Agriculture Income

Durga Mahavidyalaya
Dr.Divya Shukla
Commerce Department

Agricultural Income

Agriculture, alongside its allied sectors, exists as one of the largest sources of livelihood in India. Figures ascertained by the *Food and Agriculture Organisation (FAO)* indicate that agriculture still serves as a primary source of income for about 70% of the Indian rural households. The government, therefore, endeavours to boost this sector by means of schemes, policies, and tax exemptions for agriculture Income.

What is Agricultural Income?

Agricultural income refers to the income earned or revenue generated from sources essentially premised on agricultural activities. These sources of income include farming land, buildings on or identified with agricultural land as well as commercial produce from a horticultural land.

Section 2(1A) of the Income Tax Act, 1961, lays down the definition of 'agricultural income' under the following three activities:

Section 2(1A) of the Income Tax Act, 1961, lays down the definition of 'agricultural income' under the following three activities:

- Rent or revenue derived from agricultural land situated in India and used for agricultural purposes.

- Income earned from agricultural land through the commercial sale of produce gained from this land.
- Revenue derived from renting or leasing of buildings in or around agricultural land. However, this criterion is subject to the following conditions:
- This building should be occupied by a farmer or cultivator through revenue or rent.
- It is used as a residential space, warehouse/storeroom, or outhouse.
- The land on which this building is located is assessed for land revenue or a local rate evaluated and collected by government officers.

Categorising a particular amount earned as agricultural income takes into account several other factors, such as:

- The income earned should be from an existing piece of land.
- Rent or revenue from the agricultural land and income earned by a cultivator through the sale of produce should be based on agricultural operations on a piece of land. Alongside income from agricultural operations, the ambit of also includes operations undertaken to make produce marketable.
- The income should be generated by way of cultivation of land. covers all land produce such as grain, fruits, commercial crops, etc. However, it does not include using a piece of land for poultry farming, breeding of livestock, dairy farming, and the like.
- In the case of agricultural operations, the law does not necessitate the cultivator to be the owner of the land in question. However, in the case of rent or revenue, it is essential that an individual possesses an interest in the land, either as an owner or a mortgagee.

Types of Agricultural Income

The table below summarises the different types of agricultural income:

Rent or revenue generated from a piece of land.	Income derived from agricultural operations.	Income from a building attached to agricultural land.
Rent received by an owner of the land from the cultivator in cash or in-kind.	Income earned by a cultivator by way of sale of his/her produce.	Rent received on a building used as a warehouse by a cultivator.

Agricultural Income in Income Tax

Under Section 10(1) of the ITA, 1961, agricultural income is exempt from taxation. This exemption implies that the Central Government does not impose or levy any tax on agricultural income.

However, agricultural income tax persists at the state level. The legislature uses a method called *partial integration of agricultural income with non-agricultural income* to tax such earnings. This method is applicable when the conditions mentioned below are met by an individual:

- Net agricultural income was more than Rs. 5,000 in the previous financial year.
- Total income, minus this net agricultural income, is higher than the exemption limit of Rs. 2,50,000 for individuals below 60 years of age, Rs. 3,00,000 for senior citizens and Rs. 5,00,000 for super senior citizens.

Calculation of Agricultural Income Tax

When the aforementioned criteria are met by an individual, his/her tax on agricultural income is computed using a three-step calculation:

Step 1: Evaluating tax on non-agricultural income + net agricultural income.

Step 2: Calculation of tax on net agricultural income + maximum exemption limit as per slab rates.

Step 3: Calculation of the final tax as a difference of the figures derived in Steps 1 and 2. This step derives the following –

- Deduction of a rebate, if available.
- Addition of surcharge, if applicable.
- Addition of Health and Education Cess.

The example discussed below provides a detailed explanation of this process –

An individual taxpayer aged 50 years earns Rs. 3,00,000 in agricultural income. Her non-agricultural income is worth Rs. 5,00,000. Therefore, her agriculture income tax for the FY is calculated as follows:

Evaluating tax on non-agricultural income + net agricultural income, i.e., Rs. 8,00,000 (Rs. 3,00,000 + Rs. 5,00,000) Tax on the first Rs. 2,50,000 = Nil

Tax on the second Rs. 2,50,000 = Rs. 2,50,000 x 5% = Rs. 12,500

Tax on balance Rs. 3,00,000 = Rs. 3,00,000 x 20% = Rs. 60,000

So, the total tax on non-agricultural income + net agricultural income is Rs. 72,500. (1)

Calculation of tax on net agricultural income + maximum exemption limit as per slab rates, i.e., Rs. 5,50,000 (Rs. 3,00,000 + Rs. 2,50,000)Tax on the first Rs. 2,50,000 = Nil

Tax on next Rs. 2,50,000 = Rs. 2,50,000 x 5% = Rs. 12,500

Tax on balance Rs. 50,000 = Rs. 50,000 x 10% = Rs. 10,000

So, the total tax here stands as Rs. 22,500. (2)

Calculation of the final tax as a difference of the figures derived in Step 1 and 2. The difference between (1) and (2) is Rs. 50,000 (Rs. 72,500 – Rs. 22,500).

So, final tax = Rs. 50,000

(+) Health and Education cess @ 4% = Rs. 2000

Therefore, her total tax liability amounts to Rs. 52,000.