

CHAPTER 4

AGRICULTURAL INCOME

1. ICAI STUDY MATERIAL QUESTIONS

Concept Problem 1

Mr. B grows sugarcane and uses the same for the purpose of manufacturing sugar in his factory. 30% of sugarcane produce is sold for INR 10 lacs, and the cost of cultivation of such sugarcane is INR 5 lacs. The cost of cultivation of the balance sugarcane (70%) is INR 14 lacs and the market value of the same is INR 22 lacs. After incurring INR 1.5 lacs in the manufacturing process on the balance sugarcane, the sugar was sold for INR 25 lacs.

Compute Mr. B's business income and agricultural income.

Solution

Computation of Business Income and Agriculture Income of Mr. B

Particulars	Business Income	Agricultural Income	
Sale of Sugar			
Business income			
Sale Proceeds of sugar	25,00,000		
Less: Market value of sugar (70%)	22,00,000		
Less: Manufacturing exp.	1,50,000		
	1,50,000		
Agricultural income			
Market value of sugar (70%)		22,00,000	
Less: Cost of cultivation		<u>14,00,000</u>	
			8,00,000
Sale of sugarcane			
Agricultural Income			
Sale proceeds of sugarcane (30%)		10,00,000	
Less: Cost of cultivation		5,00,000	5,00,000
			13,00,000

Concept Problem 2

Mr. Ram is engaged in growing and manufacturing of rubber. These are then sold in the market for INR 30 lacs. The cost of growing rubber plants is INR 10 lacs and that of manufacturing rubber is INR 8 lacs. Compute his total income.

Solution

The total income of Assessee comprises of agricultural income and business income.

Total profit from sale rubber = 30 lac – 10 lac – 8 lac = 12 lacs.

Agricultural Income = 65% of 12 lac = 7.8 lac.

Business Income = 35% of 12 lac = 4.2 lac.

This Question Bank is meant for Nov 2022 exams and must be read with our Lectures (Regular or Fast Track) as many additional concepts are covered in class. We do lots of written practice in class & Kishan Sir personally evaluates grand Mock Test. Must cover Income Tax Chalisa Handwritten Notes as well.

Concept Problem 3

Mr. X, a resident, has provided the following particulars of his income for the P.Y. 2021-22.

Particulars	Amount
Income from salary (computed)	2,80,000
Income from house property (computed)	2,50,000
Agricultural income from a land in Jaipur	4,80,000
Expenses incurred for earning agricultural income	1,70,000

Compute his tax liability assuming his age is –

(a) 45 years

(b) 70 years

Assuming Mr. X does not opt for the provisions of section 115BAC.

Solution**Computation of total income of Mr. X for the A.Y.2022-23****(a) Computation of tax liability (age 45 years)**

For the purpose of partial integration of taxes, Mr. X has satisfied both the conditions i.e.

1. Net agricultural income exceeds INR 5,000 p.a. and
2. Non-agricultural income exceeds the basic exemption limit of INR 2,50,000.

His tax liability is computed in the following manner:

Particulars	Amount	Amount
Income from salary		2,80,000
Income from house property		2,50,000
Net agricultural income [INR 2,80,000 – INR 1,70,000]	3,10,000	
Less: Exempt under section 10(1)	(3,10,000)	-
Gross Total Income		5,30,000
Less: Deductions under Chapter VI-A		-
Total Income		5,30,000

Step 1:	INR 5,30,000 + INR 3,10,000	INR 8,40,000.
	Tax on INR 8,40,000	INR 80,500 (i.e., 5% of INR 2,50,000 + 20% of 3,40,000)
Step 2:	INR 3,10,000 + INR 2,50,000	INR 5,60,000
	Tax on INR 5,60,000	INR 24,500 (i.e., 5% of INR 2,50,000 + 20% of 60,000)
Step 3:	INR 80,500 – INR 24,500	INR 56,000.
Step 4 & 5:	Total Tax Liability	INR 56,000 + 4% of INR 56,000 = INR 58,240

(b) Computation of tax liability (age 70 years)

For the purpose of partial integration of taxes, Mr. X has satisfied both the conditions i.e.

1. Net agricultural income exceeds INR 5,000 p.a., and
2. Non-agricultural income exceeds the basic exemption limit of INR 3,00,000.

His tax liability is computed in the following manner:

Step 1:	INR 5,30,000 + INR 3,10,000	INR 8,40,000.
	Tax on INR 8,40,000	INR 78,000 (i.e., 5% of INR 2,00,000 + 20% of 3,40,000)
Step 2:	INR 3,10,000 + INR 3,00,000	INR 6,10,000
	Tax on INR 6,10,000	INR 32,000 (i.e., 5% of INR 2,00,000 + 20% of 1,10,000)
Step 3:	INR 78,000 – INR 32,000	INR 46,000.
Step 4 & 5:	Total Tax Payable	INR 46,000 + 4% of INR 46,000 = INR 47,840

Concept Problem 4

Answer the following in light of Income-tax Act, 1961.

- Mr. Ram is employed in Delhi Agricultural University and getting salary of INR 40,000 p.m. He claims that it is his agricultural income. Discuss.
- Whether the income derived from saplings or seedlings grown in a nursery is taxable under the Income-tax Act, 1961? Examine

Solution:

- Income from agricultural university cannot be considered to be agricultural income; rather it is his income under the head Salary.
- As per Explanation 3 to section 2(1A) of the Act, income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income and exempt from tax, whether or not the basic operations were carried out on land. Hence, such income is not taxable under Income-tax Act, 1961.

Concept Problem 5

Mr. Tenzingh is engaged in the business of growing and curing coffee in Coorg, Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31.3.2022 are given below:

Particulars	Amount
Opening balance of car (only asset in the block) as on 1.4.2021 (i.e. WDV as on 31.3.2021 (-) depreciation for P.Y. 2020-21)	3,00,000
Opening balance of machinery as on 1.4.2021 (i.e., WDV as on 31.3.2021 (-) depreciation for P.Y. 2020-21)	15,00,000
Expenses incurred for growing coffee	3,10,000
Expenditure for curing coffee	3,00,000
Sale value of cured coffee	22,00,000

Besides being used for agricultural operations, the car is also used for personal use; disallowance for personal use may be taken at 20%. The expenses incurred for running and maintenance of car are INR 50,000. The machines were used in coffee curing business operations.

Compute the income arising from the above activities for the assessment year 2022-23.

Show the WDV of the assets as on 1.4.2022.

Solution

Where an Assessee is engaged in the composite business of growing and curing of coffee, the income will be segregated between agricultural income and business income as per Rule 7B of the Income Tax Rules 1962.

As per the above Rule, 75% of income derived from sale of coffee grown and cured by the seller in India shall be treated as agriculture income and 25% of such income shall be deemed to be business income.

Particulars	Amount	Amount
Sale value of cured coffee		22,00,000

Particulars	Amount	Amount
Less: expenses for growing coffee	3,10,000	
Car expenses (80% of INR 50,000)	40,000	
Depreciation on car (80% of 15% of INR 3,00,000) (WN)	36,000	
Total cost of agricultural operations	3,86,000	
Expenditure for coffee curing operations	3,00,000	
Add: Depreciation on machinery (15% of 15,00,000) [WN]	2,25,000	
Total cost of the curing operations	5,25,000	9,11,000
Total profits from composite activities		12,89,000
Business income (25% of above)		3,22,250
Agricultural income (75% of above)		9,66,750

Computation of value of depreciable assets as on 31.3.2022

Particulars	Amount	Amount
Car		
Opening balance as on 1.4.2021 (i.e., WDV as on 31.3.2021 (-) depreciation for P.Y.2020-21)		3,00,000
Depreciation thereon at 15%	45,000	
Less: disallowance @20% for personal use	9,000	
Depreciation actually allowed		36,000
Closing value as on 31.3.2022		2,64,000
Machinery		
Opening balance as on 1.4.2021 (i.e., WDV as on 31.3.2021 (-) depreciation for P.Y.2020-21)		15,00,000
Less: Depreciation @ 15% for PY 2021-22		2,25,000
Closing value as on 31.3.2021		12,75,000

Note: In cases of composite income for the purpose of computing written down value of assets, the total amount of depreciation shall be computed as if the entire composite income of the Assessee (and not just 25%) is chargeable under the head “Profits and gains of business or profession”. The depreciations so computed shall be deemed to have been “actually allowed” to the Assessee.

In other words, entire depreciation is allowed instead of proportionate amount

2. ICAI RTPS, MTPS AND PAST YEAR QUESTIONS

Concept Problem 6

Mr. Asim, a 60-year-old individual, engaged in the business of roasting and grounding of coffee, derives income of INR 10 lacs during the financial year 2021-22. Compute the tax payable by him assuming he has not earned any other income during the financial year 2021-22 and assuming he has not opted for provisions u/s 115BAC.

What would be your answer if Mr. Asim is also engaged in the business of growing and curing coffee?

Solution

If Mr. Asim is engaged only in the business of roasting and grounding of coffee (and not growing and curing of coffee), his entire income of INR 10 lakhs would be treated as business income and his tax liability would be INR 1,14,400 (INR 1,10,000 + INR 4,400).

If Mr. Asim is also engaged in the business of growing and curing of coffee, in addition to roasting and grinding of coffee, 40% of such income shall be treated as business income and the balance as agricultural income.

Therefore, in such a case, the business income would be 40% of INR 10,00,000 = INR 4,00,000.

, the agricultural income would be 60% of INR 10,00,000 = INR 6,00,000.

Calculation of tax liability for AY 2022-23

Particulars	Amount
Tax on INR 10,00,000 [being the aggregate of non-agricultural income (i.e., INR 4,00,000) and agricultural income (i.e., INR 6,00,000)] (A)	1,10,000
Less: Tax on INR 9,00,000 [being aggregate of agricultural income (i.e., INR 6,00,000) and basic exemption limit (i.e., INR 3,00,000)] (B)	90,000
Tax on non-agricultural income [A-B]	20,000
Less: Rebate u/s 87A	12,500
Tax Liability	7,500

Concept Problem 7

Mr. Ram has estate in rubber, tea and coffee. He derives income from them. He has a nursery wherein he grows and sells the plants. For the previous year ending 31.03.2022, he furnishes the following particulars of his income from estate and sale of plants. You are requested to compute the taxable income for the AY 2022-23, assuming he has not opted for provisions u/s 115BAC:

i) Growing and manufacturing of rubber	5,00,000
ii) Sale of coffee grown and cured	3,50,000
iii) Growing and manufacturing of tea	7,00,000
iv) Sale of plants and nursery	1,00,000

He has long term capital gain of INR 3,13,500 on the sale of agricultural land in Delhi.

Solution

Particulars	Income	Agricultural Income (%)	Business Income (%)
Growing and manufacture of rubber	5,00,000	325,000 (65%)	175,000 (35%)
Sale of coffee grown and cured	3,50,000	262,500 (75%)	87,500 (25%)
Growing and manufacture of tea	7,00,000	420,000 (60%)	280,000 (40%)
Sale of plants and nursery	1,00,000	100,000	-
Total		11,07,500	542,500

Computation of gross total Income	Amount
Income under the head PGBP	5,42,500
Income from long term capital gain	3,13,500
Gross total income	8,56,000
Less: deduction u/s 80C to 80u	Nil
Total income	8,56,000
Agricultural Income	11,07,500

Concept Problem 8

Mr. Rana, a resident and ordinarily resident aged 42 years, manufactures rubber from the latex processed from rubber plants grown in Kerala. Thereafter, he sold the rubber for 47 lakhs. The cost of growing rubber plants was INR 25 lakhs and the cost of manufacturing rubber was INR 7 lakhs. He has no other income during the previous year 2021-22. Compute his tax liability for the Assessment Year 2022-23, assuming he has not opted for provisions u/s 115BAC.

Solution

In cases where the Assessee himself grows rubber plants and manufactures rubber processed from latex obtained from rubber plants in India, then, as per Rule 7A, 35% of profit on sale of rubber is taxable as business income under the head “Profits and gains from business or profession”, and the balance 65% is agricultural income, which is exempt from tax.

Profits from manufacture and sale of rubber processed from latex = 47 lakhs – 25 lakhs – 7 lakhs = 15 lakhs

Agricultural Income = 65% of 15 lakhs = 9.75 lakhs

Business Income = 35% of 15 lakhs = 5.25 lakhs.

The tax liability of Mr. Rana has to be computed applying the concept of partial integration, since his total income comprises of both agricultural income and non- agricultural income and his agricultural income exceeds INR 5,000 p.a. and his non- agricultural income exceeds the basic exemption limit i.e., INR 2,50,000 (applicable, in his case).

Accordingly, his tax liability would be computed in the following manner:

Computation of tax liability of Mr. Rana for the A.Y. 2022-23

Particulars	Amount
Tax on total income of INR 15,00,000, being agricultural income and non-agricultural income	2,62,500
Less: Tax on agricultural income and basic exemption limit i.e., INR 12,25,000 [INR 9,75,000 plus INR 2,50,000]	1,80,000
	82,500
Add: Health and Education cess @ 4%	3,300
Total Tax liability	85,800

Concept Problem 9

Miss Vivitha, a resident and ordinarily resident in India, has derived the following income from various operations (relating to plantations and estates owned by her) during the year ended 31.3.2022:

S. No	Particulars	Amount
1	Income from sale of centrifuged latex processed from rubber plants grown in Darjeeling.	3,00,000
2	Income from sale of coffee grown and cured in Yercaud, Tamil Nadu.	1,00,000
3	Income from sale of coffee grown cured roasted and grounded in Colombo; sale consideration was received at Chennai.	2,50,000
4	Income from sale of tea grown and manufactured in Shimla.	4,00,000
5	Income from sapling and seeding grown in a nursery at Cochin. Basic operations were not carried out by her on land.	80,000

You are required to compute the business income and agricultural income of Miss Vivitha for the AY 2022-23.

Solution

This Question Bank is meant for Nov 2022 exams and must be read with our Lectures (Regular or Fast Track) as many additional concepts are covered in class. We do lots of written practice in class & Kishan Sir personally evaluates grand Mock Test. Must cover Income Tax Chalisa Handwritten Notes as well.

Computation of business income and agricultural income of Ms. Vivitha for the A.Y. 2022-23:

S. No	Sources of Income	Gross	Business Income		Agricultural income
		INR	%	INR	INR
i.	Sale of centrifuged latex from rubber plants grown in India.	3,00,000	35%	1,05,000	1,95,000
ii.	Sale of coffee grown and cured in India.	1,00,000	25%	25,000	75,000
iii.	Sale of coffee grown, cured, roasted and grounded outside India. (See Note 1 below)	2,50,000	100%	2,50,000	-
iv.	Sale of tea grown and manufactured in India	4,00,000	40%	1,60,000	2,40,000
v.	Saplings and seedlings grown in nursery in India (See Note 2 below)	80,000		Nil	80,000
	Total			5,40,000	5,90,000

Notes:

- Where income is derived from sale of coffee grown, cured, roasted and grounded by the seller in **India**, 40% of such income is taken as business income and the balance as agricultural income.

However, in this question, these operations are done in Colombo, Sri Lanka. Hence, there is no question of such apportionment and the whole income is taxable as business income. Receipt of sale proceeds in India does not make this agricultural income.

In the case of an Assessee, being a resident and ordinarily resident, the income arising outside India is also chargeable to tax.

- Explanation 3 to section 2(1A) provides that the income derived from saplings or seedlings grown in a nursery would be deemed to be agricultural income whether or not the basic operations were carried out on land.

Concept Problem 10

Discuss the taxability of the following transactions giving reasons, in the light of relevant provisions, for your conclusion.

- Mr. Rajpal took a land on rent from Ms. Shilpa on monthly rent of 10,000. He sub-lets the land to Mr. Manish for a monthly rent of 11,500. Manish uses the land for grazing of cattle required for agricultural activities. Mr. Rajpal wants to claim deduction of 10,000 (being rent paid by him to Ms. Shilpa) from the rental income received by it from Mr. Manish.
- Mr. Netram grows paddy on land. He then employs mechanical operations on grain to make it fit for sale in the market, like removing hay and chaff from the grain, filtering the grain and finally packing the rice in gunny bags. He claims that entire income earned by him from sale of rice is agricultural income not liable to income tax since paddy as grown on land is not fit for sale in its original form.

Solution –

- The rent or revenue derived from land situated in India and used for agricultural purposes would be agricultural income under section 2(1A) (a). Therefore, rent received from sub-letting of the land used for grazing of cattle required for agricultural activities is agricultural income. The rent can either be received by the owner of the land or by the original tenant from the sub-tenant.

Accordingly, rent received by Mr. Rajpal from Mr. Manish for using land for grazing of cattle required for agricultural activities is agricultural income exempt u/s 10(1).

As per section 14A, no deduction is allowable in respect of exempt income.

- b) The income from the process ordinarily employed to render the produce fit to be taken to the market would be agricultural income under section 2(1A) (b) (ii). The process of making the rice ready for the market may involve manual operations or mechanical operations, both of which constitute processes ordinarily employed to make the product fit for the market.

Accordingly, the entire income earned by Mr. Netram from sale of rice is agricultural income.