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Agricultural Income in India: Questions & Answers

Guest
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Agricultural income in India is categorised as a source of income and includes:

- income from sources that comprise agricultural land,
- income from buildings on or related to an agricultural land and
- commercial produce from an agricultural land.

Agricultural income is defined under section 2(1A) of the Income Tax Act and such income earned by a taxpayer in India is exempt under Section 10(1) of the same. Here we list 5 issues related to agricultural income and their answers, along with the relevant case laws.

Whether income derived from sale of forest produce of spontaneous growth is income from agriculture?

Short answer: No

Case: CIT vs. Raja Benoy Kumar Sahas Roy | Supreme Court | Cited 190+ times

Reasoning: The Supreme Court in this case discussed the question of what amounted to carrying out of agriculture. After discussing numerous precedents and authorities, the court observed that agriculture involved certain basic operations which were needed to be carried out on the land for such activity to be categorized as agriculture. Another part involved taking care of produce from the land. While the two activities conjunctively would no doubt amount to agriculture, just the performance of the latter part would not render the activity as agricultural.

“This basic conception is the essential sine qua non of any operation performed on the land constituting agricultural operation. If the basic operations are there, the rest of the operations found themselves upon the same. But if these basic operations are wanting the subsequent operations do not acquire the characteristic of agricultural operations. All these operations no doubt require the expenditure of human labour and skill, but the human labour and skill spent in the performance of the basic operations only can be said to have been spent upon the land. The human labour and skill spent in the performance of subsequent operations cannot be said to have been spent on the land itself, though it may have the effect of preserving, fostering and regenerating the products of the land.”

Whether dividend received as a shareholder of a tea company can be classified as income from agriculture?

Short answer: No.

Case: Mrs. Bacha F. Guzdar vs. CIT | Supreme Court | Cited 118+ times

Reasoning: The court ruled that for income to be called as income from agriculture it had to be revenue derived from land. The court made a pertinent distinction by observing that the right of the shareholder was limited simply to a share in the profits of the company and not ownership of the property of the company. Hence, dividend income, even if it arose out of agriculture, would simply be a share of the profits for the shareholder and hence could not be classified as agricultural income.

“Agricultural income as defined in the Act is obviously intended to refer to the revenue received by direct association with the land which is used for agricultural purposes and not by indirectly extending it to cases where that revenue or part thereof changes hands either by way of distribution of dividends or otherwise. In fact and truth dividend is derived from the investment made in the shares of the company and the foundation of it rests on the contractual relations between the company and the shareholder. Dividend is not derived by a shareholder by his direct relationship with the land. There can be no doubt that the initial source which has produced the revenue is land used for agricultural purposes but to give to the words 'revenue derived from land' the unrestricted meaning, apart from its direct association or relation with the land, would be quite unwarranted.”

Whether interest on money borrowed for purchase of a plantation is allowable as a deduction from agricultural income?

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Short Answer: Yes

Case: State of Madras vs. G.J. Coelho | Supreme Court | Cited 82+ times

Reasoning: The court proceeded on a two-pronged approach to determine the outcome in this case. Firstly, it held that the expenditure incurred by payment of interest was a revenue and not capital in nature and hence would be liable for deduction. Secondly, it would not amount to personal expenditure as even though the obligation to pay was a personal obligation, it was wholly related to the business of the assessee.



“The payment of interest on the amount borrowed for the purchase of the plantation when the whole transaction of purchase and the working of the plantation is viewed as an integrated whole, is so closely related to the plantation that the expenditure can be said to be laid out or expended wholly and exclusively for the purpose of the plantation... No farmer would treat interest paid on capital borrowed for the purchase of the plantation as anything but expenses, and as long as the deductions he claims, apart from any statutory prohibition, can be fairly said to lead to the determination of the true net agricultural income, these must be allowed under the Act. In principle, we do not see any distinction between interest paid on capital borrowed for the acquisition of a plantation and that between interest paid on capital borrowed for the purpose of running an existing plantation; both are for the purposes of the plantation.”

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Whether compensation received for loss of agricultural income can be classified as agricultural income?

Short answer: No

Case: Malabar Industrial Company Ltd. Vs. CIT | Supreme Court | Cited 214+ times

Reasoning: The assessee in this case sold a plantation for which it was to receive regularly scheduled payment. Since the buyer failed to adhere to the schedule, it paid a certain sum of money, allegedly as compensation for loss of agricultural income. The court held that such a statement could not be accepted simply on the basis of a claim made by the assessee. Moreover, the assessee had already stopped agricultural operations on the land and hence the amount could not reasonably be said to be compensation for loss of agricultural income.

"In the instant case, the Commissioner noted that the Income-tax Officer passed the order of nil assessment without application of mind. Indeed, the High Court recorded the finding that the Income-tax Officer failed to apply his mind to the case in all perspective and the order passed by him was erroneous. It appears that the resolution passed by the board of the appellant- company was not placed before the Assessing Officer. Thus, there was no material to support the claim of the appellant that the said amount represented compensation for loss of agricultural income. He accepted the entry in the statement of the account filed by the appellant in the absence of any supporting material and without making any inquiry. On these facts the conclusion that the order of the Income-tax Officer was erroneous is irresistible."

How should the court determine whether a piece of land is agricultural land or not?

Case: CIT vs. Siddharth J. Desai | Gujarat High Court | Cited 66+ times

Reasoning: The court determined that the following factors needed to be taken in to consideration while deciding the nature of land –

"(1) Whether the land was classified in the revenue records as agricultural and whether it was subject to the payment of land revenue?

(2) Whether the land was actually or ordinarily used for agricultural purposes at or about the relevant time?

(3) Whether such user of the land was for a long period or whether it was a temporary character or by way of a stop-gap arrangement?

(4) Whether the income derived from the agricultural operations carried on in the land bore any rational proportion to the investment made in purchasing the land?

(5) Whether, the permission under s. 65 of the Bombay Land Revenue Code was obtained for the non-agricultural use of the land? If so, when and by whom (the vendor or the vendee)?

Whether such permission was in respect of the whole or portion of the land? If the permission was in respect of a portion of the land and if it was obtained in the past, what was the nature of the user of the said portion of the land on the material date?

(6) Whether the land, on the relevant date, had ceased to be put to agricultural use? If so, whether it was put to an alternative

use? Whether such cesser and/or alternative user was of a permanent or temporary nature?

(7) Whether the land, though entered in revenue records, had never been actually used for agriculture, that is, it had never been ploughed or tilled? Whether the owner meant or intended to use it for agricultural purposes?

(8) Whether the land was situate in a developed area? Whether its physical characteristics, surrounding situation and use of the lands in the adjoining area were such as would indicate that the land was agricultural?

(9) Whether the land itself was developed by plotting and providing roads and other facilities?

(10) Whether there were any previous sales of portions of the land for non-agricultural use?

(11) Whether permission under s. 63 of the Bombay Tenancy and Agricultural Lands Act, 1948, was obtained because the sale or intended sale was in favour of a non-agriculturist? If so, whether the sale or intended sale to such non-agriculturist was for non-agricultural or agricultural user?

(12) Whether the land was sold on yardage or on average basis?

(13) Whether an agriculturist would purchase the land for agricultural purposes at the price at which the land was sold and whether the owner would have ever sold the land valuing it as a property yielding agricultural produce on the basis of its yield?"

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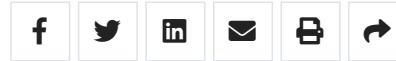
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