CHAPTER 1B: AGRICULTURE INCOME

Meaning of Agricultural Income Section 2(1A)

1. **Income from leasing out of agricultural land Section 2(1A) (a)**
   If any person has given any agricultural land on rent, rent so received (either in cash or in kind) shall be considered to be agricultural income and shall be exempt from income tax. If Tenant use land for Agriculture purpose.
   However if any interest is recovered for late payment of rent then such interest will be taxable under head other sources.
   Not Ag. Income

2. **Income from Agricultural Operations Section 2(1A)(b)**
   If any person is engaged in agricultural activities, income derived from such agricultural operations shall be considered to be agricultural income.

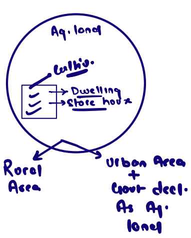
   Basic operation ⇒ Hal Jotna, Seed Sow, water/ Khad
   Subsequent operation ⇒ Fertilizer/ Koota/ Saaf Karna.

   Agriculture Operation

Operation	Income
Only Basics Operations	Agriculture income
Basics Operations & Subsequent operations	Agriculture income
Only Subsequent operations	Non-Agriculture income

   Note:
   a) If any shareholder has received dividend from a company having income from agricultural activities, such dividend income shall not be considered to be agricultural income
   b) If any partnership firm has agricultural income and firm has paid any salary or interest to the partners, it will be considered to be agricultural income to the partners.

3. **Any income derived from any building Section 2(1A)(c)**
   Income from building shall be agriculture income if all the following conditions are satisfied.



   (i) The building is on or in the immediate vicinity of agricultural land.
   (ii) It is occupied by the cultivator or receiver of rent or revenue.
   (iii) It is used as a dwelling house or as a store-house or other out-house.
   (iv) The land is assessed to land revenue or it is situated in rural area.
   ↳ land - urban area → Declared by Govt → As a Agriculture land

Note: Income derived from nursery shall be deemed to be an Agriculture income.
↳ Seedling/ saplings.

Income which is partially agricultural and partially from business

Rule	Business	Agriculture %	Non- Agriculture %
7A	Manufacture of Rubber	65%	35%

Mr. J → Rubber. Manuf.

Rubber Sale ⇒	10,00,00,000
(–) Exp cultivation	50,00,000
(–) other exp	7,00,00,000
Profit	2,50,00,000

65% Ag. = 1.625 Cr.
35% Business = 0.875

Coffee (grow & cured) sell 10,00,00,000
(-) cultivation exp 1,00,00,000
(-) other exp 6,00,00,000
Net profit 3,00,00,000

75% Agri Income
25% Non-Agriculture

7B(1)	Sale of coffee grown and cured by seller.	75%	25%
7B(1A)	Sale of coffee grown, cured, roasted and grounded by seller in India with or without mixing chicory or other flavouring ingredients	60%	40%
8	Growing and manufacturing tea in India.	60%	40%

Rule 7 – Sale of Agricultural Produce

As it is / After Minor Process → Essential Char. Not alter

Sale Proceeds -
(-) Cultivation Cost (-)
Agriculture Income -

After further Process ie converting Agricultural produce to Another product

Agriculture Income

FMV of Agricul. Produce -
(-) Cultivation Cost (-)
Agriculture Income —

Business Income

Sale of FG -
(-) FMV of Ag. Produce used As RM (-)
(-) Conversion Cost (-)
PGBP —

FMV = Fair Market Value

Certain IMP

Partial integration of agricultural income with non-agricultural income

Addition of agricultural income to non agricultural income for computation of tax is known as partial integration.

Conditions

1. The assessee is an individual or HUF or BOI, or AOP or artificial juridical person.
2. Non-agricultural income exceeds basic exemption limit; and
3. Agricultural income exceeds ₹5,000.

Step 1	Calculate tax on total income including agriculture income	-
Step 2	Calculate tax on (Basic Exemption Limit + Agriculture Income)	-
Step 3	Tax Payable Before Rebate u/s 87A or Surcharge (Step2 – Step3)	-
Step 4	Apply Rebate u/s 87A or Surcharge if TI exceeds 50 lacs	-
Step 5	Levy 4% HEC	-
	Tax Liability	-

First 3L —
Next 4L × 5% 20000
Next 3L × 10% 30000
Next 2L × 15% 30000
Next 3L × 20% 60000
15L 140000

Example 1.

Ramu is a residential individual of age 25 years. He has earned following income during PY 2024-25 :-

Income from House Property = ₹7,50,000

Agricultural Income = ₹5,00,000

Compute his Tax Liability for AY 2025-26

Example 2. = old regime → BEL = 2.5L

Mr. X is a residential individual of age 30 years. He has earned following income during PY 2024-25 :-

Income from Salary = ₹5,50,000

Income from House Property = ₹3,50,000

Agricultural Income = ₹4,50,000 —

Deduction u/s 80c-80U = ₹1,00,000 —

Compute his Tax Liability for AY 2025-26

Computation of TI

Sal.	5,50,000
HP	3,50,000
GTI	9,00,000
(-) Ded	1,00,000
TI (Non Ag. Inc)	8,00,000

Example 3.

Mr. X is a residential individual of age 30 years. He has earned following income during PY 2024-25:-

Income from Salary (Computed) = ₹5,00,000

LTCG u/s 112 = ₹4,00,000 (After)

Income from House Property = ₹2,00,000

Agricultural Income = ₹1,50,000 ←

Deduction u/s 80c-80U = ₹1,00,000 ← Not Allowed

Compute his Tax Liability for AY 2025-26 as per New Regime

Computation of TI

Salary	5,00,000
HP	2,00,000
LTCG 112 (After)	4,00,000
GTI	11,00,000
(-) Ded	—
TI (N.A.I)	11,00,000

SI 4L — NI 7L

Example 4.

Compute the tax liability of a residential individual having following income during PY 2024-25:-

(a) Agricultural Income = ₹1,50,000

(b) Non-Agricultural Income = ₹11,00,000

3000 Qt

FMV	15L
(-) Cultiv. $\frac{6L}{5000} \times 3000$	3.60L
	11.40L Ag. Inc.

Chips

SV	35L
(-) Pot	15L
(-) Other	15L
NAI	5L

Example 5.

Mr. Mukesh has cultivated 5,000 quintal of potatoes in his Farm. Cost of cultivation was ₹6,00,000 for the same. He sold 2,000 quintal of potatoes at the rate of ₹10,00,000 and transferred rest 3,000 quintal of potatoes to his chips factory. He has incurred processing cost of ₹15,00,000 and sold the Potato chips at ₹35,00,000. Compute his income from agriculture and business activities. FMV of 3000 Qt = 15L

5000 — 2K Qt Sell ⇒ Ag. Income = Sale Value = 10,00,000

(-) Cult. Cost $\frac{6L}{5000} \times 2000$ = 2,40,000

7,60,000 Ag. Income

Illustration 1. — old / New.

LTCG 112   STCG 111A

Compute tax liability. Business Income ₹ 9,00,000; LTCG ₹ 3,00,000. STCG STT 50,000, [redacted]
Lottery income ₹ 40,000. Deduction u/s 80C 1,00,000, Agricultural Income ₹ 1,50,000

Illustration 2. → old

Mr. X, a resident, has provided the following particulars of his income for the Previous year 2024-25.

(i) Income under the head salary ₹ 3,40,000

(ii) Income under the head house property ₹ 3,00,000

(iii) Agricultural income from a land in Jaipur ₹ 1,80,000

(iv) Expenses incurred for earning agricultural income ₹ 1,20,000

Net Ag. Income
60,000.

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

Illustration 3. → Hw.

Mr. X grows sugarcane and uses the same for the purpose of manufacturing sugar in his factory. 30% of sugarcane produce is sold for ₹ 10 lacs, and the cost of cultivation of such sugarcane is ₹ 5 lacs. The cost of cultivation of the balance sugarcane (70%) is ₹ 14 lacs and the market value of the same is ₹ 22 lacs. After incurring ₹ 1.5 lacs in the manufacturing process on the balance sugarcane, the sugar was sold for ₹ 25 lacs. Compute Mr. X's business income and agricultural income and also compute Tax Liability

Illustration 4.

Mr. X is engaged in growing and manufacturing of rubber. These are then sold in the market for ₹ 30 lacs. The cost of growing rubber plants is ₹ 10 lacs and that of manufacturing rubber is ₹ 8 lacs. Compute his total income

Old
- Ass. = Ind ✓
- N.A.I > BEL = ✓
- A. > 5000 = ✓

Sale	30,00,000
(-) Cultivation	10,00,000
(-) Rubb. Mfg	8,00,000
Profit	12,00,000

Ag.	Non Ag. Income
65%.	35%.
7,80,000	4,20,000

New.
- Ind.
- NAI > BEL
- AI > 5K