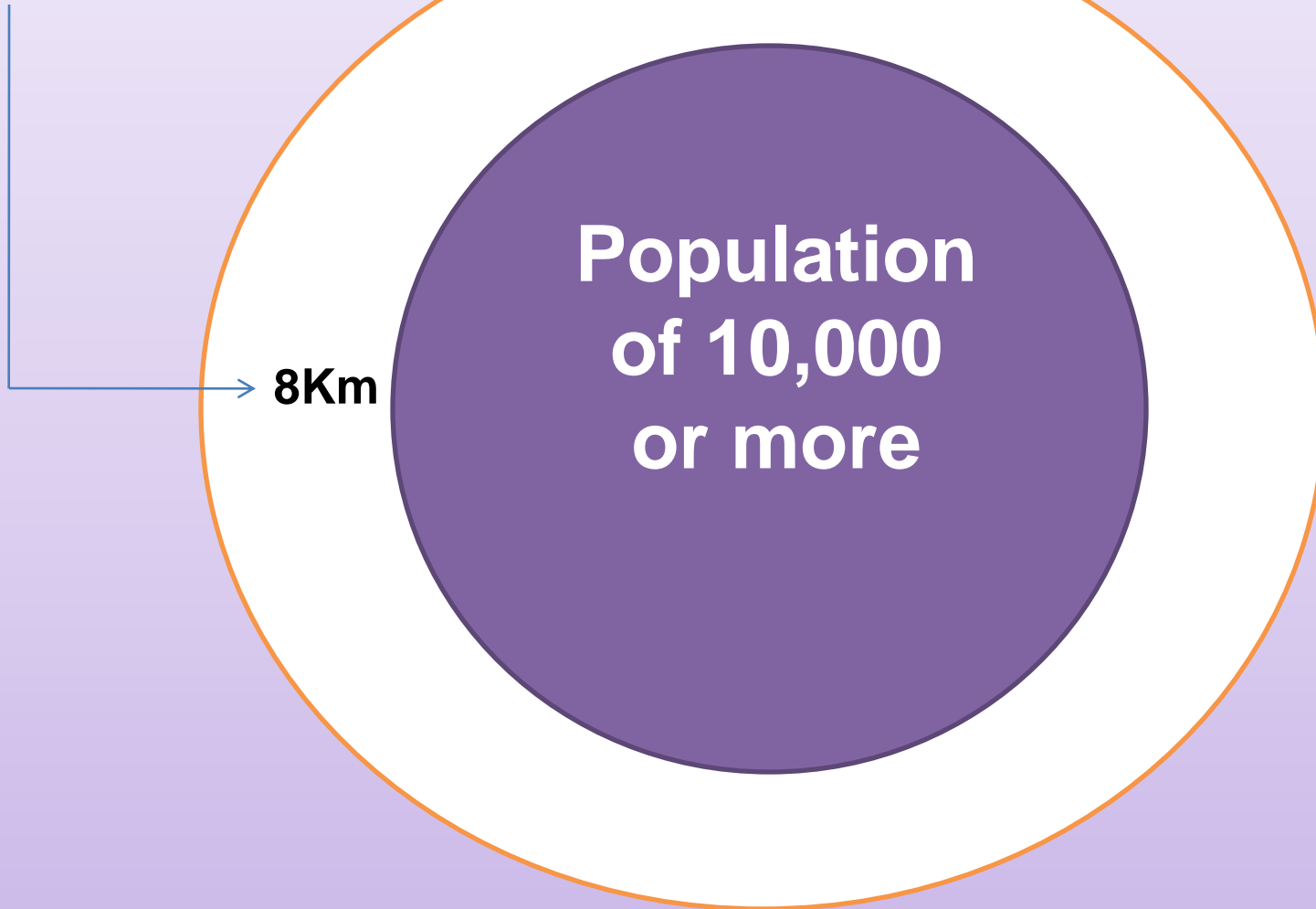
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Partly Agricultural & Partly Business Income

CROP	RULE	AGRICULTURAL INCOME	BUSINESS INCOME
•Growing and manufacturing of tea.	8	60%	40%
•Rubber manufacturing.	7A	65%	35%
•Coffee grown and cured by seller.	7B(I)	75%	25%
•Coffee grown, cured, roasted and ground by seller in India with or without mixing chicory or other flavoring	7B(IA)	60%	40%

Partly Agricultural & Partly Business Income

❖ Growing and manufacturing of Tea in India:-

- Sale Proceeds of Tea Rs.75,00,000.
- Less Cultivation Exps. of Tea Rs.20,00,000.
- Less Industrial Exps Rs.25,00,000.

- Total Income Rs.30,00,000.
- Agricultural Income 60% of Rs. 30,00,000.
i.e. Rs. 18,00,000.
- Business Income 40% of Rs. 30,00,000.
i.e. Rs. 12,00,000.

Partly Agricultural & Partly Business Income

❖ In all other cases Rule 7 will apply:-

- The market value of any agricultural produce, raised by the assessee or received by him as rent-in-kind and utilized 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.

Partly Agricultural & Partly Business Income

RULE 7

Sale Proceeds of Industrial Product	Rs. 10,00,000
Less Mkt. Value of Agricultural Produce used as Raw Material	Rs. 2,00,000
Less Industrial Expenses	Rs. 4,00,000
Non-Agricultural Income	Rs. 4,00,000

ASSESSMENT OF AGRICULTURAL INCOME

- **INTEGRATION OF AGRICULTURAL INCOME IS DONE WITH NON-AGRICULTURAL INCOME ONLY FOR RATE PURPOSES.**
- **IT IS DONE IF CERTAIN CONDITIONS ARE SATISFIED.**

CONDITIONS

CONDITIONS FOR INTEGRATION

➤ THE TAXPAYER IS

✓ AN INDIVIDUAL or

✓ HUF or

✓ AOP or

✓ A BODY OF INDIVIDUALS or

✓ AN ARTIFICIAL JURIDICAL PERSON

➤ NON-AGRICULTURAL INCOME EXCEEDS THE EXEMPTION LIMIT i.e. Rs.2,50,000.

➤ AGRICULTURAL INCOME EXCEEDS Rs.5000.

COMPUTATION OF AGRICULTURAL INCOME

- **RENT or REVENUE DERIVED FROM AGRICULTURAL LAND WILL BE COMPUTED ON THE SAME BASIS AS ADOPTED FOR COMPUTATION OF INCOME UNDER THE HEAD “INCOME FROM OTHER SOURCES”.**
- **INCOME DERIVED FROM AGRICULTURAL OPERATIONS WILL BE COMPUTED AS IF IT IS INCOME CHARGEABLE TO TAX UNDER THE HEAD “PROFITS & GAINS OF BUSINESS OR PROFESSION”.**

COMPUTATION OF AGRICULTURAL INCOME

- **INCOME DERIVED FROM AGRICULTURAL BUILDING WILL BE COMPUTED AS PER THE RULES UNDER THE HEAD “INCOME FROM HOUSE PROPERTY.”**

PROCEDURE FOR CALCULATION OF TAX

- **STEP 1:-** Net Agriculture Income is computed as if it were taxable income.
- **STEP 2:-** Agricultural and Non Agricultural Income is aggregated and tax is calculated on it.
- **STEP 3:-** Agricultural Income is increased by amount of exemption limit and tax is calculated.
- **STEP 4:-** Tax calculated in STEP 2 is reduced by the amount of tax calculated under STEP 3.
- **STEP 5:-** Add education cess and higher education cess to the above figure.

PROCEDURE FOR CALCULATION OF TAX

Net Agricultural Income **Rs. 2,50,000**

Non Agricultural Income **Rs. 3,40,000**

Computation of tax liability.

**STEP 1:- Add Net Agricultural Income with Non
Agricultural Income**

$$\text{Rs.2,50,000} + \text{Rs.3,40,000} = \text{Rs.5,90,000}$$

PROCEDURE FOR CALCULATION OF TAX

STEP 2:- Tax on Rs. 5,90,000=Rs.48,000.

	INCOME	RATE	TAX
First	2,50,000	NIL	NIL
Next	2,50,000	10%	25,000
Balance	90,000	20%	18,000
	5,90,000		43,000

PROCEDURE FOR CALCULATION OF TAX

STEP 3:- Add Net Agricultural Income with exemption limit.

(2,50,000 + 2,50,000= 5,00,000.)

STEP 4:- Tax on Rs. 5,00,000=Rs.25,000.

	INCOME	RATE	TAX
First	2,50,000	NIL	NIL
Balance	2,50,000	10%	25,000
	5,00,000		25,000

PROCEDURE FOR CALCULATION OF TAX

STEP 5:- Deduct Tax at (4) out of Tax at (2)

Tax -- Rs. (43,000-Rs.25,000)	Rs.18,000
Add Education Cess @ 2%	Rs. 360
Add Hr. Education Cess @ 1%	Rs. 180
Tax Payable	<hr/> Rs.18,540

AGRICULTURAL INCOME

- **Forest trees are replanted and subsequent operations are performed. the income from sale of trees is Agricultural Income.**
- **Profit on sale of standing crops or the produce after harvest by a cultivating owner or tenant of land.**
- **Rent from Agricultural land received from sub-tenant by mortgagee-in- possession.**

AGRICULTURAL INCOME

- **Income from growing flowers and creepers.**
- **Salary received by a partner for services to a firm which is engaged in agricultural operations is agricultural income as payment of salary is only a mode of adjustment of the firm's income.**
- **Interest on capital received by a partner from the firm engaged in agricultural operations.**

AGRICULTURAL INCOME

- **If nursery is maintained by carrying out basic operations and subsequent operations in pots, the income from such nursery would be Agricultural Income.**
- **Compensation received from insurance company for the loss caused by hailstorm to the green leaf forming part of assessee's tea-garden is agricultural income.**

NON-AGRICULTURAL INCOME

- **Annual annuity received by a person in consideration of transfer of agricultural land even if it is charged on land as source of annuity covenant and not land.**
- **Interest of arrears of rent in respect of agricultural land is neither rent nor revenue derived from land.**
- **Income from sale of forest trees, fruits & flowers growing on land naturally and without any human effort.**

NON-AGRICULTURAL INCOME

- **Income from sale of wild grass and reeds of spontaneous growth.**
- **Income of salt produced by flooding the land with sea water as it is not derived from land used for agricultural purpose.**
- **Remuneration received by Managing Agent at a fixed percentage of net profit from a company having agricultural income.**

NON-AGRICULTURAL INCOME

- **Income from sale of Agricultural Produce received by way of price for water supplied to land.**
- **Commission earned by the Landlord for selling Agricultural Produce of his Tenant.**
- **Income derived from land let out for storing crops.**
- **Maintenance allowance charged on Agricultural Land.**

NON-AGRICULTURAL INCOME

- **Income from fisheries.**
- **Royalty income of mines.**
- **Income from butter and cheese making.**
- **Income from poultry farming.**

NON-AGRICULTURAL INCOME

- **Interest received by a Money Lender in the form of Agricultural Produce.**
- **Income from sale of trees which are of spontaneous growth and in relation to which forestry operations alone are performed.**
- **Receipts from shooting of TV serial in Farm House.**



Thank you!
Jimmy

