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# Taxation of Agricultural Income



# Taxation of agricultural income: An overview

## What is "Agricultural Income"?

Agricultural income may arise in any one of the following three ways:

- ▶ Rent or money earned from farmland in India that's used for growing crops or other farming activities.
- ▶ Income from actually doing the farming work, or from simple steps taken (like cleaning or drying crops) to get the produce ready for sale – but only if these steps are usually done by farmers.
- ▶ Selling your own crops – as long as you haven't done anything extra to them beyond those simple, usual steps mentioned above.
- ▶ Earnings from a farm building, but only if the building is needed for farming work (like storing tools or crops).

### This is agriculture:

- ▶ Growing crops like rice, wheat, or vegetables on farmland
- ▶ Plantation crops like tea, coffee, rubber
- ▶ Horticulture – growing fruits, flowers, or ornamental plants on land.
- ▶ Growing sugarcane or cotton on land.
- ▶ Processing produce like drying or cleaning grains (basic processes done to make the produce market-ready).
- ▶ Sale of own farm produce without any industrial processing.
- ▶ Rent from agricultural land used for farming.
- ▶ Income from a farm building used to store tools, seeds, or produce, and located near the land.

## What is "Agriculture"?

Curiously, the word "Agriculture" is not defined. But from what we know from various judicial decisions and clarifications from the tax authorities, it can be summarized as follows:

- ▶ There must be **land**.
- ▶ The land must be used for **agricultural purposes**.
- ▶ There must be some **human effort and skill** involved in the cultivation process.
- ▶ While the law doesn't define "agriculture," it refers to its natural, common sense meaning — and courts have reinforced that it must involve actual cultivation of land.

### This is NOT agriculture:

- ▶ Poultry farming
- ▶ Dairy farming
- ▶ Fish farming / aquaculture
- ▶ Running a cold storage or warehouse
- ▶ Manufacturing activities, like producing jaggery or sugar from sugarcane using machinery.
- ▶ Selling processed food items
- ▶ Rent from land used for non-agricultural purposes, like factories or commercial buildings.

# Special treatment of plantation products

## Tea, rubber and coffee

Tea, rubber and coffee have received a step-motherly treatment under tax laws for certain value added products. According to the taxman, there is an element of business involved here and hence should be taxable

Produce	Activity	Tax treatment
Rubber	<ul style="list-style-type: none"><li>▶ Sale of products from rubber trees grown by the assessee such as centrifuged latex, crepes, block rubber [Rule 7A]</li></ul>	<ul style="list-style-type: none"><li>▶ 65% is treated as <b>agricultural income</b> and hence tax free</li><li>▶ 35% is treated as <b>business income</b> and hence, taxable.</li><li>▶ Note that this does not apply to products such as field latex and sheets</li></ul>
Tea	<ul style="list-style-type: none"><li>▶ Tea grown and manufactured by the assessee in India [Rule 8]</li></ul>	<ul style="list-style-type: none"><li>▶ 60% is treated as <b>agricultural income</b> and hence tax free</li><li>▶ 40% is treated as <b>business income</b> and hence, taxable.</li></ul>
Coffee	<ul style="list-style-type: none"><li>▶ Grown and cured in India</li><li>▶ Grown, cured, roasted and ground in India [Rule 7B]</li></ul>	<ul style="list-style-type: none"><li>▶ If it is just grown and cured, 75% is treated as <b>agricultural income</b> which is tax free and the balance 25% is treated as <b>business income</b> and is taxable.</li><li>▶ If it is grown, cured, roasted and ground, 60% is treated as <b>agricultural income</b> which is tax free and the balance 40% is treated as <b>business income</b> and is taxable.</li></ul>

### Nursery income is agricultural income – even without farmland

- ▶ If you grow and sell plants, saplings, or seedlings in a nursery, the income you earn is treated as agricultural income under tax law and hence tax free, even if you're not using agricultural land.
- ▶ You don't need to till or cultivate farmland.
- ▶ Nurseries in pots, trays, greenhouses, or polyhouses are also covered.

### But is agricultural income really exempt?

- ▶ Agricultural income is tax-free, but if it exceeds ₹5,000 and your other income is above the basic exemption limit, it is used to determine your tax rate. This can push your taxable income into a higher slab, increasing your tax on non-agricultural income.

## Income that may not be agricultural (even if land is involved)

While agricultural income is tax-free whether earned by a cultivator or a landlord, some types of income connected to land are still taxable. Here are examples to help clarify:

Scenario	Nature of income	Tax treatment
Rural co-operative society sells butter/cheese made from milk bought from farmers	Business income	Taxable - Not agricultural income
Commission earned by managing agent on agricultural income of a company	Business income	Taxable - Not agricultural income
Sale of milk from cows grazing on agricultural land	Commercial dairy business	Taxable - Not agricultural income
Sale of wood/timber as part of a business	Business income from trading	Taxable - Not agricultural income
Sale of wood from non-agricultural land	Not linked to agriculture	Taxable - Not agricultural income
Income from forest trees of spontaneous growth	Not cultivated by assessee	Taxable - Not agricultural income
Wood from agricultural land used for own/agricultural purposes	Agroforestry for own use	Exempt - Agricultural income
One-time sale of trees from own property (not a business)	Capital receipt	Taxable - Capital gains, not agricultural income

## Conclusion

In conclusion, agricultural income in India is generally exempt from income tax. However, certain conditions need to be satisfied, including the classification of land as agricultural, the nature of the activity being genuinely agricultural, and compliance with the required documentation. While agricultural income is exempt from tax, it still plays a role in determining tax liabilities under the aggregate method for individuals.

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