

GOVERNMENT COLLEGE FOR GIRLS
LUDHIANA

INCOME-TAX LAW AND ACCOUNTS

P.Y. 2022-23

A.Y. 2023-24

CHAPTER-3

AGRICULTURAL INCOME

“Farmers- backbone of India, don’t pay any tax to govt.”

The definition of agricultural income is very important from Income-tax point of view because it is fully **exempted from the payment income-tax under section 10(1)**. The reason for giving this exemption to agricultural income is that the constitution of India gives exclusive power to the State Legislature to make laws with respect to taxes on agricultural income. Therefore, the **Central Government is not empowered to tax on agricultural income**. However, w.e.f. **assessment year 1974-75**, net agricultural income of the assessee is added in the nonagricultural income for the purpose of calculating the income-tax on non agriculture income provided the **net agricultural income exceed Rs. 5000/- p.a.** and **non agricultural income** must exceed the **nil slab rate** of income-tax of the assessee during the relevant previous year (for **A.Y. 2023-24 nil slab rate is Rs. 2,50,000/-**.) Such **rule of integration** come into operation after the recommendation of Dr. **K.N. Raj Committee**.

However, agricultural income **remains fully exempted**. The term agricultural income can be studied in the following manner (**section 2(1A)**) :

Definition of Agricultural Income u/s 2(1A)—This definition is very wide and covers the income of not only the cultivators but also the land holders who might have rented out of lands. Agricultural income may be received in cash or in kind.

a)	<u>Any rent or revenue derived from land(may be in cash or kind)</u> which is situated in India and used for agricultural purposes only
b)	Any income derived from such land by <u>agricultural operations</u> including processing of agricultural produce.
c)	Any income derived from Farm house .

The above income shall be treated as ‘Agricultural Income’ only when the following **conditions are satisfied**.

Conditions—

1	Income should be derived from land .
2	Land should be situated any where in India . It may be situated in an urban area or in a

	rural area. If income derived from outside India, then it will be taxable income for such assessee
3	Land should be used for agricultural purposes.

A) **Any rent or revenue derived from land u/s 2(1A)(a):-** The amount received in money or in kind, by one person from another for right to use land **is termed as Rent**. If the owner of the land grants to another person a right to use that land (**which is situated in India**) **only for agricultural purposes**, then rent received by such owner is treated as agriculture income. Rent or revenue may be received in cash or in kind. The rent can either be received by owner of land or by the original tenant from the sub-tenant. It implies that the ownership of land is not necessary. Thus, the rent received by the original tenant from sub-tenant would also be agricultural income subject the other conditions mentioned above.

The scope of the term Revenue is much broader than rent. It includes income other than rent.e.g fee received for renewal for grant of land on lease would be revenue derived from land.

To generate agricultural income land must be used for agricultural purposes and **basic operations must be performed** on such land.

Basic operations—Those operations by agriculturists which are absolutely necessary for the purpose of effectively raising produce from the land are the basic operations. Basic operations are tilling the land, sowing the seeds, planting and similar kind of operations on the land.

Subsequent operations—Operations to be performed after the produce sprouts from the land (e.g. weeding, digging etc.)are subsequent operations. These subsequent operations would be agricultural operations only when taken in conjunction with and as a continuation of the basic operations.

If the **basic operations are not performed by cultivator** then income received from such land **will not be treated as agriculture income**. It is **immaterial that subsequent operations** are performed or not. Subsequent operations are performed after the produce sprouts from the land. **Subsequent operations covers weeding**, digging the soil around the growth, removal of undersirable undergrowths and all operations which foster the growth and preserve the same, not only from insects and pests but also from degradation from outside, tending, pruning, cutting, harvesting and rendering the produce fit for the market. In other words, if only subsequent operations are performed then income derived will be considered as non-agricultural income. If **the immediate and effective source is not**

land then the income cannot be considered as agricultural income. The following income will **not be agricultural income** as these are not derived from land: -

- a) **Dividend** received by a shareholder from a company carry agricultural operations.
- b) **Interest on arrears of cess or rent** payable by a tenant to his Landlord.
- c) **Commission** earned by a broker for selling agricultural produce of an agriculturist.
- d) **Slami or Nazrana** paid shall not be agricultural income in the hands of the recipient.
- e) **Any capital gain arising from the sale of agricultural land** is not treated as agricultural income.

Agriculture includes horticulture (**cultivation of garden**), floriculture (cultivation of decorative flowers), arboriculture (cultivation of trees and shrubs for scientific and commercial or other purposes) and **silviculture (cultivation of forest trees)**. It would include the raising of grooves, plantations, raising of grass or pastures. It would **extend to cultivation of all commodities** of food value like sugarcane, coffee, mangoes etc. artistic and decorative value like flowers and creepers, raising like bamboo, timber, fuel value, health value.

Agricultural income covered only those incomes which are **derived by human effort**.

Income from nursery operations:--Any income derived from saplings or seedlings grown in a nursery shall be **deemed to be agricultural income**.

B) Any income derived from such land by agricultural operations u/s 2(1A)(b) :-

The agricultural income must be from agricultural operations. If a cultivator derives income by **performing extra process** in order to render the produce fit for market, then it will be treated as agricultural income **e.g. curing of coffee**, ginning of cotton etc. If a person derives income from the **sale of wild grass, tree of spontaneous growth or by sale of standing crop**, then such income will not be treated as agricultural income of that person because there are **no agricultural operations** are being performed.

Income derived from Marketing Process:-- Sometimes it becomes difficult to find ready market of the crop as harvested. In order to make the produce fit for market some process are essential on that produce. The income, arising by way of enhancement of value of such produce, by performing such process to make the raw produce fit for market, is also agricultural income. However, the following conditions must be satisfied:

1	The process must be one which is ordinarily employed by a cultivator or receiver of rent-in-kind; and
2	The process must be applied to render the produce fit to be taken to market.

Moreover, if marketing process is performed on a produce which can be sold in its raw form (without requiring any process to make it fit for marketing), income derived therefrom is partly agricultural and partly non-agricultural.

C) Any income derived from farm building u/s 2(1A)(c):-

The income derived by the assessee from a farm house will be treated as agricultural income provided the following conditions are satisfied: -

- a) The building is **owned and occupied by the cultivator or receiver of rent** of such land. In other words, in case the cultivator or land holder receiving rent in kind then it is enough that the building is occupied by him i.e. without being owned by the occupier.
- b) The **building must be situated on or in the immediate vicinity** of agricultural land.
- c) The building should be situated in India and used for agricultural purposes.
- d) The land on which such building is situated **either assessed by land revenue in India or is subjected to a local rate assessed** and collected by the officers of Govt.
- e) If the said land is **not assessed to land revenue** or local rate then it must be situated in rural area.

Note:--

1. If land or building is used for agricultural purposes, then the income will be exempted u/s 10(1). If such land or building is used for any other purposes, then exemption u/s 10(1) is not available. **E.g.** If a farmer gives his building on rent for residential purposes, the income is chargeable to tax.
2. **Rural area** means any area which is outside the jurisdiction of a municipality or Cantonment Board having population of **10,000 or more and also** which does not fall **within distance** (to be measured aerially) given below—

2 km from the local limits of municipality/ cantonment board	If the population of the municipality/cantonment board is more than 10000 but not more than 1 lakh
6 km from the local limits of municipality/ cantonment board	If the population of the municipality/cantonment board is more than 1 lakh but not more than 10 lakh
8 km from the local limits of municipality/ cantonment board	If the population of the municipality/cantonment board is more than 10 lakh

Use of building or land for any purpose other agriculture—Income would be exempt from tax only if land or building is used for agricultural purposes. In other words, if land or building is used for any other purposes, exemption is not available. **E.g.** if a farmer gives his building on rent for residential purposes, income is chargeable to tax.

Agricultural Income

The following are the examples of agricultural income:-

1. Income from growing **flowers and creeper** would be agricultural income.
2. Interest on capital and **share of profit received by a partner from a firm** which is engaged in agricultural operations is agricultural income.
3. Compensation received from an **insurance company** on account of damaged caused to the crop is an agricultural income.
4. Seeds are clearly a product of agriculture and income derived from the **sale of seeds** derived on account of cultivation by the assessee is an agriculture income.
5. **Rent for agricultural land** received from tenant or sub-tenant.
6. Income from sale of **replanted trees**.
7. **Income from nursery operations**—Any income derived from sapling or seedling grown in a nursery shall be deemed to be agricultural income.

Non-agricultural income

The following are the examples of non-agricultural income.

1. Income from sale of forests, trees, wild grass, **fruit and flowers grown spontaneously and without human effort**.
2. Income from **salt produced** by flooding the land with sea water and then extracting salt therefrom.
3. Income **from stone quarries**
4. Income from **breeding of livestock**
5. Income from dairy farming, butter and cheese making
6. Income from **poultry farming**
7. Income from **fisheries**
8. Income from **brick making**
9. Income from supplying surplus water to other agriculturists,
10. Royalty incomes of mines
11. Income on arrears of rent in respect of agricultural land
12. **Profit on sale of standing crops**/agricultural produce purchased by the assessee.
13. **Harvest crop** on purchased land
14. Rental income from farmhouse given for non-agricultural purpose is not agricultural income.
15. **Dividend paid by a company out of its agricultural income.**

16. **Transfer** of urban agricultural land.
17. Interest received by a money lender in the form of agricultural produce
18. Receipts from TV serial shooting in farm house

PARTLY AGRICULTURAL INCOME AND PARTLY NON-AGRICULTURAL INCOME :-

- If assessee is carrying on **agricultural operations as well as non-agricultural operations.**
- In determining non-agricultural income which is chargeable to tax.
- The **market value of any agricultural produce** which has been raised by the assessee or received by him as rent in kind and which has been utilized as a raw material in such business.
- Shall be **deducted and no further deduction** shall be made in respect of any expenditure by the assessee as cultivator or receiver of rent in kind.

For the purpose of the above **market value shall be deemed to be:**

- 1) Where the agricultural produce is **ordinarily sold in the market, the average price** at which it has been sold, during the relevant previous year; or
- 2) where the agricultural produce is **not ordinarily sold in the market**, the aggregate of the following shall be its market value:-
 - a) the **expenses of cultivation**
 - b) the rent paid for the land on which it was grown and
 - c) **Reasonable profit** determined by AO

Q 1 A Ltd. grows sugarcane to manufacture sugar. The data for the **financial year 2022-23** is as follows-

Cost of cultivation of sugarcane	6,00,000
Market value of sugarcane when transferred to factory	10,00,000
Other manufacturing cost	6,00,000
Sale of Sugar	25,00,000
Salary of M.D, who looks after all operations of the company	3,00,000

Determine the **income of the company.**

**Answer-- COMPUTATION OF BUSINESS INCOME OF A LTD
For the Assessment Year 2023-24**

Sale of Sugar	25,00,000
Less: Average Market Value of Sugarcane	10,00,000
Salary to M.D.	3,00,000
Manufacturing Cost	6,00,000

Business Income	6,00,000
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COMPUTATION OF AGRICULTURAL INCOME

Market value of Sugar Cane	10,00,000
Less: Cost of cultivation	<u>6,00,000</u>
Agricultural Income	<u>4,00,000</u>

Q 2 X Ltd. grows sugarcane to manufacture sugar. Data of previous year 2022-23 is as follows:--

	Rs (in lakhs)
Cost of cultivation of sugarcane	4
Market Value of sugarcane when sugarcane is transferred to factory	9
Other manufacturing cost	6
Sales turnover of sugar	22

Calculate agricultural income and non-agricultural income of X Ltd. for the AY 2023-24.

Answer—

Computation of Agricultural income and Non Agricultural Income for AY 2023-24

	Non-Agricultural income	Agricultural Income
Sales turnover/market value of sugarcane	22	9
<u>Less: Expenses</u>		
Manufacturing Expenses	(6)	NA
Market value of raw material (Sugar)	(9)	NA
Cultivation Expenses	NA	4
Income	7	5

Income from growing and manufacturing of rubber (Rule 7A) :-

If an assessee derives income from the sale of rubber which is grown and manufactured from rubber plants by the seller then **65%** of such income shall be treated as agricultural income and balance **35%** will be treated as non-agricultural income at a adhoc rate.

Income from growing and manufacturing of coffee (Rule 7B) :-

- a) If an assessee derives income from the sale of coffee **grown and cured** in India, then **75%** of such income will be treated as agricultural income and **25%** will be treated as non-agricultural income.
- b) If an assessee derives income from the sale of coffee **grown, cured, roasted and grounded** in India with or without mixing chicory or other flavouring ingredients, then

60% of such income will be treated as agricultural income and **40%** will be treated as non-agricultural income at adhoc rate.

□ **Income from growing and manufacturing of tea (Rule 8) :-**

If an assessee derives income from the sale of tea grown and manufactured in India then **60%** of such income will be treated as agricultural income and **40%** will be treated as non-agricultural income at adhoc rate.

Table

Rule	Apportionment of income in certain cases	Agricultural Income	Business Income
7A	Income from growing and manufacturing of rubber	65%	35%
7B	Income from growing and manufacturing of coffee <ul style="list-style-type: none"> • Income derived from the sale of coffee grown and cured • Income derived from the sale of coffee grown, cured, roasted and grounded 	75%	25%
8	Income from growing and manufacturing of tea	60%	40%

Q 3 --- Mr Vishal has estates in Rubber, Tea and Coffee. He derives income from them. He has also a nursery wherein he grows plants and sells. For the previous year ending **31.3.2023**, he furnishes the following particulars of his sources of income from estates and sale of Plants. You are requested to compute the taxable income for the **Assessment year 2023-24**—

Manufacture of Rubber	5,00,000
Manufacture of coffee grown and cured	3,50,000
Manufacture of Tea	7,00,000
Sale of Plants from Nursery	1,00,000

ANSWER—Assessee: Mr Vishal Previous Year: 2022-23 Assessment Year: 2023-24

COMPUTATION OF TAXABLE INCOME

Particulars	Agricultural income	Non-Agricultural Income	Reason
Growing & Manufacture of rubber	500000 X 65% = 325000	500000 X 35%=175000	Rule 7A
Grown and cured coffee	350000 X 75% = 262500	350000 X 25%=87500	Rule 7B
Growing & Manufacturing of Tea	700000 X 60% = 420000	700000 X 40%=280000	Rule 8
Growing & Sale of Plant by Nursery	100000	-----	

Total	1107500	542500	
Taxable Income	Exempt u/s 10(1)	542500	

RULES OF INTEGRATION

If an assessee has **agricultural income as well as non agricultural income** then such agricultural income is to be included in his total income for the purpose of calculating income-tax on non-agricultural income. This is also known as partial integration of agricultural income with non-agricultural income or indirect way of taxing agricultural income. Such **partial integration is done only in case of individual, HUF, AOP/BOI and artificial juridical person.**

COMPUTATION OF TAX :

Step 1	Add agricultural income and non agricultural income and after that calculate tax on such aggregated income.
Step 2	Add agricultural income to the maximum exemption limit available in case of assessee and compute tax on such amount.
Step 3	Deduct the income-tax as computed under step 2 from income-tax as computed under step 1.
Step 4	Add surcharge, if applicable.
Step 5	Add Health and Education Cess @4%

The value of agricultural produce consumed by the assessee for household purposes shall also be treated as agricultural income.

Question 4 Total Income of S as computed under income tax Act, for the assessment year 2023-24 is Rs 6,10,000. Compute the tax payable by S assuming that he has agricultural income of (a) NIL (b) Rs 5,000 (c) Rs 3,50,000.

Answer- (a) and (b) since the agricultural income is either Nil or does not exceed Rs 5,000, there will be no partial integration and the income –tax will be calculated on Rs 6,10,000 as usual Tax on Rs 6,10,000 will be Rs 35880.

Tax on Rs 6,10,000

Upto Rs 2,50,000	NIL
Rs 2,50,001 to 5,00,000 @ 5%	12,500
Rs 5,00,001 to 6,10,000 @ 20%	22,000
	34,500
Add: Cess @ 4%	1,380
Total Tax	35,880

(c) **Step I** Aggregate of agricultural and non-agricultural income (610000+3,50000)= 9,60,000

	Tax on Rs 9,60,000	Rs 12500 + 92000 = 104500
Step 2	Add Rs2,50,000(Max. exemption limit) to agricultural income of Rs 350000=	600000
	Tax on Rs 6,00,000	Rs 12500 + 20000 = 32500
Step 3	Deduct Tax under Step 2 from tax under Step 1 (104500-32500)=	Rs 72000
	Therefore, tax on non-agricultural income is	Rs 72,000
Step 4	Add: Health and Education Cess @ 4%	<u>2880</u>
	Therefore, total tax payable	<u>74880</u>

Q 5 (06 S) Compute the agricultural income from cultivation of land :

Sale proceeds of agricultural produce	1,60,000
Depreciation of equipments	6,000
Labour charges	24,000
Cost of seeds	6,000
Cost of fertilizers	3,000
Electricity charges	12,000

Answer—

Particulars	Amount
Sale proceeds of agricultural produce	1,60,000
Less: Cost of cultivation	
Depreciation of equipments	6,000
Labour charges	24,000
Cost of seeds	6,000
Cost of fertilizers	3,000
Electricity charges	<u>12,000</u>
Agricultural income	<u>51,000</u>
	1,09,000

Q No 6 (10 S) Compute tax liability of Mr. X a non-resident who has agricultural income of Rs 90,000 and non-agricultural income of Rs 4,50,000 during the previous year 2022-23.

Answer—

Step 1— Aggregate agricultural and on agricultural income and calculate tax on aggregate amount i.e. Tax on Rs 5,40,000 (NIL+12500+8000)	20500
Step 2-- Add Rs 2,50,000 (Max. exemption limit) to agricultural income of 90,000. Tax on 3,40,000 (Nil+4500)	4500
Step 3 Deduct Tax under Step 2 from tax under Step 1 (20500-4500) Therefore, tax on non-agricultural income	16000
Step 4 Add: Health and Education Cess @ 4%	640
Therefore, total tax payable	16640

Q 7 (188-P1) For the previous year ending March 31, 2023, non-agricultural income of X(age 22 years) is Rs 2,50,000, whereas agricultural income is Rs 6,80,000. Is he liable to pay income-tax?

Answer—As non-agricultural income of X does not exceed Rs 2,50,000, he is not liable to pay any tax, irrespective of agricultural income.

Q 8 (188 E1) From the following information, find out whether X (age: 63 years, resident) is liable to pay income tax for the assessment year 2023-24:

Non-agricultural income for the year ending March 31, 2023	4,76,000
Agricultural income for the previous year ending 31-3-2023	48,00,000
Non-Agricultural income for the year ending March 31-3-2023	3,00,000

Answer—Mr X is resident senior citizen. As non-agriculture income of Mr X does not exceed Rs 3,00,000 during the previous year 2022-23, therefore, he is not liable to pay any tax, irrespective of agricultural income.

Q 9 (188-P2) For the assessment year 2023-24, net agricultural income of Mrs. X (age: 37 years) is Rs 8,10,000 and non-agricultural income is Rs 4,78,300. Mrs X pays Rs 20,000 as life insurance premium (sum assured Rs 3,00,000) on the life of her major son. Determine her tax liability. Ignore section 115BAC pertaining to alternative tax regime.

Answer—

Gross Total Income	= Rs 4,78,300
Less: Deduction u/s 80C	= (20,000)
Total Income	<u>4,58,300</u>

1	Income Tax on Rs 12,68,300 (i.e agricultural income Rs 8,10,000+Non agricultural income Rs 458300)	1,92,990
2	Income Tax on Rs 10,60,000 (i.e. agricultural income Rs 8,10,000+exempted slab of income Rs 2,50,000)	1,30,500
3	Income tax on non agricultural income (1-2)	62,490
4	Less: Rebate u/s 87A	12,500
5	Balance	49,990
6	Health and Education Cess @ 4%	2,000
	Tax liability	51,990

Q 10 From the particulars given below compute the tax liability of Mr. Abbas for the assessment year 2023-24.

A. Agricultural Income

- (a) Income from self-cultivated land(gross proceeds) 50,000
- (b) Rent from 10 hectares of land given to tenants (per hectare per annum) 5,000
- (c) Annual rental value of the houses given to above mentioned tenants 10,000 p.a.

His expenses are:

1. Own cultivated land

- i. Depreciation of equipment 2,000 p.a.

ii.	Land revenue paid to State Govt.	1,200 p.a
iii.	Purchase of seeds and fertilizers	6,000 p.a.
iv.	Labour charges	2,400 p.a.

2. Land given to tenants

i)	Land Revenue	1,200 p.a.
ii)	Other Expenses	2,000 p.a.

3. House Property: Repairs

3,000 p.a.

Non-agricultural Income

His business profit for the year is 3,02,000

Answer—Computation of Non-agricultural Income

	Details	Amount
Business Profits		3,02,000
Income from other Sources		NIL
GTI/TI		3,02,000

Computation of Net Agricultural Income

	Details	Amount
Self-cultivated Land		
Gross Proceeds	50,000	
Less: Expenses		
Depreciation	2000	
Land Revenue	1200	
Seeds and fertilizers	6000	
Labour charges	2400	
	(11,600)	38,400
Land cultivated by tenants: Rent received	50,000	
Less: Land Revenue	1200	
Other Expenses	2000	
	(3200)	46,800
Agricultural house property: Rental Value	10,000	
Less: Repairs	(3000)	7,000
Total Agricultural Income		92,200

Computation of Tax

Tax on Total Income (Agricultural and non agricultural income) i.e. 3,94,200	7,210
Tax on Agricultural income (92200+250000 basic exemption limit)	4610
Tax on non agricultural income (7210-4610)	2600
Less: Rebate u/s 87A	(2600)
Tax after rebte	NIL
Add: Cess (4%)	
Total Tax	NIL

Q 11 Whether the income derived from sapling or seedling grown in a nursery is taxable under the Income Tax Act, 1961?

Answer—Income derived from sapling or seedling grown in a nursery shall be deemed to be agricultural income and exempt from tax, whether or not the basic operations were carried out on land.

Q 12 (03 A) What is agricultural income? How it is treated for income-tax purposes ? Explain with the help of a suitable example.

Q 13 (06 A) How will you treat agricultural income for income tax purposes ?

Q (08 S) Write a note on **integration of agriculture income** with that of non-agriculture income.

A Long Life may not be good enough, but a good life is long enough.
GREAT THINGS ARE NOT DONE BY IMPLUSE, BUT BY A SERIES OF
SMALL THINGS BROUGHT TOGETHER.....