

TAXATION OF AGRICULTURAL INCOME

SECTION 2(1A): DEFINITION OF AGRICULTURAL INCOME

“Agricultural income” means—

1. **Any rent or revenue derived from agricultural land.**
2. **Any income derived from such land** by—
 - (i) agriculture; or
 - (ii) Processing of agricultural produce; or
 - (iii) sale by a cultivator or receiver of rent-in-kind of the produce raised or received by him.
3. **Income derived from building on agricultural land.**

Notes:

- a. The building should be on or in the immediate vicinity of the land.
 - b. The building is used by the cultivator or receiver of rent as a dwelling house, or as a store house, or other out building.
 - c. Land should not fall in definition of capital asset i.e. it should be agricultural land situated in rural area.
4. **Any income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income.**

SECTION 10: AGRICULTURAL INCOME EXEMPT FROM TAX

Agricultural income is exempt from tax under section 10. However, for computation of income tax, the agricultural income is aggregated with non-agricultural income if:

- Assessee is an individual, HUF, AOP/ BOI (taxable at normal rates applicable to an individual).
- Assessee has non-agricultural income which exceeds the taxable limit.
- Agricultural income exceeds ₹5,000.

Aggregation of agricultural income with non-agricultural income and computation of income tax:

Step 1	Net agricultural income to be computed as if it were income chargeable to income-tax. In case of an assessee engaged in business of growing and manufacturing tea, 60% of income computed is agricultural income.								
Step 2	Aggregate agricultural and non-agricultural income of assessee and calculate income-tax on aggregate income as if such aggregate income were the total income.								
Step 3	<p>Increase the net agricultural income by the first slab of income on which tax is charged at nil rate i.e. for A.Y. 2023-24, income is to be increased by:</p> <table><tr><th>In case of</th><th>Income to be increased by</th></tr><tr><td>Super-senior resident individual (80 years or more)</td><td>₹5,00,000</td></tr><tr><td>Resident senior citizen (>60 years, <80 years)</td><td>₹3,00,000</td></tr><tr><td>Any other individual/ every HUF</td><td>₹2,50,000</td></tr></table> <p>Note: Where such individual or HUF exercises option under section 115BAC, the income shall be increased by ₹ 2,50,000 for the assessment year.</p> <p>Income-tax is calculated on net agricultural income, so increased, as if such income were the total income of the assessee.</p>	In case of	Income to be increased by	Super-senior resident individual (80 years or more)	₹5,00,000	Resident senior citizen (>60 years, <80 years)	₹3,00,000	Any other individual/ every HUF	₹2,50,000
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Super-senior resident individual (80 years or more)	₹5,00,000								
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Any other individual/ every HUF	₹2,50,000								
Step 4	Reduce the amount of income-tax determined at step 2 by amount of income-tax determined under step 3.								
Step 5	Calculate the balance. Add education cess and secondary and higher education cess.								
Step 6	Amount so arrived is the income-tax payable by the assessee.								

Illustration:

Ankur, the owner of a land situated in Kerala used for growing thereon different types of fruits paddy, vegetables and flowers received from Yahoo Movies Ltd., Chennai an amount of ₹ 5 lacs as rent towards the use of this land for shooting of a film. The amount so received was accounted by him in the books as revenue derived from land and claimed to be exempt under Section 10(1). He now wants to confirm from you that the amount has been correctly treated by him as agricultural income.

Answer:

In case of *B. NAGI REDDY V. CIT [2002] (MAD)*, Madras High Court held that shooting of films is an activity which has absolutely no nexus with agricultural operation or with land excepting that shooting is done on land which may be or has been an agricultural land yielding some agricultural income. It could not be said that the income earned by the assessee by way of shooting-hire charges by permitting the film producers to shoot their films in his garden became agricultural income. Therefore, income earned by assessee was not agricultural income, but it was business income.

Therefore, in the present case, in view of the above decision, the income received from shooting of film shall not be treated as agricultural income and therefore, not eligible for exemption under section 10(1). It shall be taxable as business income in the hands of Ankur.