"This document contains the provisions of the Income-tax Act, 2025, as amended by the Finance Act, 2026."

FAQs on agricultural income (Section 2(5) and Rule 270)

Q1. When can income derived from the land be treated as agricultural income under Section 2(5)(a)

Ans: Income derived from land can be termed agricultural income if the following conditions are satisfied:

a) Rent or revenue should be derived from the land;
b) Land should be situated in India; and
c) Land should be used for agricultural purposes.

Relevant Content

Section - 2

Q2. What is the provision of Section 2(5)(b)(ii)?

Ans: Any income derived by performing the marketing process by the cultivator is agricultural income if the following conditions are fulfilled:

a) The process to which the agricultural produce is subjected should be ordinarily employed by a cultivator or receiver of rent-in-kind.
b) The process should be employed to render the produce fit to be taken to market and not for any other purpose.

Relevant Content

Section - 2

Q3. What is the provision of Section 2(5)(b)(iii)?

Ans: Any income arising to the cultivator or receiver of rent-in-kind from the sale of produce of any land (situated in India and used for agricultural purposes) is agricultural income, provided the produce should not be subjected to any process except the process ordinarily employed to render the produce fit for sale.

Relevant Content

Section - 2

Q4. When income from farm building may be treated as agricultural income under Section 2(5)(c)?

Ans: Income from a farm building may be treated as agricultural income if the following conditions are satisfied:

(a) If such a building is:

- Owned and occupied by the receiver of revenue or rent; or
- Occupied by the cultivator or receiver of rent-in-kind;

(b) Subject to the fulfilment of other conditions, the income derived from farm building shall be considered as agricultural income if such building is on or in the immediate vicinity of the land, situated in India and used for agricultural purposes.

(c) If such building is used as a dwelling-house, as a store-house, or as an out-building (out-house) by the receiver of the rent or revenue (in cash) or the cultivator or the receiver of rent-in-kind because of his connection with the land;

Relevant Content

Section - 2

Q5. When is agricultural land considered situated in a rural area?

Ans: Agricultural land is considered situated in a rural area if it is situated beyond the jurisdiction of a municipality or cantonment board having a population of 10,000 or more, and does not fall within the following distances (to be measured aerially):

- Within 2 km from local limits of the municipality or cantonment board if the population of such municipality or cantonment board exceeds 10,000 but does not exceed 1,00,000;
- Within 6 km from the local limits of the municipality or cantonment board, if the population of such municipality or cantonment board exceeds 1,00,000 but does not exceed 10,00,000;
- Within 8 km from the local limits of the municipality or cantonment board, if the population of such municipality or cantonment board exceeds 10,00,000.

Relevant Content

Section - 2

Q6. When shall income from nursery operation be deemed agricultural income?

Ans: Any income derived from saplings or seedlings grown in a nursery shall be deemed agricultural income.

Relevant Content

Section - 2

Q7. What is the provision of Rule 270 of the Income-tax Rules, 2026?

Ans: Rule 270 applies to the income, which is partially agricultural income and partially from business.

Rule 270 provides that where the cultivator or receiver of rent-in-kind utilises agricultural produce in his business as raw material, the market value of such produce is deducted while computing the taxable profits of such business.

Similarly, if sale receipts of the agricultural produce are included in the accounts of the business, it shall be deducted.

No further deduction is permissible in respect of any expenditure incurred by the assessee as cultivator or receiver of rent-in-kind.

Relevant Content

Section - 2

Q8. How to determine the market value of agricultural produce where produce is ordinarily sold in the market?

Ans: If agricultural produce is ordinarily sold in the market in its raw state or after the application of any process ordinarily employed by the cultivator or the receiver of rent-in-kind to render it fit for the market, the market value is determined according to the average price at which the produce has been sold during the relevant tax year.

Relevant Content

Section - 2

Q9. How to determine the market value of agricultural produce where produce has no market?

Ans: If produce has no market in its raw form or after the application of an ordinary marketing process, the market value shall be the aggregate of the following:

- Expenses of cultivation;
- Land revenue or rent paid for the area in which it was grown; and
- Such amount of profits as the Assessing Officer may find reasonable, having regard to the circumstances of the case.

Relevant Content

Section - 2

Q10. What is the provision of Rule 271 of the Income-tax Rules, 2026?

Ans: Rule 271 of the Income-tax Rules, 2026 prescribes the method for determining taxable business income from the composite activities of growing and manufacturing tea, coffee, and rubber. It specifies the following proportion of income to be treated as business income chargeable to tax, with the balance treated as agricultural income.

Sl. No.	*Nature of income*	*Percentage*
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, remilled 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	35%
2.	Income derived from the sale of coffee grown and cured by the seller in India	25%
3.	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	40%
4.	Income derived from the sale of tea grown and manufactured by the seller in India	40%

Relevant Content

Section - 2

Q11. Which deduction is allowed while computing income from growing and manufacturing tea, coffee, and rubber

Ans: While computing such income, the assessee is entitled to claim the deduction in respect of the cost of planting rubber plants, coffee plants and tea bushes as the case may be, in replacement of plants or bushes that have died or become permanently useless in an area already planted if such area has not previously been abandoned.

However, in determining such cost, no deduction shall be made in respect of the amount of any subsidy, which, under the provisions mentioned in Schedule III [Table: Sl. No. 21] is not includible in the total income.

Relevant Content

Section - 2

Q12. What is the tax treatment of agricultural income?

Ans: Agricultural income is exempt from tax under Schedule II [Table S. No. 1] of the Income-tax Act 2025. However, agricultural income is included in the total income of a specified assessee (individual, HUF, BOI, AOP, or Artificial Juridical Person) where such income exceeds Rs. 5,000 and the non-agricultural income exceeds the maximum exemption limit.

The manner of tax computation in the case of partial integration regime is as below:

Step 1: Calculate net agricultural income.

Step 2: Calculate tax on the aggregate of non-agricultural total income and net agricultural income, as if such income is the total income.

Step 3: Calculate tax on the aggregate of net agricultural income and maximum exemption limit as if such income is the total income.

Step 4: The amount of tax calculated in Step 2 shall be reduced by the amount of tax calculated in Step 3.

Step 5: The result of Step 4 shall be reduced by rebate under Section 156, if applicable. The resultant figure shall be increased by surcharge and health and education cess.

Relevant Content

Section - 2

Q13. What is the taxability of capital gain arising from the sale of agricultural land?

Ans: For capital gain purposes, agricultural land is classified into two categories;

a) Rural Agricultural Land and
b) Urban Agricultural Land.

Any gain arising from the transfer of rural agricultural land is not chargeable to tax under the head Capital Gains because such land is specifically excluded from the definition of a capital asset. Whereas the gain arising from the transfer of urban agricultural land is chargeable to tax under the head Capital Gains.

Relevant Content

Section - 2

Q14. What is Rural Agricultural Land?

Ans: Rural Agricultural land means land which is situated beyond the jurisdiction of a municipality or cantonment board having a population of 10,000 or more, and does not fall within the following distances (to be measured aerially):

- Up to 2 km from local limits of the municipality or cantonment board if the population of such municipality or cantonment board exceeds 10,000 but does not exceed 1,00,000;
- Up to 6 km from local limits of the municipality or cantonment board, if the population of such municipality or cantonment board exceeds 1,00,000 but does not exceed 10,00,000;
- Up to 8 km from the local limits of the municipality or cantonment board, if the population of such municipality or cantonment board exceeds 10,00,000.

Relevant Content

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