



INTERNATIONAL JOURNAL FOR LEGAL RESEARCH AND ANALYSIS

Open Access, Refereed Journal Multi Disciplinary
Peer Reviewed Edition :

www.ijlra.com

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INTERNATIONAL JOURNAL FOR LEGAL RESEARCH & ANALYSIS

ISSN

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AGRICULTURAL INCOME A SOURCE OF MONEY LAUNDERING IN INDIA

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ABSTRACT

As the saying goes, agriculture has long been the backbone of the Indian economy. However, some sectors of our society have been exploiting it as a cover for illegal money, weakening the foundation of our country. Although official reports have frequently raised significant worries regarding non-agriculturists exploiting the exemption, successive governments have shown little interest in taking corrective action. Taxing agricultural revenue is a politically delicate matter. In this research paper, we will deal with the issues regarding tax exemption in agricultural income and how it paves the way for money laundering in India.

INTRODUCTION

On the face of it, we presume that farmers are in a better position not paying taxes since they belong to economically weaker sections of society. Thus they should be exempted from it, but the debate to tax agricultural income has been going on over the years, with significant media houses calling such a procedure a scam. Although income taxes are collected on all forms of income from all sources, it is a mystery why agricultural revenue is exempt from income taxes. They believe the government has exempted agricultural income tax for their benefit by using the farmers to cover themselves from paying tax. Since tax is exempted in such a sector, it can lead to "money laundering," which means evading tax or ultimately converting black money to white. They claim that many politicians use this scheme for their benefit. When the question arises as to why taxation should be imposed on agricultural income, the legislators try to deviate and avoid touching upon such topics. With money laundering slowly becoming a significant issue in India, the legal system must actively participate in trying to curb such an issue. Currently, more than trillions of rupees have been laundered in India through agricultural income. Many farmers have lost their lives because of such practices by the higher bureaucrats. The farmers are not the final beneficiaries and are still losing out. It may seem that the government is sympathetic towards farmers, but they are not benefitting from it. This paper focuses on the harsh realities farmers

face while being taxed under agricultural income. They are looking into the main reason for tax evasion and how it can be used in agricultural income as a source to launder money in India.

RESEARCH OBJECTIVE

This research paper aims to analyze how agricultural income can become a source of money laundering. To look into why the government has exempted tax from agricultural income and why they have not made many efforts to curb such an issue.

RESEARCH QUESTION

1. What is money laundering?
2. Why is agricultural income a source of money laundering?
3. How has tax exemption created an opportunity for money laundering?

SCOPE OF THE STUDY

This research paper has a wider scope in nature. Since it focuses on the various aspects of agricultural income and how money laundering has used this agricultural income to launder money. It also focuses on money laundering as a whole and what efforts have been taken to curb such an issue from taking place.

RESEARCH METHODOLOGY

The overall research has been done by referring to various known and unknown websites. For this topic, I have also referred to various textbooks. Doctrinal research methodology has been used, i.e., and the reference has been given through various authorized websites.

The collection of data and information will be from published papers, relevant articles, relevant cases, Google books, Legislations, Treaties, and internet websites. Also includes various texts from legal and non-legal sections

CONCEPTUAL ANALYSIS

Agricultural Income

The term agricultural income refers to the income collected from farming. Section 2(1A) of the Income Tax Act 1961 relates to income earned or revenue derived from sources, including

farming land, buildings on or identified with agricultural land, and commercial products from horticultural land.¹

Here are a few instances of agricultural income:

- Profits from the selling of newly planted trees.
- Profits from seed sales.
- The amount of rent paid for agricultural land.
- Profits from growing creepers and flowers.
- Profits received from a partner's company that produces or engages in agricultural activities or products.
- An interest in the funding that a partner from a business that conducts agricultural activities receives.

Agricultural income is free from taxation under Section 10(1) of the Income Tax Act. Farmers who cannot pay taxes because of their low pay scale will benefit from this. Agriculture revenue is exempt from all taxes imposed by the federal government.²

However, if the following two conditions are met, agricultural income is taken into account for rate purposes for determining the income tax liability:

- The net agricultural revenue is higher than the Rs. 5,000/- from the previous year.
- Total income exceeds the basic exemption limit when net agricultural income is excluded (Rs. 2,50,000 for individuals below 60 years of age and Rs. 3,00,000 for individuals above 60 years of age).³

Reasons for Money laundering

Crime and money are interconnected. Crimes are committed because there is a lot of money involved. Money laundering is the process of turning illegally obtained funds into legal tender. Money laundering is the process of turning money that has been earned illegally into lawful cash.

Although those who carry out the underlying illegal activities might try to do it themselves,

¹ Income Tax Act, 1961, Section 2(1A), Acts of Parliament, 1949 (India)

² Income Tax Act, 1961, Section 10, Acts of Parliament, 1949 (India)

³ Tax Guru, <https://taxguru.in/income-tax/agricultural-income-justification-objections.html> (last visited Dec 12, 2022)

Organized Crime is increasingly getting money laundering services from a new class of criminals.

Criminals want their unlawful monies to be laundered to freely move their money across society without worrying that it would be linked to their criminal activity. Additionally, laundering stops the police from seizing the money.

One of the primary sources of money laundering in India is Agricultural Income. According to Section 3 of The Prevention of Money Laundering Act of 2002, anyone who directly or indirectly attempts to engage in, who knowingly assists, or who knowingly participates in, or who is involved in, any process or activity connected with the [proceeds of crime], including concealing it, possessing it, acquiring it, using it, projecting it, or claiming it to be untainted property, is guilty of the crime of money-laundering.⁴

It is said that a person should be guilty of an offense of money laundering if such a person has been found to have either directly or indirectly made an attempt to enter or knowingly has attempted or was involved in certain activities like concealment, possession, acquisition, projecting as untouched money or claiming as untouched money falls under money laundering and if such activity continues for some time and till such time he enjoys the proceeds of such commission of crime through concealment, possession, acquisition or any other activity which is considered as laundering at that given time.

It is challenging to understand how agricultural revenue may be used as a means of widespread tax evasion and money laundering, not on the order of thousands, millions, or even billions of rupees. This material was provided in response to an RTI request for details regarding the declaration of agricultural income by income tax assessors. The facts mentioned above for the most recent ten fiscal years, 2003-04 to 2012-13, were provided by the Directorate of Income Tax (Systems) by letter dated May 27, 2015.⁵

This raises the legitimate suspicion that illicit gains (obviously not agricultural revenue) from hidden sources are being covered up by agricultural income and that dishonest people are evading

⁴ Prevention of Money Laundering Act, 2002, Section 3, Acts of Parliament, 1949 (India)

⁵ The Quint, <https://www.thequint.com/news/india/even-as-farmers-die-trillions-laundered-as-agricultural-income#read-more#read-more#read-more> (last visited Dec 10, 2022)

taxes by using agricultural income to do so. If this money is taxed, the taxes for the fiscal year 2010–2011 will be close to Rs 600 lakh crore or more than six times the nation's GDP for that year.

In a similar case, a petition was filed before the high court seeking an investigation into money laundering activities. Following the delivery of an RTI statement (in 2015) from the Directorate of Income Tax (Systems) on disclosures of agricultural income between AY (assessment year) 2004-05 and AY 2013-14, as reproduced below, a retired income tax officer named Vijay Sharma went to the Patna High Court in 2016.

His main request to the Patna High Court was to instruct the tax authorities to

- a) look into the possibility of black money stored abroad being brought in and declared as agricultural income, and
- b) Look into how such significant amounts of agricultural income are being declared while farmers commit suicide all over the nation.

Newspaper articles have occasionally described how Indians had withdrawn their deposits from foreign banks due to the Indian government's efforts to recover black money stashed abroad and the global hardening of stance toward tax havens and secret bank accounts following the 2008 financial meltdown.

According to one of these 2013 reports, for instance, Indian deposits had decreased from 2.18 billion Swiss francs at the end of 2011 to 1.42 billion Swiss francs (or roughly Rs 9,000 crore) by the end of 2012. Since then, there have been a lot more such reports.

The same year (in 2016), the court dismissed Sharma's petition on the grounds that (a) unusually high values of agricultural income (especially for 2011, 2012) appearing in the RTI reply "could be due to inadvertent data entry error," as the tax authorities had claimed in their counter affidavit, (b) if found doubtful in nature, the tax authorities "will take proper steps," and (c) given that such assesses are dispersed throughout India, it is better."

Since agricultural income is excluded under the rules of the Income Tax Act, the government may lose money if agricultural income is credited for income tax purposes without appropriate verification of the claim. This practice greatly distorts our financial system.

The studies found that such lacunae in the system, such as not checking the expenses, would succumb to bringing in black money/unaccounted money into the financial system under the pretense of agricultural revenue. Thus the government is creating an opportunity for money launderers to continue their activities.

CONCLUSION

Money laundering poses a severe threat to the financial systems of all nations and undermines their sovereignty and sense of identity. The magnitude that money laundering has started to assume, particularly with regard to the financing of terrorist acts, has given the fight against it an urgent impetus at both the national and international levels. Just as it is challenging to determine the scope of money laundering, it is also challenging to quantify the detrimental economic effects of money laundering on economic development.

However, it is evident from the evidence at hand that allowing money laundering activity to continue unchecked is not the best course of action for economic development because it harms financial institutions that are essential to economic growth, lowers productivity in the real sector of the economy by diverting resources and encouraging crime and corruption, and can stifle international trade and capital flows to the detriment of long-term economic development.

Since agricultural income is being exempted from tax, it creates a loophole in the legislation allowing criminals to use this for their best interest by laundering money in India through this source. By this, they are able to use this exemption to their advantage. Nevertheless, the entire situation plainly demonstrates systemic failure because claimed agricultural incomes are accepted without any scrutiny, no matter how high the amount. To conclude, we can see that better measures need to be taken in order to curb the rise in money laundering. Another way to provide tax relief to the farmers is by prescribing a threshold exemption limit for agricultural income instead of just exempting tax altogether.