

23 Agricultural Income

According to section 2(1A) agricultural income means any rent or revenue derived from the land which is situated in India & is used for agricultural purposes. This includes income earned in the form of rent by giving the agricultural land to other person for agricultural purpose, income earned during making crop saleable, income earned by selling of crop, income earned due to rent of the building on agricultural land

Tax on agricultural income: As per section 10(1) agricultural income is totally tax free but for slab purpose it is added to total income if, the net agricultural income is more than Rs. 5,000 and non-agricultural income is more than Rs. 1,00,000

Example: If Mohanlal has a total taxable income from business as Rs. 5,00,000 in the financial year 2014-15 and net agricultural income as Rs. 50,000 & he has not invested anything in tax saving scheme then what will be the income tax payable for FY 2016-17?

Solution:

- (i) First of all calculate the tax liability on total (Agriculture + non-Agriculture) income
- $$\begin{aligned} \text{Total income} &= \text{income from non-agricultural source} + \text{income from agricultural source} \\ &= 5,00,000 \qquad \qquad \qquad + 50,000 \\ &= 5,50,000 \end{aligned}$$
- Tax liability on total income (including agricultural income) = Rs.35,000
- (ii) Now to calculate tax liability only on agricultural income, add amount of agricultural income to basic exemption limit of income tax & calculate income tax as following:
- $$\begin{aligned} \text{Total agricultural income} &= \text{Basic Exemption (IT) limit} + \text{Agricultural income} \\ &= \text{Rs. } 2,50,000 \qquad \qquad \qquad + \text{Rs. } 50,000 \\ &= \text{Rs. } 3,00,000 \end{aligned}$$
- Tax liability on only agricultural income = Rs. 5,000
- (iii) Since agricultural income is totally tax-free therefore deduct the tax liability increased due to addition of agriculture income in non- agriculture income (i) as following.
- $$\begin{aligned} \text{Total tax payable} &= \text{Tax on non-agricultural \& agricultural income} - \text{Tax on agriculture income} \\ &= \text{Rs. } 35,000 \qquad \qquad \qquad - \text{Rs. } 5,000 \\ &= \text{Rs. } 30,000 \end{aligned}$$

Conclusion: Thus if non-agricultural income Rs.5,00,000 is considered then income tax liability = Rs.25,000 but after adding agricultural income 50,000 in it, the tax liability on Rs.5,50,000 increases to Rs. 35,000 due to change in the slab. Now since agriculture income is tax free so tax liability Rs.5000 due to agriculture income [2,00,000+50,000] needs to be subtracted from overall tax liability of Rs.35,000 and thus net tax payable shall be Rs.30,000.

From this it can be concluded that although agricultural income is tax-free but wherever due to addition of agriculture income, the total income increases and because of different slab of income tax, then tax liability is affected as above.

