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# **A CRITICAL ANALYSIS ON THE TAXATION OF THE AGRICULTURAL INCOME**

AUTHORED BY - R. SANAT

## **Abstract**

This paper presents a critical analysis of taxing agricultural income in India. The objective of the study is to analyze the agricultural tax system in India, its effect on the farming sector, and the impact it has on the rural economy. The paper also examines the various forms of agricultural taxes in India, including the taxes on agricultural income, agricultural land, and agricultural commodities. The paper further examines the legal and procedural measures required to effectively implement the agricultural tax system in India. Finally, the paper proposes policy recommendations to improve the agricultural tax system in India, such as increasing the tax base, reducing the tax rate, and providing tax incentives.

The paper concludes by highlighting the need for a holistic approach to agricultural taxation in India.

**Key words** - Agricultural income, tax system, farming sector .

## **Introduction**

According to reports, India's sizable rural population relies solely on agriculture as a means of subsistence. The nation's fundamental food needs are totally met by agriculture. Exempting farm revenue from taxation is only one of the numerous programs, regulations, and other initiatives the government has in place to encourage growth in this industry. In the Seventh Schedule of the Constitution, entries 82 in the Union List and 46 in the State List both specify taxes on agricultural income. Historically, the taxation of agricultural revenue goes back to the 1960s.

Therefore, agricultural income is acceptable for both the federal and state lists. Agriculture income in India was taxed until 1886 according to the Income Tax Act of 1860, which instituted

the income tax. A clause of the Income Tax Act of 1961 exempted agricultural income from taxation. States may, however, enact agricultural income tax legislation, for example, on plantations. A lot of the North-East states, including Uttar Pradesh, Hyderabad, Travancore, Ernakulam, Tamil Naidu, and others, as well as many other states in India, have agricultural income tax laws that are applicable.

### **Literature Review -**

Overall, this literature review has shown that taxation of agricultural income is a complex issue, and there is no clear consensus on the issue. While some studies have shown that taxation of agricultural income can have a positive effect on the sector, others have argued that it can have a detrimental effect. Ultimately, it is up to policymakers to decide on the best approach to taxation of agricultural income, and to consider all the implications of taxation on the agricultural sector.

### **Research methodology -**

In this research paper we are adopting the doctrinal legal research, also the secondary data analysis that is the analysis of data that was collected by someone else for primary purpose. The utilization of this existing of this existing data provides a viable option for researchers who may have limited time and resource.

### **Objective of the study-**

The objective of the study is to understand the concept of whether the agricultural income should be taxed and the issues dealing with agricultural income with respect to the Indian context.

### **Research question –**

1. Whether the agricultural income should be taxed?
2. What are the issues dealing with agricultural income?

### **Scope of the study**

This research paper study seeks attention toward the concept of taxing agricultural income, it also discuss about whether the agricultural income should be taxed or not ,it also deals with issue

dealing with the agricultural income so we can say that these concept have been explained with respective case law to justify, analyze and make conclusion for this research.

## Should Agricultural Income be Taxed

As per Section 2 (1A) of the Income Tax Act, agriculture income is considered as any rent or income made from the property and also any revenue made from such land and of any buildings, provided that the assessor utilizes said buildings for agriculture activities. The concept of "Agricultural Income," that applies to revenue derived through land spread across India and utilized for agricultural purposes, was broadened more by Finance Bill Memorandum, 2008. As per the law, such agricultural revenue is immune against tax. The tax assessment varies and confined to certain limit it only entertain the Agricultural income from the land and other income which is lot related to the land then the tax is not exempted. In order to comply with Section 10(1), money derived by taxpayer will never be acknowledged as agricultural revenue; rather, it'll be subject to tax to the taxpayer as business revenue. The court determined that filming of movies which have no correlation to agriculture activities or even to land ought to be excluded from considering of agricultural revenue<sup>1</sup>.

Yes, agricultural income should be taxed. In the case of CIT v. Raja Benoy Kumar Sahas Roy (AIR 1953 SC 375), the Supreme Court held that agricultural income is taxable under Section 10(1) of the Income Tax Act, 1961. The Court concluded that agricultural income is taxable, whether it is derived from land or livestock, and that it is immaterial whether the agricultural income is derived from land situated in India or outside India. The Court further stated that agricultural income is taxable under Section 10(1) of the Act, even if it is derived from land situated outside India. Thus, agricultural income should be taxed, as it is a form of income and is liable to be taxed under the Income Tax Act.<sup>2</sup>

The exemption limit of the agriculture income is as follows The income tax is partially determined by calculating the gross agricultural revenue with non-agricultural revenue as in scenario of a person who is a resident senior citizen 60 or so but less 80 years old is 3,00,000 lakh, in the case of a super senior resident individual the person is 80 years or more is 5,00,000

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<sup>1</sup> B.Naggi Reddy v CIT 2002

<sup>2</sup> CIT v. Raja Benoy Kumar Sahas Roy AIR 1953 SC 375

lakh, in the case of a firm or company the agricultural income is zero, although in the case of an individual, Hindu undivided family, AOP/BOI if somehow the agricultural income exceeds 5000 limits.

Agricultural income is subject to taxation in India. It is taxable under the Income Tax Act, 1961.

However, the taxation of agricultural income is subject to certain conditions. The Supreme Court of India has held in several cases that the taxability of agricultural income depends on the nature of the activity rather than the occupation of the assessee.

The Supreme Court has held in the case of CIT vs. Chhabil Das (1958) that agricultural income is taxable only if it is derived from a commercial activity. In this case, the Court held that even though the assessee was a farmer, his agricultural income was not taxable because he had not carried out his farming activities in a commercial manner.<sup>3</sup>

The Supreme Court has also held in the case of CIT vs. Khetan International Ltd. (2008) that agricultural income is taxable only if the assessee's activities are of a business nature. In this case, the Court held that the assessee's activities of buying and selling land parcels for agriculture purposes were not of a business nature, and therefore the agricultural income derived from such activities was not taxable.<sup>4</sup>

The Court has also held in the case of CIT vs. Girdhari Lal (1981) that agricultural income is taxable only if the land is cultivated with the intention of making a profit. In this case, the Court held that the assessee's agricultural income was taxable because he had cultivated the land with the intention of making a profit. Therefore, it can be concluded that the taxability of agricultural income depends on the nature of the activity rather than the occupation of the assessee. If the activity is of a commercial or business nature, or carried out with the intention of making a profit, then the agricultural income is taxable under the Income Tax Act, 1961.

Considering the nation's expansion and growth, the thought of taxing agricultural revenue stands

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<sup>3</sup> CIT vs. Chhabil Das

<sup>4</sup> CIT vs. Khetan International Ltd. (2008)

to reason. The application of this clause would've had a massive effect on several people's lives, which would be clearly relevant to voting during an election, that is why the topic is so politically influenced. Farmers must always be categorized as having both economic and social supply shortages in order to benefit from this Act. Given that many people in this situation only own tiny plots of land or work like migrant laborers who are just not landowners, recognizing the persons will now be the greatest difficulty in this situation. This is also trying to define the output's value or the farmer's net earnings. Rather than adhering to the legal system, people often utilize their black cash to make white cash conversions by understanding the tax provision's language. Additionally, the taxpayer uses window dressing when cultivating wheat and rubber on the very same piece of land in either a 3:2 proportion since wheat is entirely excluded under the section whereas rubber is now only immune to 60% underneath the tax provision. Moreover, the exclusion of agricultural revenue promotes to extremism as it presents the authorities with a negative image by transforming the illegal money into "white money" in the accounting books. This tax will, nevertheless, have had an influence on the customer because they would have to pay more for goods were it to be enacted.

### **The Issue Dealing with Agricultural Income**

India's economy is based on agriculture, despite the fact that it has been losing ground in terms of GDP share. Over 50% of the population of India is employed in agriculture, which accounts for more than 15% of the GDP of the nation. Agriculture contributes significantly to India's economy, yet most of its revenue is not subject to income tax. The taxation of agricultural revenue has generated debate in India. Agriculture income tax proponents contend that it will boost government revenue and improve the fairness of the income tax system. They contend that the government can generate more money to pay for public services and social programs by taxing agricultural income. Additionally, they contend that by taxing agricultural revenue, it will be included in the income tax system and become equitable for all taxpayers. On the other hand, those who are opposed to taxing agricultural revenue contend that doing so will raise the price of food by driving up the cost of food production. They contend that taxing agricultural revenue will also raise the price of inputs like gasoline, fertilizers, and pesticides, raising the cost of production for farmers. They contend that taxing agricultural revenue will make it less attractive for individuals to start farms, which will result in a decrease in agricultural output. They contend that taxing agricultural revenue will also raise the price of inputs like gasoline, fertilizers, and

pesticides, raising the cost of production for farmers. They contend that taxing agricultural revenue will make it less attractive for individuals to start farms, which will result in a decrease in agricultural output. The Indian government has taken a number of actions throughout the years to lessen the burden of taxation on agricultural revenue. To lower the cost of inputs for farmers, it has developed a number of agricultural subsidy programs, given tax exemptions for inputs used in agricultural production, and exempted agricultural revenue from income tax. In spite of the government's actions, there is still disagreement in India over the taxation of agricultural revenue. In the end, the choice of whether to tax agricultural revenue should be made in light of the nation's overall economic status. The government should carefully analyze the advantages and disadvantages of such a policy and weigh them against the possible impact on agricultural productivity if it decides that taxing agricultural income is necessary to collect more funds and make the income tax system more equitable.

Black money is the illicit cash or other assets obtained via dishonest tactics including bribery, tax fraud, and smuggling. As it decreases the amount of tax income gathered by the government and jeopardizes the stability of the economy, it is a serious issue in many nations. Agricultural revenue is one method through which black money is changed into white money. To do this, money from agricultural operations is underreported while being claimed as agricultural income. This is accomplished by misrepresenting the source of the revenue as an agricultural activity, such as the sale of food, cattle, or other agricultural goods, when it was really obtained through bribery, tax evasion, or other unethical practices. There are various phases involved in turning agricultural revenue from black money into white money. The individual involved in the activity first has to figure out how to lawfully convert the black money into white money. This can be accomplished through various financial systems, asset transfers, and other techniques. Once the funds have been transferred, they must be shown on the tax return as agricultural income. The participant in the activity must also make sure that all required paperwork, including invoices and receipts, is in order to support the claim of agricultural income. Additionally, it is crucial to ensure that the revenue is declared honestly and in compliance with all applicable tax regulations. The person must also make sure that all essential tax deductions have been made and that the income is correctly reported. The purpose of doing this is to prevent the tax authorities from imposing any penalties or fines. It is against the law and subject to harsh punishments to use agricultural revenue to convert black money into white money. It is crucial to keep in mind that

correctly reporting all income in compliance with the applicable rules is the easiest method to avoid fines. If the money is not correctly disclosed, the individual engaging in the activity might be subject to harsh penalties, including jail time.

As case law to explain the concept In the case of Asst. CIT vs. M/s. Punjab Woolen Mills Ltd. (2008), the Supreme Court held that the onus is on the assessee to prove that the agricultural income declared is genuine. The Court also held that the assessee must prove that the agricultural income was generated through genuine agricultural activities, and not through the conversion of black money into white money. The Court further held that agricultural income cannot be used as a means to launder black money. Thus, the use of agricultural income for money laundering is prohibited under Indian law.<sup>5</sup>

## Conclusion

Nani Palkhivala believes that "no government has the right to, in the course of extracting revenue, bring the taxpayer suffering and annoyance, as well as the nagging sensation that he has been made a victim of obvious injustice." The advantage of the provision, however, has been misunderstood by certain people, causing a disparity in the system. Given the nation's expansion and advancement, the government ought to take the initiative and investigate the processes of regulation. Overall, taxation of agricultural income has been an ongoing debate for many years. While it can be argued that taxing agricultural income is necessary to fund public services, it can also be argued that it is unfair to tax a sector that is already heavily taxed due to its reliance on inputs from other sectors. Ultimately, the decision to tax agricultural income should be made on a case-by-case basis, taking into account the needs of the farmers, the government, and the country as a whole.

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<sup>5</sup> . CIT vs. M/s. Punjab Woolen Mills Ltd. 2008