

CHAPTER 03

Agricultural Income

Agricultural Income [Sec 10(1)]

Agricultural income is exempt u/s 10(1) from tax irrespective of his residential status because CG has NO Power to levy tax on such Income.

Definition of Agricultural Income [Section 2(1A)]

✚ It covers income of not only cultivators but also the land holders who might have rented out lands.

Agricultural Income consists of:

1. **Rent/Revenue** derived from letting of land situated in India & used for agricultural purposes. Rent: Rent received by the original tenant from sub-tenant would also be agricultural income. Interest on delayed payment of rent, from tenant, taxable u/h IFOS. Revenue: fees received for renewal of lease of land would be revenue derived from land. Note: If agricultural land is situated in foreign country, agricultural income is taxable u/h IFOS.

2. Income derived from agriculture or other related activities. (Agriculture Produce)
Basic operation = Application of human labour and skill on the land necessary for the purpose of raising produce.
Subsequent operation = Performed after the produced sprouts from the land i.e., in conjunction with and as a continuation of the basic operation.

3. Agricultural income may be derived from **farm building** required for agriculture operations. Building should be on or in the immediate vicinity of the land & Farm building used as dwelling house or as a store house.
Note: Income arising from use of farm building for any purpose other than agriculture referred above would not be agricultural income (Ex: Letting for residential purpose or for business/profession).

4. Income from **saplings/seeds** grown in Nursery (whether/not basic operations were carried out on land).

Note: - Dividend from a company carrying on agricultural operations shall be treated as normal dividend & recipient share holder is liable to pay tax at applicable rates.

Note: - Salary or Interest on capital received by a partner from a partnership firm earning income through agricultural operations, such amt. received shall be treated as agriculture income as per the decision of the SC in case of R.M. Chidambaram Pillai Vs. CIT.

Some Examples of Agricultural Income & Non-agricultural Income:

Agricultural Income	Non-Agricultural Income
Income derived from the sale of seeds.	Income from breeding of livestock.
Income from growing of flowers & creepers.	Income from poultry farming.
Rent received from land used for grazing of cattle required for agriculture activities.	Income from fisheries.
Income from growing of bamboo.	Income from dairy farming.
Compensation received from an insurance company on account of damage caused to the crop.	Income from sale of forest, trees, wild grass, flowers etc. grown spontaneously without any human effort.

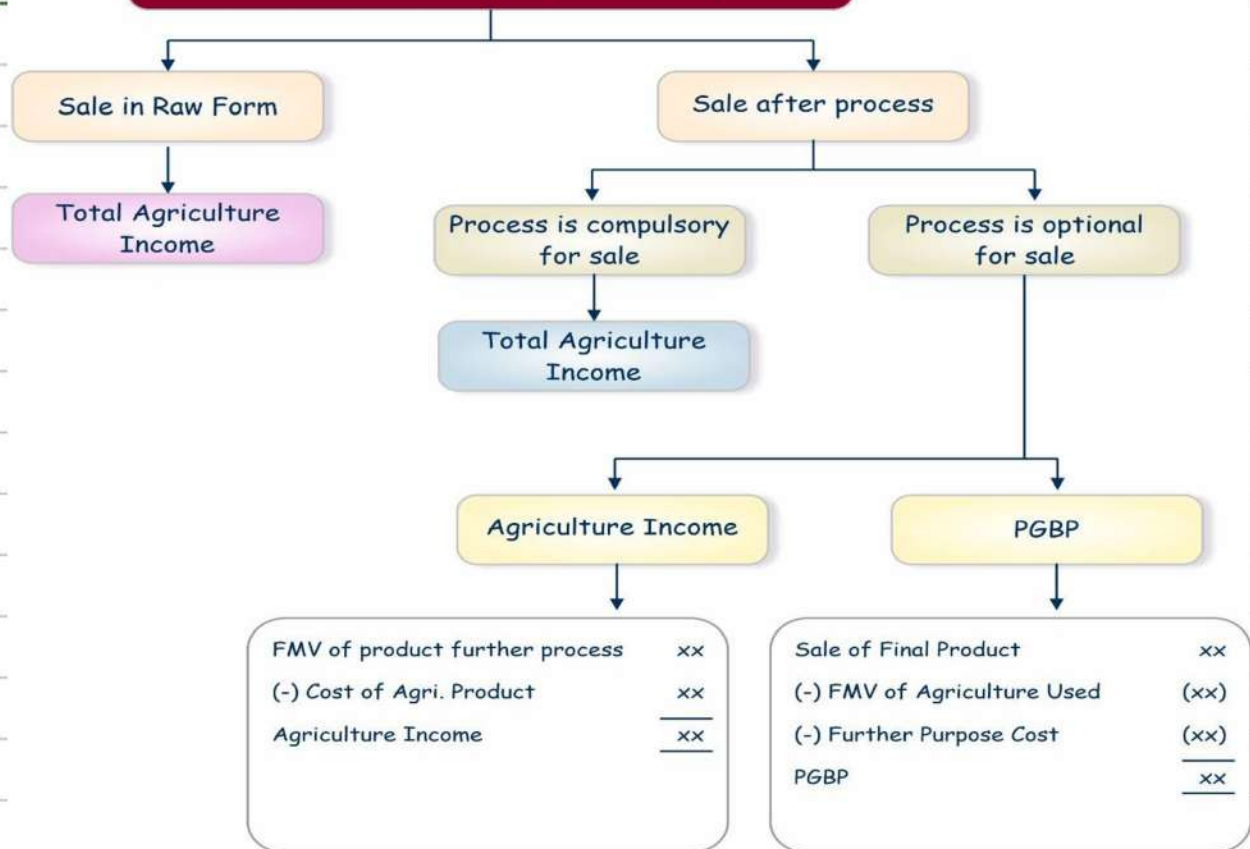
Question 1

Discuss whether rent received for letting out agricultural land for a movie shooting & amounts received from sale of seedlings in nursery adjacent to agricultural land owned by assessee can be regarded as agricultural income.

Answer:

Rent for Movie shooting: It is not an Agricultural Income, since it is not Income derived 'through Agriculture'. This constitutes Rental Income for 'non - agricultural purposes.

Sales of seedlings in Nursery: Income from Sale of Plants & Seedlings grown in Pots in nursery constitutes agricultural income. However, in this case, such income is not derived from agricultural land, but from a Nursery 'adjacent' to it. Hence, it does not constitute Agricultural Income.

Rule 7 - Sale of other agriculture product**Question 2**

Mr. B grows sugarcane & uses the same for the purpose of manufacturing sugar in his factory. 30% of sugarcane produce is sold for ₹ 10 lacs & cost of cultivation of such sugarcane is ₹ 5 lacs. Cost of cultivation of 70% is ₹14 lacs & market value of the same is ₹ 22 lacs. After incurring ₹1.5 lacs in manufacturing process on the balance sugarcane, the sugar was sold for ₹ 25 lacs. Compute B's business income & agricultural income.

Answer:

Income from sale of sugarcane is agricultural income & income from sale of sugar is business income. Business income = Sale proceeds - MV of 70% of sugarcane (used in manufacture of sugar) - Manufacturing expenses = ₹ 25 lacs - ₹ 22 lacs - ₹ 1.5 lacs = ₹ 1.5 lacs. Agricultural income = Market value of sugarcane produce - Cost of cultivation = [₹ 10 lacs + ₹ 22 lacs] - [₹ 5 lacs + ₹ 14 lacs] = ₹ 13 lacs.

Determination of Market Value

(i) If Agricultural produce is capable of being sold in market as such/after ordinary processing	Market value = Value calculated at Average price at which it has been sold during relevant PY.
(ii) If Agricultural produce is incapable of being sold in market as such/after ordinary processing	Market Value = Cultivation Expenses + Rent paid for Land in which it was grown + Such profit as AO thinks to be reasonable.

Question 3

Z Ltd. grows sugarcane to manufacture sugar. The data for the PY 2023-24 is as follow:

1. Cost of cultivation of sugarcane 6,00,000
2. Market value of Sugarcane when transferred to factory 10,00,000
3. Other manufacturing cost 6,00,000
4. Sale of sugar 25,00,000
5. Salary of Managing Director who looks after all operation of the company 3,00,000

Determine the Income of the company.

Answer:

Particulars	(₹)	(₹)
1. Profit & Gain of Business or Profession:		
Sales of sugar		25,00,000
Less		
Average Market Value of Sugarcane	10,00,000	
Salary to Managing Director	3,00,000	
Manufacturing Cost	6,00,000	(19,00,000)
Business Income		6,00,000
2. Computation of Agricultural Income :		
Market Value of Sugarcane		10,00,000
Less: Cost of Cultivation		(6,00,000)
Agricultural Income		4,00,000

Apportionment of Income B/w Business Income & Agriculture Income

Rule	Apportionment of Income in certain cases	Agriculture	Business
7A	Income from growing & manufacturing of rubber / Latex / Cenex	65%	35%
7B	Income from growing & manufacturing of coffee		
	Income derived from sale of coffee grown & cured	75%	25%
	Income derived from sale of coffee grown, cured, roasted & grounded	60%	40%
8	Income from growing & manufacturing of tea	60%	40%

Higher % will always indicate that income from Agriculture.

Note: Above bifurcation should be done after PGBP deduction eg Depreciation Assume total income of assessee from business only for depreciation purpose. Total Depreciation minus from WDV of Block.

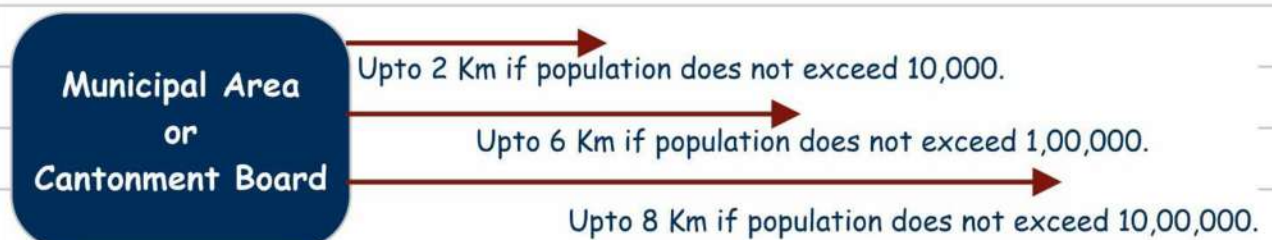
Question 4: - Mr. J manufactures latex from the rubber plants grown by him in India. These are then sold in the market for ₹ 30 lacs. Cost of growing rubber plants is ₹ 10 lacs & that of manufacturing latex is ₹ 8 lacs. Compute his total income.

Answer: The total income of Mr. J comprises of agricultural income & business income. Total profits from the sale of latex = ₹ 30 lacs - ₹ 10 lacs - ₹ 8 lacs = ₹ 12 lacs. Agricultural income = 65% of ₹ 12 lacs = ₹ 7.8 lacs; Business income = 35% of ₹ 12 lacs. = ₹ 4.2 lacs.

Agriculture Land

There are 2 types of agricultural land (1) Urban, (2) Rural

The urban land is not defined but **rural land is defined.**



Population means according to the census published before the first day of the PY.

E.g.: - Distance 0 to 2 KM & population less than 10,000. = Rural

Distance 0 to 2 KM & population more than 10,000. = Urban

Distance 2 to 6 KM & population less than 1,00,000. = Rural

Distance 2 to 6 KM & population more than 1,00,000. = Urban

Distance 6 to 8 KM & population less than 10,00,000. = Rural

Distance 6 to 8 KM & population more than 10,00,000. = urban

Profit on Transfer of Urban Agricultural Land:

Whether Such Profit is Agricultural Income?

No, as per Explanation to section 2(1A), CG arising from the transfer of urban agricultural land would not be treated as agricultural income u/s 10 but will be taxable u/s 45.

Ex: If I sell agricultural land situated in Mumbai for ₹ 10 lacs & make profit of ₹ 8 lacs over its COA. This surplus will not be an agricultural income exempt u/s 10(1). It will be taxable u/s 45 since it is urban agricultural Land & thus it is a capital asset.

Partial Integration of Agricultural Income With Non-Agricultural Income

✚ There exists an Indirect way of taxing agricultural income.

✚ It is known as partial integration of non-agricultural income with agricultural income.

Objective of PIT	Tax the non-agricultural Income at higher rates.
Applicability of PIT	Slab rates assessee i.e. Individuals, HUF, AOP/BOI & artificial persons. [Not Applicable for Company & Firms]
Conditions for Partial Integration	1. Net Agricultural Income should exceed ₹ 5,000 p.a. & 2. Non-Agricultural Income should exceed BEL.

Steps for calculation of tax in case of PIT

1. Calculate Tax on Net Agricultural Income + Non-Agricultural Income. (Total Income)
2. Calculate Tax on Net Agricultural Income + BEL.
3. Income tax calculated in Step 1 - Income tax calculated in Step 2.
4. Sum arrived in Step 3 shall be increased by SC (if applicable) & reduced by rebate u/s 87A.
5. Add Health & Education cess @ 4%.

Imp Note: - LTCG 112, LTCG 112A, STCG 111A, Casual Income shall not be included in the calculation of non-agricultural income.

Question 5

Mr. X, a resident, has provided the following particulars of his income for PY 2023-24:

Income from salary (computed)	₹ 1,80,000
Income from house property (computed)	₹ 2,00,000
Agricultural income from a land in Jaipur	₹ 2,80,000
Expenses incurred for earning agricultural income	₹ 1,70,000

Compute his tax liability assuming his age is (a) 45 years; (b) 70 years.

Answer:

Net Agricultural Income = ₹ 2,80,000 - ₹ 1,70,000 = ₹ 1,10,000

(a) Computation of tax liability (Age 45 years)

Step 1	Tax on ₹ 4,90,000 (₹ 3,80,000 + ₹ 1,10,000) = ₹ 12,000.
Step 2	Tax on ₹ 3,60,000 (₹ 1,10,000 + ₹ 2,50,000) = ₹ 5,500.
Step 3	₹ 12,000 - ₹ 5,500 = ₹ 6,500
Step 4 & 5	₹ 6,500 Rebate u/s 87A Tax= Nil

(b) Computation of tax liability (Age 70 years)

Step 1	Tax on ₹ 4,90,000 (₹ 3,80,000 + ₹ 1,10,000) = ₹ 12,000.
Step 2	Tax on ₹ 4,10,000 (₹ 1,10,000 + ₹ 3,00,000) = ₹ 8,000.
Step 3	₹ 12,000 - ₹ 8,000 = ₹ 4,000
Step 4 & 5	₹ 4,000 Rebate u/s 87A Tax= Nil

Loss from Agriculture Income Agriculture loss shall be set-off against agriculture income only. If such loss could not be set off in that P.Y then carry forward and set-off max upto 8 year against agriculture only.