Agricultural Income

Section 10(1) of the Income-tax Act, 1961 exempts agricultural income from income-tax. However, K.N Raj committee has recommended for integration of net agricultural income to the total non-agricultural income computed as per Income-tax Act since AY 1973-74.

<table>
<thead>
<tr>
<th>Definition of Agricultural Income</th>
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<tbody>
<tr>
<td>[Section 2(1A)]</td>
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</tbody>
</table>

“Agricultural income” means

I - RENT OR REVENUE
1. any rent or revenue
2. derived from land
3. which is situated in India (i.e the land should be situated in India)

II. INCOME FROM AGRICULTURE OR PROCESSING ACTIVITY OR SALE
any income derived from such land by—

(i) agriculture; or

(ii) the performance of any process ordinarily employed by a cultivator or receiver of rent-in-kind to render the produce raised by the cultivator or received by receiver of rent in kind fit to be taken to market by
1. a cultivator or
2. receiver of rent-in-kind

III – INCOME FROM FARM BUILDING
any income derived from any building owned and occupied by the receiver of the rent or revenue of any such land, or occupied by the cultivator or the receiver of rent-in-kind, of any land with respect to which, or the produce of which, any process mentioned in the previous paragraphs (i) and (ii) of sub-clause (II) is carried on.

Use of building or land for purpose other than agriculture shall not constitute agricultural income: Income derived from any building or land referred to in sub-clause (c) above arising from the use of such building or land for any purpose (including letting for residential purpose or for the purpose of any business or profession) other than agriculture shall not be agricultural income.

<table>
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<tr>
<th>Non- agricultural income</th>
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Following incomes have been held to be non-agricultural income, hence taxable:

(a) Income from sale of forests, trees, wild grass, fruit and flowers grown spontaneously and without human effort.
(b) Income from salt produced by flooding the land with sea water and then extracting salt therefrom.
(c) Income from stone quarries.
(d) Income from breeding of livestock.
(e) Income from dairy farming, butter and cheese making.
(f) Income from poultry farming.
(g) Income from fisheries.
(h) Preservation of potatoes by refrigeration as it is not a process ordinarily employed by a cultivator.
(i) Income from brick making.
(j) Income from supplying surplus water to other agriculturists.
(k) Interest on arrears of rent in respect of agricultural land.
(l) Profit on sale of standing crops/agricultural produce purchased by the assessee.
(m) Income derived from letting out of land/godowns for storing crops.
(n) Royalty income of mines.
(o) Annuity payable to vendor of agriculture land or payable to a person giving up his claims to piece of agricultural land.
(p) Harvest Crop on purchased land.
(q) Compensation/damages paid for loss of agricultural income due to late payment of instalments of the consideration price of rubber plantation site.
(r) Registration fee collected from the contractor who is bidding at the auction conducted for sale of plantation is not an agricultural income as such registration fee had no nexus with land.

**Income which is partially agricultural and partially from business**

(A) **Income from growing and manufacturing of tea, rubber and coffee**

<table>
<thead>
<tr>
<th>Nature of Income</th>
<th>Amount of Agricultural Income</th>
<th>Non-agricultural Income i.e. business income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Income from sale of <strong>tea grown and manufactured</strong> by the assessee in India</td>
<td>60% of such Income</td>
<td>40% of such Income</td>
</tr>
<tr>
<td>2. Income from <strong>rubber plants grown</strong> by the seller in India</td>
<td>65% of such Income</td>
<td>35% of such Income</td>
</tr>
<tr>
<td>3. Income derived from the sale of <strong>coffee grown and cured</strong> by the seller in India</td>
<td>75% of such Income</td>
<td>25% of such Income</td>
</tr>
<tr>
<td>4. Income derived from the sale of <strong>coffee grown, cured, roasted and ground</strong>ed by the seller in India</td>
<td>60% of such Income</td>
<td>40% of such Income</td>
</tr>
</tbody>
</table>

(B) **Income from growing and manufacturing of any product other than tea [Rule 7]**

An assessee may have composite business income which is partially agricultural and partially non-agricultural, for example, where XYZ Ltd. grows potatoes and further processes its produce to sell them as wafers. In this case the company has composite income *i.e.* from agriculture and from business. The composite income has to be disintegrated and for computing business income the market value of any agricultural produce raised by the assessee or received by him as rent in kind and utilised 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. For computing agricultural income the market value of agricultural produce will be total agricultural receipt on account of potatoes. From such agricultural receipts, expenses such as cultivation expenses etc. incurred in connection with such receipt will be deducted and balance will be agricultural income which will be exempt.

For example, in the above case, if the market value of the potatoes grown by the company, which have been used for the purpose of making its own wafers, is Rs. 5 lakhs and the cost of cultivation of such potatoes is Rs. 4 lakhs. From the business income of wafers Rs. 5 lakhs i.e. the market value, shall be deducted and no other expense shall be allowed for such potatoes. On the other hand, the agricultural income shall be Rs. 1 lakh (5 lakhs - 4 lakhs). This agricultural income of Rs. 1 lakh shall be exempt.

### . Tax on non-agricultural income if the assessee earns agricultural income also

There is no tax on agricultural income but if an assessee has non-agricultural income as well as agricultural income, such agricultural income is included in his Total Income for the purpose of computation of Income-tax on non-agricultural income.

This is done only in the case of:

(i) individual;
(ii) HUF;
(iii) AOP/BOI;
(iv) Artificial juridical person.

This addition is done to compute the tax on non-agricultural income only when the following two conditions are satisfied:

(i) non-agricultural income of the assessee exceeds the maximum exemption limit.
(ii) the Net Agricultural Income exceeds Rs. 5,000.

**Computation of tax where there is agricultural income also**: The following steps should be followed to calculate the tax:

**Step 1**: Add agricultural income and non-agricultural income and calculate tax on the aggregate as if such aggregate income is the Total Income.

**Step 2**: Add agricultural income to the maximum exemption limit available in the case of the assessee and compute tax on such amount as if it is the Total Income.

**Step 3**: Deduct the amount of income-tax as computed under Step 2 from the tax computed under Step 1.

The amount so arrived at shall be total Income-tax payable by the assessee.

**Step 4**: Add surcharge, if applicable.

**Step 5**: Add education cess @ 2% and SHEC @ 1%.