

## Chapter – Assessment of Agriculture Income

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❖ **DEFINITION**;- Under section 2(1A) of Income Tax Act 1961: “agricultural income” means:

- a. Any rent or revenue derived from land which is situated in India and is used for agricultural purposes, or
- b. Any income derived from land by:
  1. The performance by a cultivator or receiver of rent-in-kind, of any process ordinarily employed by a cultivator or receiver of rent-in-kind to render the produce raised or received by him, fit to be taken to the market; or
  2. The sale by a cultivator or receiver of rent-in-kind in respect of which no process has been performed other than a process described in the above paragraph; or
  3. Any income derived from any building or occupied by the receiver of rent or revenue of such land, or occupied by the cultivator or the receiver of rent-in-kind of any land with respect of which or the produce of which any process mentioned in (2) and (3) above is carried on, provided the following two conditions are fulfilled:
    - A. The building is situated on or in the immediate vicinity of the land and is a building which the cultivator or the receiver of rent-in-kind requires as dwelling house or as a store-house or other out-building. The house must be needed by reason of its connection with land; and
    - B. The land is either assessed to land revenue in India or is situated to a local rate assessed and collected by the officers of the Govt. as such.

Where the land is not so assessed to land revenue or subject to a local rate, it must to be situated:

1. In any area which is comprised within the jurisdiction of a municipality etc., or a cantonment board having a population of 10,000 or more as per last census.

❖ **TEST TO DETERMINE AGRICULTURAL INCOME**:-

Test (a) – Income derived from land

Test (b) – Land is used for agricultural purposes

Test (c) – Land is situated in India

❖ **AGRICULTURAL INCOME – ITS TYPES**:-

- 1) **ANY INCOME RECEIVED AS RENT OR REVENUE FROM AGRICULTURAL LAND**:- When the owner of land is not performing agricultural operations himself but gives his on contract basis, any amount received from the actual cultivator by the owner of the land shall be agricultural income.
- 2) **INCOME DERIVED FROM AGRICULTURE**;- Income derived from land situated in India by applying agricultural operations shall be agricultural income. If all the basic operations like preparation of land for sowing, planting, watering, harvesting

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etc. are applied any income resulting from such operations shall be agricultural income.

3) **ANY INCOME ACCRUING TO THE PERSON BY THE PERFORMANCE OF ANY PROCESS TO RENDER THE PRODUCE MARKETABLE:** - Following points are to be noted in this connection:

- a. The process must be one which is ordinarily employed by the cultivator.
- b. The process is employed to render the produce fit to be taken to be market.
- c. The produce must retain its original character in spite of process unless the produce is having no market if offered for sale in its original condition.

This can further be elaborated with following examples:

**EXAMPLE:-** Tobacco leaves need to be dried to make them suitable for the market and thus profit earned by selling dried tobacco shall be agricultural income.

4) **ANY INCOME RECEIVED BY THE PERSON BY THE SALE OF PRODUCE RAISED OR RECEIVED AS RENT-IN-KIND:-** Any income derived by any person by the sale of agricultural produce raised by him or received as rent-in-kind shall be agricultural income.

5) **INCOME FROM BUILDINGS USED FOR AGRICULTURE:-**

- a. The building from where the income is received, is in the immediate vicinity of the land and is occupied by the owner, or by the receiver of rent-in-kind.
- b. Building is used as a dwelling house or a store house or other out-building.
- c. The land if assesses to land revenue in India or is subject to a local rate assessed and collected by officers of the govt. and in case the land is not assessed to land revenue or to local rate, it should not be situated within the urban areas.

### **RULE 7 – GENERAL RULE (APPLICABLE TO ALL EXCEPT TEA, COFFEE AND RUBBER)**

As per Rule 7, while calculating non-agricultural income, the market value of the agricultural produce raised by the assessee or received as rent-in-kind and utilized as raw material, will be deducted out of the total profits (composite income) of such assessee and not the actual cost of cultivator. However, difference between the market value of such produce (used as raw material) and the cost of cultivator shall be treated as agricultural income. Then

a. **Non-agricultural Income = Sale proceeds of Industrial Product – M.V. of agricultural used as raw material – Industrial Expenses**

**Note.** Cost of cultivation is not to be charged as expenses.

b. **Agricultural Income = M.V. of Agricultural produce used as raw material – Cost of cultivation**

### **RULE 7A – GROWING AND MANUFACTURING OF RUBBER IN INDIA**

India derived from the sale of centrifuged latex or cenex based crops.

In other words, first of all, Total income / Composite Income shall be calculated as follows:

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Composite income or total income = Sale proceeds of Rubber (i.e. Agricultural Expenses)

- Cost of cultivator
- Industrial expenses

Now, agricultural income = 65% of composite income

And non-agricultural income = 35% of composite income

Then, 35% of total income of such rubber industries will be chargeable to tax under the head 'Profit and Gains of Business or Profession'.

### **RULE 7B – GROWING AND MANUFACTURING OF COFFEE IN INDIA**

#### **CASE I. IF COFFEE IS GROWN AND CURED BY SELLER (RULE 7B(I))**

Agricultural income = 75% of composite income

Non-agricultural income = 25% of composite income

Thus, 25% of total income of such coffee industries will be chargeable to tax under the head 'Profits and Gains of Business or Profession'.

#### **CASE II. IF COFFEE IS GROWN, CURED, ROASTED AND GRINDED BY THE SELLER WITH OR WITHOUT MIXING CHICORY OR OTHER FLAVOURING INGREDIENTS, {RULE 7B(IA)}**

Agricultural income = 60% of composite income

Non-agricultural income = 40% of composite income

Thus, 25% or 40% (as the case may be) of total income of such coffee industries will be chargeable to tax under the head 'Profits and Gains of Business or Profession'.

### **RULE 7 – GROWING AND MANUFACTURING OF TEA IN INDIA**

As per rule 8, in such a case, first to all, composite income shall be calculated as follows:

Composite income / total income = sale proceeds of Tea (i.e., Industrial Product) – Cost of cultivation (i.e., agricultural expenses) – Industrial expenses

Note. M.V. of tea leaves is not to be deducted as cost.

Now, agricultural income = 60% of composite income

Non-agricultural income = 40% of composite income

### **PARTLY AGRICULTURAL AND PARTY BUSINESS INCOME**

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Crop	Rule	Agricultural Income	Business Income
Growing and manufacturing of Tea	8	60%	40%
Rubber manufacturing business	7A	65%	35%
Coffee grown and cured by seller	7B(I)	75%	25%
coffee grown, cured, roasted and grounded by the seller in India with or without mixing chicory or other flavouring ingredients	7B(IA)	60%	40%

### ❖ ASSESSMENT OF AGRICULTURAL INCOME;-

#### What to integrate?

- Non-agricultural Income.** It is the computed total income of assessee as per the provisions of income tax act, 1961.
- Non agricultural income.** It is the agricultural income computed in accordance with the rules laid down under section 2(1A) of the income tax act, 1961 and rules 7 and 8 of the income tax rules 1962.

#### When to integrate?

- Integrate is done only in case of (i) Individuals (ii) Hindu Undivided Families (iii) Association of Persons (iv) Bodies of individuals and (v) Artificial juridical persons.
- Integration is done only if non agricultural income of all persons mentioned above exceeds exempted limits, (i.e., Rs. 2,50,000 in case of an individual, whether a male or a female, Rs. 3,00,000 in case of a resident senior citizen of 60 years or more but below 80 years and Rs. 5,00,000 in case of resident individual of 80 years or more) in the relevant previous year.
- Integration is done only if Net agricultural income of all these persons exceeds Rs. 5,000 in the relevant previous year.

#### When to integrate?

- Integration is not done in case of (i) firms (ii) companies (iii) co-operative societies (iv) local authorities.
- No integration if non-agricultural income of all persons mentioned earlier does not exceed Rs. 2,50,000 / Rs. 3,00,000 / Rs. 5,00,000 (as the case may be) in the relevant previous year.
- No integration if the net agricultural income does not exceed Rs. 5,000 in the relevant previous year.

#### How to integrate?

- Net agricultural income is added with the non agricultural income of conditions given above are fulfilled.
- Tax is calculated on this total at current rates of tax.

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- c. Net agricultural income is added with the exempted limit, i.e. Rs. 2,50,000 / Rs. 3,00,000 / Rs. 5,00,000 (as the case may be)
- d. Tax is calculated on this total at current rates of tax.
- e. Tax calculated at point (4) is deducted out of tax calculated at point (2) above.
- f. Add: Surcharge @ 15% of tax if total income exceeds Rs. 1 crore.
- g. Add: Education cess 2% + Secondary and Higher Education cess @ 1% of such tax + surcharge, if any.
- h. Total is tax payable.
- i. Tax payable to be rounded off to the nearest multiple of Rs. Ten.

### ❖ FOR EXAMPLES:-

- 1) Calculate tax of H.V.F. whose total income is Rs. 4,94,000 and net agricultural income is Rs. 50,000.

First of all net agricultural income is added with non agricultural income to find total income.

i.e. Rs. 50,000 + Rs. 4,94,000

Rs. 5,44,000

- 2) Tax is calculated on this total at current rate.

First 2,50,000 – Nil

Next 2,50,000 – 25,000

@ 10%

And 44,000

@ 20% - 8,000

Total 33,800

- 3) Add net agricultural income with exempted limit.

i.e. 2,50,000 + 50,000

= Rs. 3,00,000

- 4) Calculate tax on this total at current rates.

First 2,50,000 – Nil

At 50,000

@ 10% - 5,000

- 5) Deduct tax calculates at point 4 from 2.

i.e. 33,800 – 5,000 = 28,800

Add: education cess 2% 576

Secondary and higher education cess 21% 288

Total tax payable 29,664