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Indian Agricultural Income – A Major Portion of The Indian Economy

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Abstract

We all know that the Indian economy is a combination of diverse activities. Agriculture is one of the important parts of the Indian economy. It is considered as the backbone of the Indian economy and presently top two farm-producing activities in the world. As per Food and Agriculture Organization (FAO), agriculture still serves as a primary source of income for about 70% of the Indian rural households. This sector provides approximately 55% of employment in India and contributed a 20.2% share of the national income and GDP of India. Agriculture is the only means of livelihood for almost two-thirds of the classes in India. Income earned from agriculture is under the jurisdiction of state governments and it is exempted from tax. States are responsible for the taxation of agricultural income in India, as the seventh schedule, entry 46 in the state list mentions taxes on agricultural income. The reason why agriculture income is exempted from tax is that most of the farmers in India are from low-level groups of income . But one of the major issues is that how far this exemption is justifiable as a rich class farmer and agricultural companies having crores of turnover reaping the benefit of it. They started to evade tax but in order to protect against this evasion Income Tax Act, 1961is came into effect. In recent times, taxation of agricultural income as a subject of study has drawn special attention from academicians. In order to promote agriculture in India, the central government of India has taken many measures and launched schemes, loan concessions, exemptions and benefits for farmers.

Keywords

Backbone, livelihood, jurisdiction.

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Introduction

According to the Section 2(1A)of the Income Tax Act,1961, agriculture income means:

Agriculture Income

1. Any income received from a piece of land situated in India
2. Income from land should be generated through agricutural activities or the income derived by the cultivator or reciever of rent for making the produce ready to sale in the market
3. Any income from a farm house and farm building

If the following condition is satisfied the income from land is treated as agricultural income:

The land must be situated in India. If the land is situated outside India, the income from such land will not be treated as agricultural income.

Land must be used for agricultural purposes, it means tilling of land, watering it, sowing of the seeds, planting and similar operations on the land must be carried out by the assessee.

The receiver of income from the land must have an interest in the land if the bison budget extends crop and later on after cutting it, then selling it in the market makes a profit from it then the said profit is not an agricultural income.

The direct income related to agriculture is treated as agricultural income. But indirect income is not an agricultural income like a dividend from a company, manager salary of a farmhouse, etc.

Examples of Agriculture Income

The compensation received from an insurance company for damaged crops.

Income from the sale of replanted trees.

Income from growing flowers and creepers.

Income from letting out tea estates.

Income is derived from the sale of seeds.

Interest received by a partner from a firm engaged in agricultural operations.

Interest in leasing out agricultural land.

Kinds of Agricultural Income

Rent or Revenue Derived From Land

Agriculture income can be used by farmers in different ways. One common way is when one person gives the right to use his land to another person for agricultural purposes then the former receives rent or revenue in consideration of such use then such rental revenue is treated as agricultural income.

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Income from Carrying Out Agricultural Activities on Land

Income from any agricultural activities like the cultivation of land, sowing of seed, tilling of the land, weeding, plowing, and watering on land by any person will be an agricultural income.

Income from Activity Which is Carried Out to Make Agricultural Produce Ready to Sell in The Market

Where the cultivator or receiver of the rent or any other interested person performs any activity to make the agricultural produce fit for selling in the market any income derived from such activity is considered as an agricultural income.

Income from Farmhouse

The income from the farmhouse shall be treated as agriculture income if the following condition is satisfied-

The building is owned and occupied by the cultivator or receiver of rent or revenue of any such land.

It is situated on or in the immediate vicinity of the agricultural land.

Revenue or any other tax is levied or charged on such land by the government officials. If it is not levied then such land should be situated outside the city limits i.e., such land should be at a place having a population of less than 10000, And it should be 8 km away from the limits of any such municipality or cantonment board.

The land is situated in an urban area and is either assessed to land revenue in India or is subject to a local assessment and collected by the officers of the government.

Other Agricultural Income

Apart from the above, the following incomes are treated as agricultural income:-

Income of rent from a land used for grazing of animals used in agricultural activities.

If a land is mortgaged as security against a loan, then the rent from such land is used for agricultural purposes by the mortgagers.

Income from horticulture or floriculture.

Income from the sale of wood or fruits etc. obtained from the forest cultivated by the assessee.

Interest on capital and remuneration to partners of a firm engaged in agricultural activities.

Amount received from insurance companies for reimbursement of loss suffered due to hail storms or any other reason.

Non – Agricultural Income from Land

Income from trees that have grown on their own.
Income from poultry farming.
Income from fisheries.
Income from the royalty of mines.
Income from dairy products such as butter, cheese, etc.
Interest is received in the form of produce (crop) by the money-lender.
Income from growing water fruits in a pond.
Remuneration received by the manager of an agricultural farm.
Income from dairy farming.
Income from selling soil (clay) of the agricultural land.
Income on purchasing a standing crop.
Income from stone quarries.
Income from supplying water for irrigation.
Income from land used in brick kiln.
Income from self-grown grass, trees, or bamboo.
Dividend from a company engaged in agriculture.
Income of the buyer of a ripe crop.
Income from the upkeep of the nursery.
Income from the sale of jaggery made from sugarcane produced.
Income from film shooting in the farmhouse.

Partly Agricultural Income

Partly agricultural income means when an agricultural product is produced by a person or a company through a primary activities and then uses that produce as raw material to produce another product by involving secondary type of activities like automobile production, manufacturing activities, etc. and receives income by selling the product then part of such income which include primary activities is agricultural income and the rest is non-agricultural income. For example, growing sugarcane to produce sugar, tea leaves to produce tea, etc.

Example - 1

Mr. Ramdas is the owner of an agricultural land situated in India and produces sugarcane by spending Rs.150000. further, he set up an industrial undertaking to manufacture sugar from sugarcane. Accordingly, he uses the whole quantity of sugarcane and spends Rs. 200000 as industrial expenses. He ultimately sells sugar so produced for Rs. 500000.

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In this case, the total income of Mr. Ramdas shall be calculated as follows:

Total Income = sale proceeds of sugar -- the cost of cultivation-- industrial expenses

= Rs. (500000—150000—200000) = Rs. 150000.

The above total income of Mr. Ramdas is the composite income comprising of agricultural income . the income attributable to agricultural operations (i.e., raising of the sugarcane) is an agricultural income. And the income attributable to industrial operations (i.e., manufacturing of sugar from sugarcane) is non-agricultural income.

It is necessary to separate agricultural income and non-agricultural income because agricultural income is tax-free while the non-agricultural part of composite business income is taxable under the head "Profits or Gains of Business and Profession". Therefore, if agricultural income is not separated from the non-agricultural part, then it would lead to the wrong assessment of the Net Taxable Income and Tax Liability of the assessee.

Important Rules of The Income – Tax Act for Assessing Agriculture and Non – Agriculture

Items	Agricultural Income	Non -Agricultural Income
1 Growing, Manufacturing and Sale of Tea.	60%	40%
2 Sale of Coffee Grown and Cured by the seller.	75%	25%
3 Sale of Coffee Grown, Cured, Roasted and Grounded	60%	40%
4 Sale of Centrifuged Latex or Conex.	65%	35%
5 Using one's own agricultural produce for one's own manufacturing purpose.	**The market value of agricultural produce minus the cost of agricultural produce.**	**Total profit of related business minus the market value of the agricultural produce.**

Rules for Ascertaining The Amount of Party Agricultural Income

In Case of Profit to Sugar Mills and Other Such Industries

This rule applies to sugar mills, oil mills and other such producers who use self-grown agricultural produce asraw material to produce other goods and sell such goods. According to this rule, agricultural income is to be calculated as the market value of agricultural produce. The balance amount is measured as after deducting the market value of agricultural produce from the total sale value is the non-agricultural part of the income.

But no expenses related to agriculture are deducted.

Agricultural Income-market value of the agricultural produce.

Market Value of the Agricultural Produce- expenses related to agriculture + rent of land + reasonable share in the profit.

Non-agricultural Income-Total sale value – the market value of the agricultural produce.

Determination of Market Value of Agricultural Produce

In order to determine the market value of agricultural produce, the following points should be noted-

Where the agricultural produce is generally sold in the market round the year, the market value shall be calculated on the basis of the average selling price for whole year of the produce.

Where the agricultural produce is not generally sold in the market the total of the following amounts shall be deemed to be the market value of the produce:

The expenses of cultivation.

The land revenue or rent of the agricultural land.

A reasonable amount of profit in the opinion of an income tax officer.

Agricultural Income and Tax Liability

As per Section 10(1) of the Income Tax Act, 1961 the agriculture income is not liable to tax. the agriculture income was fully exempt from income tax up to Assessment year 1973-74. But from the assessment year 1974-75, the agriculture income is added with non-agriculture income for the purpose of calculation of income tax, in the case of individual and Hindu undivided families. if the following two conditions are satisfied, the agriculture income will be added to non-agriculture income and 'aggregate income tax' will be calculated on the 'aggregate income' and then income tax on agricultural income will be deducted from the 'aggregate income tax'.These two conditions are as follows-

If the taxable income (other than agriculture income) of an individual or HUF is more than the basic exemption limit. For Assessment year 2022-23 the maximum exemption limit is as follows-

A) for individuals below 60 years of age – Rs. 250000

B) for individuals between 60-80 years of age- Rs. 300000

C) for individuals above 80 years of age- Rs. 500000

2. Assessee's net agricultural income is greater than Rs. 5000 during the year.

How Much Agricultural Income is Exempt from Income Tax?

There is a complete exemption from tax on agricultural income in these cases-

If the agricultural income is less than Rs. 5000;

If agricultural income is the only source of income e.g., no other income;

When total income (agricultural income+ other income) is less than the basic exemption limit.

But in case, your agricultural income exceeds Rs. 5000 and you have other source of income too, then, the tax liability for that year is to be calculated as follows-

Compute income tax on the aggregate income (i.e., agricultural income + other income) as per the prevailing income tax rates. '………………..(1)'

Compute income tax on the sum of the amount of basic exemption limit plus agricultural income as per prevailing income tax rates. '…………….(2)'

Now, compute (1) – (2) to arrive at the tax liability for the year.

How to Show Agricultural Income in Tax Returns?

Agricultural income in ITR 1 is to be shown under the column of agricultural income. But ITR 1 can only be used for the agricultural income is up to Rs 5000. In case the said income exceeds this limit form ITR 2 is required to be filled.

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