

# 03

# AGRICULTURE INCOME

*Vijju sir motivation : Hustle beats hesitation.*

## Basics of Agriculture Income

1. Agriculture income is defined u/s 2(1A).
2. Agricultural Income is exempt from income tax u/s 10(1), but the income tax act indirectly collects tax on agricultural income.
3. Agriculture Income Fall within the state List **Entry no 46**, hence shall be **levied and collected by SG**.
4. Sec 14A where any expenditure is incurred in relation to exempt Income the same shall not be allowed as deduction.

1. Marks : 4 marks

2. Frequency : Alternative attempt

3. Important sec : Rule 7 & 8  
Composite income, method of aggregation

## Sec 2(1A) Agriculture Income [Only relevant part]

**Agriculture Income means :**

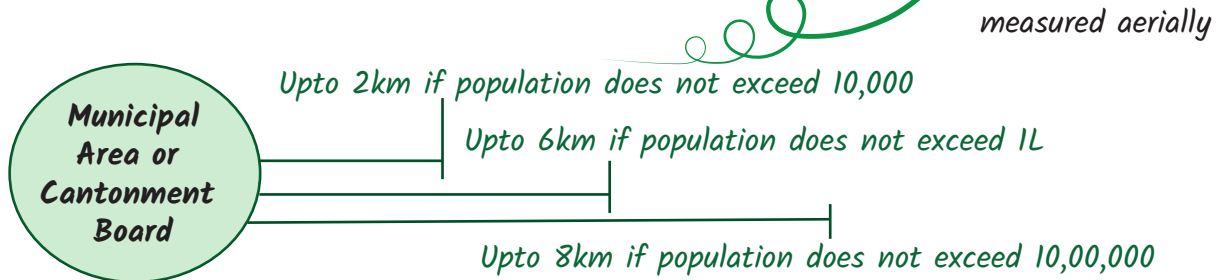
1. Any Rent or Revenue Derived from an Agriculture land situated in India & used for agriculture purpose.
2. Income from agricultural operation.
3. Income from farm house or farm land.
4. Income from Nursery, sampling, seedling. Whether Basic operation done or not. [Expl 3]

## Agricultural Land

There are 2 type of agricultural land :

1. Urban
2. Rural

The urban land is not defined but rural Land is defined :



**Expl 4 :** Population means according to the last census published before the first day of PY

Sr No	Particulars	Population	Result
1.	Distance 0-2 km	Less than 10,000	Rural
2.	Distance 0-2 km	More than 10,000	Urban
3.	Distance 2-6 km	Less than 1,00,000	Rural
4.	Distance 2-6 km	More than 1,00,000	Urban
5.	Distance 6-8 km	Less than 10,00,000	Rural
6.	Distance 6-8 km	More than 10,00,000	Urban

## Minors Agriculture Income

Minor Earning Income from Agriculture shall be chargeable as per sec 64(1A) (Refer Clubbing chapter).

## Treatment of Agriculture Land



## Agricultural Operation

The word agricultural operation is not defined in the act, however it has been considered by court in **Raja benoy Sahay Case** which has provided :

1. **Mere Basic Operation** : Agricultural Income
2. **Mere Subsequent Operation** : Not an Agricultural Income
3. **Subsequent operation together with basic** : Composite Income

**Basic Operation** : It means application of human skill & labour upon the land prior to germination e.g. Tilling of land, sowing of seeds, planting etc.

**Subsequent Operation** : It means operations which fosters the growth & preserve the produce for rendering the produce fit for sale in market & which are performed after the produce sprouts from the land.

**Onus to Proof** : The Onus to proof that a particular income is an agriculture Income is on the assessee. It is he who need to place before the Income tax Authorities Proper Material which will enable them to conclude that the Income Sought to be Assessed, is an agricultural Income.

**[CIT Vs. Ramakrishna Deo.]**

Agriculture Income	Not Agriculture Income
1. Income from growing trade or commercial products.	1. Salary received by employee from any business (having agricultural income) is not AI.
2. Income from growing flowers & creepers is AI.	2. Dividend received from a Co. engaged in agricultural operation is non-agri income.
3. Plants sold in pots are an agri income provided basic operations are performed.	3. Income from fisheries is non-agri income.
4. Remuneration and interest to partner from a firm engaged in Agriculture activity.	4. Income from poultry farming is not AI.
5. Interest on capital received by a partner from a firm engaged in agricultural operation is an AI.	5. Income from dairy farming, butter & cheese making etc is non-agri income.
6. Income arising by sale of trees grown on Denuded parts of the forest.	6. Breeding & rearing of livestock is not AI.
	7. Interest received by a moneylender in the form of agricultural produce is not AI.
	8. Profit on sale of standing crops after harvest, where such crops were acquired through purchase is non-agri income.
	9. Royalty income from mines in non-agri.
	10. Income on supply of water for agricultural operation is non-agri income.
	11. Income from sale of trees & grasses grown Spontaneously (without any human effort).
	12. Sale of Agriculture Land. <b>(CIT Vs. Carew)</b>

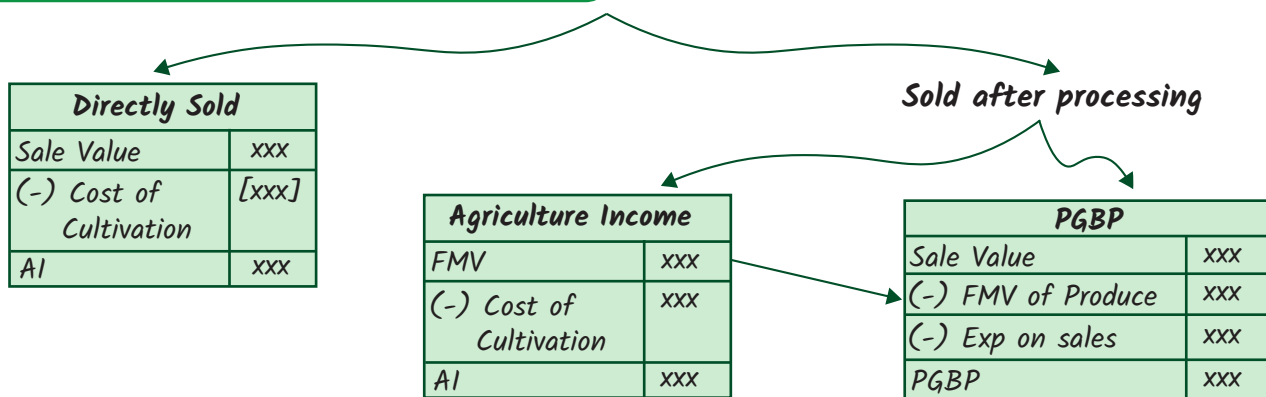
## Composite Income

Assessee may have composite Income which is partially agriculture & Non agricultural, in this case company earns Composite Income. This Income needs to be disintegrated into Agricultural income and non agricultural Income. Further no deduction is permissible in respect for any expenditure incurred by Assessee.

## Rule [7 & 8] Composite Income in case of Tea, Coffee, Rubber

Rule	Content	Agriculture	Non Agriculture
7A	Growing & manufacturing rubber	65%	35%
7B	Growing & manufacturing coffee grown & Cured	75%	25%
7B	Growing & manufacturing coffee grown, cured, roasted & grounded	60%	40%
8	Growing & manufacturing Tea	60%	40%

## Composite Agriculture Other Income



## Method of Aggregation/Method of partial integration

**Applicability :** Applicable only to individuals, HUF, AOP/BOI, AJP & not applicable to firms & Co.

**Minimum agricultural income :** Should exceed ₹5000.

**IMP Hai!**

**Other income :** Should exceed Basic exemption limit (₹2,50,000/3,00,000/5,00,000) as the case may be.



Step 1 : Agricultural Income + Non Agricultural Income	xxx
Step 2 : Tax on Step 1	xxx
Step 3 : Agricultural Income + Basic Exemption Limit	xxx
Step 4 : Tax on Step 3	xxx
Step 5 : Difference of tax [Step 2 - Step 4]	xxx
Step 6 : Add Surcharge/Less Rebate, Add HEC	xxx
Step 7 : Final Tax Liability	xxx

If an Individual opts to be taxed u/s IISBAC, the exemption shall be limited to ₹4,00,000 [FA 2025] whether such individual is less than or more than 60 years old.

## Loss from Agricultural Income

1. Loss from agricultural shall be set off against agriculture income only.
2. If such loss could not be set off in that PY, it shall be c/f & set-off in following AY for not more than 8 years against agriculture income only.

## Sec 14A Disallowance of expenditure in relation to exempt income

1. As per sec 14A, notwithstanding anything to the contrary, expenditure incurred in relation to any **exempt income is not allowed as a deduction** while computing income under any of the five heads of income.
2. The Assessing Officer is empowered to determine the amount of expenditure incurred in relation to such income which does not form part of total income in accordance with such method as may be prescribed.
3. The method for determining expenditure in relation to exempt income for the purpose of disallowance of such expenditure u/s 14A is prescribed by the CBDT.
4. The provisions of sec 14A regarding disallowance of expenses would apply even in a case where exempt income has not accrued or arisen or has not been received during the previous year relevant to an assessment year and the expenditure has been incurred during the said previous year in relation to such exempt income.