AGRICULTURAL INCOME AND IT’S TAXATION

1. **BASIC**: Agricultural income is exempt from tax u/s 10(1) of the income tax act, 1961. However for computing tax on non agricultural income, agricultural income is added to non agricultural income and tax is determined as per provisions indicated in the subsequent Paragraphs.

2. **MEANING OF AGRICULTURAL INCOME**: Agricultural income includes:
   a) Rent or revenue derived from land (Para 4)
   b) Income derived from such land by way of agriculture or forming process of marketing process by way of sale of such produce. (Para 5)
   c) Income from a farm building. (Para 6)

3. **NECESSARY CONDITIONS FOR INCOME TO BE AGRICULTURAL INCOME**: 
   a) Income should be derived from land
   b) Land must be situated in India
   c) Land must be used for basic operations of agriculture. Land may also be used for subsequent operations but such subsequent operations can only be with conjunction or together with the basic operations. These are what are called as agricultural operations and classified into basic and subsequent operations.
   d) **INCOME FROM A NURSERY**: It is always exempt.

4. **RENT OR REVENUE FROM LAND**: Any rent or revenue whether in kind or in cash derived from land situated in India which is used for agricultural processes as indicated above is wholly exempt from tax.

5. **INCOME DERIVED FROM AGRICULTURAL PRODUCE AND MARKETING PROCESSES**: Any income derived by cultivator or receiver of rent in kind from agriculture by sale of agricultural produce on which necessary operations (may be or may not be needed) are carried on to render the produce fit for consumption and taking it to market is called as agricultural income. Such income is exempt from taxation. However in case operations performed are not in the nature as mentioned above, income has to be separated so as to compute tax on non-agricultural income. The operations mentioned above are called as agricultural or marketing operations.

6. **INCOME FROM FARM BUILDING**: 
   a) Farm house situated in India
   b) In immediate vicinity of land used for agricultural purposes
   c) Is occupied by cultivator or receiver of rent in kind
   d) Land used as dwelling house, store house or other out building.
   e) Land is assessed to land revenue at local rates, if not subject to land revenue, it is not situated in urban areas.
f) However if land is used for any other purpose other than those mentioned in (d) it would not be deemed to be agricultural income.

7. **WHEN AGRICULTURAL INCOME CONSISTS OF BOTH AGRICULTURAL AND NON-AGRICULTURAL INCOME:**

   a) For disintegrating agricultural and non-agricultural income, following rules are applicable:

<table>
<thead>
<tr>
<th>PARTICULARS</th>
<th>AGRICULTURAL INCOME</th>
<th>NON-AGRICULTURAL INCOME</th>
</tr>
</thead>
<tbody>
<tr>
<td>IN CASE OF RUBBER</td>
<td>65%</td>
<td>35%</td>
</tr>
</tbody>
</table>
   | IN CASE OF COFFEE:-
     • If only grown and cured | 75%                  | 25%                     |
     • In case of further processes after curing | 60%                  | 40%                     |
   | IN CASE OF TEA   | 60%                  | 40%                     |

   **Note:** In all these cases income is first computed as if nothing is exempt

   b) In any other case, rule 7 is applicable which states that for disintegrating composite agriculture and non-agriculture income, market value of agriculture produce shall be deducted from total turnover as total expense till agricultural stage and no other expense on this account shall be allowed till this stage.

   And for computing agricultural income, deduct expenses till this stage from FMV of agricultural produce transferred.

   **Example:**
   - Total turnover is 30 crores
   - Agricultural expenses are 5 crores
   - Manufacturing expenses are 10 crores
   - FMV of agricultural produce is 10 crores
   - Therefore, total non agricultural income is turnover less FMV of agricultural produce less manufacturing expenses which comes out as 10 crores and total agricultural income can be computed as FMV of agricultural produce less agricultural expenses which comes out as 5 crores.

8. **COMPUTATION OF TAX ON NON-AGRICULTURAL INCOME WHEN INCOME HAS AGRICULTURAL INCOME ALSO:**

   - Though agricultural income is exempt from tax,
however there is special method of partial integration applicable for computing tax on non-agricultural income. This method is applicable only when:

- Non-agricultural income exceeds maximum amount non chargeable to tax i.e. the exemption limit
- Net agricultural income exceeds Rs. 5000

**CALCULATION OF TAX IS DONE IN THE FOLLOWING MANNER:**

**STEP 1:** Add agricultural income to non-agricultural income and calculate tax as if this is total income.

**STEP 2:** Add agricultural income to maximum amount non-chargeable to tax and calculate tax as if this is total income.

**STEP 3:** Deduct tax computed in step 2 from tax computed in step 1.

The amount so computed is the actual tax payable.

**STEP 4:** Add surcharge, education cess and secondary and higher education cess.