AGRICULTURAL INCOME

Agricultural Income: - As per Sec 10(1) Agricultural income earned by the tax payer in India is exempt from paying Tax.

What is Agricultural Income?

Sec 2(1A) defines "agriculture income" to mean:-

- Any rent or revenue derived from land which is situated in India and is used for agricultural purposes
- Any income derived from such land by agriculture or by the process employed to render the produce fit for the market or by sale of such produce by cultivator or receiver of rent in kind.
- Any income derived from farm building , provided the following conditions are satisfied

  i) The building is on or in the immediate vicinity of the agricultural land

  ii) It is occupied by the cultivator or receiver of rent or revenue

  iii) It is used as a dwelling house or store house or out house &

  iv) The land is assessed to land revenue in India or it is not situated within the specified area.

Analyzing Sec 2(1A)

-Income of cultivators those who have land

-Could be received in cash or kind

Ways in which agricultural income is derived

- rent or revenue derived from land situated in India

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- used for agricultural purpose

- income derived from agriculture or

- performance of process ordinarily employed to make the product fit to the market

- income derived from farm building required for agricultural operations

Key aspects to determine Agricultural income:-

- Land should be in India
- Agricultural & agricultural purposes
- Basic & subsequent operations
- Products should be for consumption or trade &commerce
- Owner ship of land is not essential

Process ordinarily employed

- render the product fit to be taken the market

- It may be manual or mechanical

Conditions to be satisfied for farm house income

- should be on or immediate vicinity of agriculture land
- should be occupied by receiver of rent/revenue or cultivator
- used as dwelling /store/farm house
- assessed land revenue or subject to local cess
- If not assessed means not situated within the specified area.

Why agriculture not taxable?

In India, constitution is the parent law. All other laws should be enacted without exceeding the frame work & norms laid down by the constitution. Under the Constitution the Parliament does not have power to levy tax on agricultural income. Only state government has power to tax agricultural income.

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INDIRECT METHOD OF TAXING AGRICULTURAL INCOME

Although Agricultural income is exempt from tax u/s.10(1), but included in for the determining the rate at which the non agricultural income is chargeable to tax, with a view to increase the tax payable in respect of agricultural income.

Indirect method Applicable only in case of Individual, HUF, unregistered firm, AOP/BOI, because in case of remaining persons they taxed at maximum marginal rate.

Indirect Method of taxing not applicable if :-

- Net agricultural not exceeds RS 5000
- Non agricultural income should not exceed the maximum amount not chargeable to tax

Ex: Mr X aged 40, had total income Rs 4,00,000 & agriculture income Rs 500,000 .computing tax liability.

Ans) Agricultural income is exempt from tax u/s.10(1) so, 400,000 not included Normally slab exemption Rs 2,50,000.
4,00,000-2,50,000=150,000*10%=15,000

Calculated by ignoring cess &Rebate u/s 87A

Calculating tax using indirect method

Particulars	Reference	RS
Agricultural income	(a)	5,00,000
Non Agricultural income (Total income)	(b)	4,00,000
Aggregation of (a) &(b)	(c)	9,00,000
Tax payable on (c)	(d)	1,05,000
Aggregation of (a)& basic exemption limit	(e)	7,50,000
Tax payable on (e)	(f)	75,000
Net tax payable (d)- (f)	(g)	30,000

Impact of Indirect method: - Non Agricultural income taxable at higher rate. In this transaction tax payable increased by RS 15,000 (30,000-15,000)

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Income from nurseries

Explanation 3 to Section 2(1A)

– Income derived from saplings/seedlings grown in Nursery should be considered as agricultural Income.

Incomes which are not treated as Agriculture Income(no direct connection with land):

- Income from poultry farming.
- Income from bee hiving.
- Income from sale of spontaneously grown trees.
- Income from dairy farming.
- Purchase of standing crop.
- Dividend paid by a company out of its agriculture income.
- Income of salt produced by flooding the land with sea water.
- Royalty income from mines.
- Income from butter and cheese making.
- Receipts from TV serial shooting in farm house

Logic behind this was non agricultural income does not become agricultural income just because there is an indirect connection between land.

Incomes which are treated as Agriculture Income(Direct connection with land):

- Income from sale of replanted trees.
- Rent received for agricultural land.
- Income from growing flowers and creepers.
- Share of profit of a partner from a firm engaged in agricultural operations.
- Interest on capital received by a partner from a firm engaged in agricultural operations.
- Income derived from sale of seeds.

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Aportionment cases:

- Agricultural produce subjected to manufacturing process
- Profit on sale has agriculture& business income

Apportionment Income from grow & manufacturing any product other than tea RULE 7:-

Scenario 1:

Possible to sell the Agricultural Produce in raw stage or after application of ordinary process -Average price it has been sold at

Scenario 2:

Not possible to sell the Agricultural Produce in raw stage or after application of ordinary process then -Market value is aggregate of

- Expense of cultivation
- Land revenue/rent
- Reasonable profit

Rules regarding apportionment

Rule	produce	Agriculture income	Business income
7A	Rubber –centrifuged latex or conex or latex based crepes or brown crepes or technically specified block rubber	65%	35%
7B(1)	Coffee grown & cured	75%	25%
7B(1A)	Coffee grown, cured, roasted& grounded	60%	40%
8	Tea grown &manufactured	60%	40%

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<u>Tax on sale of rural agricultural land:</u>

An rural agricultural land in specified area does not form part of the definition of a capital asset u/s 2(14)and hence, there will be no capital gains on the sale of such land.

Any other land not forming part of the above will be a capital asset and sale of the same shall attract tax on capital gains subject to Section 54B, which is explained below.

Section 54B: Capital gain on transfer of land used for agricultural purposes not to be charged in certain cases

Section 54B gives relief to a taxpayer who sells his agricultural land and acquires another agricultural land from the sale proceeds.

Conditions to be satisfied to claim the benefit of this Section:

a. The assessed must be an individual or a HUF.

b. The agricultural land should have been used for agricultural purposes. It may be a long term asset or a short term asset.

c. It must have been used either by the assessee or his parents for agricultural purposes in atleast two years immediately preceding the date on which the transfer of land took place.

d. The assessee should have purchased another land, which is being used for agricultural purposes, within a period of two years from the date of sale.

Source :- Income tax act

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