

What is agriculture income, different types of Agriculture Income?

Agricultural income is exempted from tax under the Income-tax Act, 1961. It is important to note that income from allied agricultural activities like poultry farming, wool rearing, etc. are not considered as agricultural income. Hence, tax may be levied on incomes from such activities. However, many states levy a tax on agricultural income as per their respective State's policy.

What is agriculture income

The income tax Act defines agricultural income as the total revenue generated by an individual or entity from performing various agricultural activities on agricultural land.

According to section 2(1A) of the income tax Act, agricultural income is defined as follows:

- Rent earned from any land in India which is used for agricultural purposes, or
- Any income from production of agricultural goods which cannot be sold without first processing it to make it saleable for the market i.e., these goods cannot be sold raw. For instance, Oats cannot be sold without processing (removal of husk).
- Any income from growing and selling agricultural produce on agricultural land. For instance, revenue from the sale of tomatoes grown on agricultural land.

Any income from a building, such as a farmhouse, hut, etc situated on agricultural land or in a specified agricultural area that is needed for agricultural purposes. "The building should be in the immediate vicinity of the agricultural land and is primarily used for agricultural activities. Further there is a need for the building to be used for performing agricultural activities. If the building is not required for the purpose of agricultural operations, then income from that building is not an agricultural income. The income generated from such a building is exempt from tax if it meets certain criteria as defined in section 2(1A)," says Abhishek Soni, founder, Tax2Win, a tax filing platform.

The building should be situated in the specified area mentioned in the table below to be eligible as an agricultural building:

| Aerial distance from the municipality | Population |
|---------------------------------------|-----------------------|
| Within 2 km | 10,000 to 1,00,000 |
| Within 6 km | 1,00,001 to 10,00,000 |
| Within 8 km | > 10,00,000 |

Source: Tax2Win

State vs Central government taxation of agriculture income

When it comes to taxation of agricultural income, the Union and State lists have explicitly laid out the powers and functions of the Centre and the State governments. Taxes on agricultural income fall under Entry 46 in the State List. Thus, only State Governments can levy tax on agricultural income. The central government can levy tax on incomes other than agricultural income. The Central Government cannot levy tax on agricultural income.

"It is a fundamental rule of law of taxation that income is subject to tax in the hands of the same person only once as per Article 265 of the Constitution of India. So, if a particular income has already been taxed by the State government, then the Central government cannot tax it again," says Rahul Charkha, Partner, Economic Laws Practice, a law firm.

Agriculture income taxation under Income Tax Act

Section 10(1) exempts agricultural income from the ambit of the Income-tax Act. An exemption is available on agricultural income, income from sale of agricultural land, income earned as compensation received from the government for acquiring the agriculture land etc.

State government income tax

Not every state government levies tax on agriculture income. Only a few states in India have legislated special enactments and tax agricultural income. These are: Assam, Odisha, Tamil Nadu, West Bengal, etc. Notably the Government of Kerala repealed their state agricultural Income tax Act on taxation of agricultural income, as per a notification dated January 6, 2023. Tax rates and rules on taxing agriculture income varies for each state. "While staple food grains such as wheat, rice, vegetables etc. are generally exempted from tax, horticulture/ plantations in some States continue to be taxed at high rates as these are seen as commercial crops," says Charkha.

Charkha says that an individual must adhere to their respective state tax laws and deadline to pay the taxes accordingly on agriculture income. The financial year for tax on agricultural income is different for each state.

Tax on commercial crops

"The Income Tax Act defines the percentage of income earned from specified commercial crops (Tea, Coffee and Rubber) exempted. The balance income from commercial crops will be taxable under the Income Tax Act," says Soni.

For example: In the case of tea, 40 % of the total income is classified as taxable income and the remaining 60% is classified as non-taxable agricultural income. An individual has to pay tax at the slab rate applicable to the taxpayer on 40% taxable income. Few state governments in India levy tax on certain commercial crops. In such a case, the central government will not levy the tax on such crops. The list of such crops varies according to the state and so does the tax rate.

How to file ITR in case of agricultural income

"As per Income tax laws, even though agricultural income is exempt from income tax, it is still required to be reported in Income Tax Return (ITR)," says Soni. This reporting in ITR does not

make agricultural income taxable. It is only for transparency and documentation requirements of the law that this must be reported.

Regarding the ITR forms to be used, Soni from Tax2Win says that individuals having agricultural income up to Rs 5,000 must use ITR-1 (Sahaj). If agricultural income is more than Rs 5,000, then ITR-2 form must be used where 'Schedule EI' should also be filled.

Incomes not classified as agricultural incomes as per Income Tax Act

Incomes derived from allied agricultural activities are not considered as agricultural income according to the Income Tax Act. The central government levies tax on income earned from allied activities. Even state governments can levy tax on allied taxes. However, if a state government is levying tax on allied activities incomes, then the central government cannot levy tax on it. It cannot happen that an allied agricultural activity income is being taxed by both state and central governments.

According to Soni, some examples of incomes that are not considered as agricultural income are: income from trading of agricultural goods, income from forestry, rental income from land or buildings not used for agriculture, income from poultry/dairy/livestock farming, etc.

(Source: Economic Times)