

Impact of Agricultural Income on Tax Liability of an Individual Assessee



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Abstract

The Income Tax Act, 1961 as amended till date is supposed to give benefit on agriculture income and many a times different participants on the dialogue on income tax and its implications on different assessee raise this point as a point of tax-evasion by the large scale farmers and industries engaged in high level of agricultural produce and synthesizing the same. However, a keen look on the IT Act raises a point of contention to that. It is true that agricultural income is exempted but it has to be added to the gross total income of the assessee leading to increase the tax slab for the assessee and consequently to high tax payment for the person. In that case, agricultural income is not totally tax - exempted as is considered in general. This paper focuses on the issue with certain examples and giving ample points to rethink on agricultural income and its complete exemption for the betterment of the rural poor of India.

Keywords: Taxable Income, Agricultural Income, Tax Exemption, Indian Taxation System, Income Tax Act.

Introduction

India is primarily an agriculture based country and almost of 61% of total population of the country still survives on the agriculture and allied services. However, a large pool of farmers is poor and to give them a little benefit of tax relief, a provision of making 'agriculture income' tax-exempted has been made by Sect. 10(1) of the Income Tax Act, 1961. As per this section, "Agricultural income is exempted from tax. The constitution of India does not empower the parliament to impose income-tax on agricultural income." Income-tax on agricultural income may be imposed by State Governments. No state in India has until now imposed income-tax on Agricultural income.

Framework

The case of exemption of agricultural income is quite striking as it is totally exempted if the assessee has only agricultural income (say, Rs. 10 Lakh or 10 Crores).

But if an assessee has income from any of other sources over Rs. 2.50 Lakhs along with agriculture income, because of the aggregation effect, tax liability of the individual assessee increases.

The present study is an elaboration on this topic taking certain cases on it.

Review of Literature

Many of the researchers have been done in the field of Income Tax. However, very few have concentrated on agricultural income. Some of the important research papers which have come across during writing of this piece of work:

Khan, N.A. (2018) in his book has argued that since liberalisation, the taxation structure in India has improved and it also improved Fiscal Reform initiatives by the Government. They also incorporated that if the Union Government brings out the levy of income tax on Agricultural income, it will benefit Govt. to reach to its fiscal reforms target beforehand.

Arora and Gupta (2018) have studied about E-filing and its advantages to Income Tax-payers. They have informed that there is need of spreading operational knowledge among the tax-payers about how to e-file income tax return and it is at the most is required in the rural area as people with having non-agriculture income and agriculture income does not know the principle of aggregation and hence, try to avoid (however, due to ignorance) filing complete income tax return.

Jain and Kamath (2017) in their research article examined the tax reforms made after the Demonetisation of currency in India. They have informed that certain reforms should also be made related to land bills and agricultural income so to avoid seepage of taxes using loopholes in it.

Examples mentioned by www.myitreturn.com (2017) in addressing the question "Is agriculture income really tax-free?" also does not cover the sanctity of the topic and inform the readers about its aggregation with the personal income tax. The topic, however, explains that agricultural income is not purely tax-free.

Lahiri and Das-Gupta (1995) in their work has reported that to improve GDP, international level of tax collection is required in India. This can be done by improving taxation structure, infrastructure facility of tax collection, and improving revenue generation by 90 per cent.

Narayana et al. (2013) has identified that with the boost in irrigation facilities, more revenue can be generated from agriculture sector which will help in poverty alleviation, and ultimately more income generation. However, paper skipped to deal with the complexity of income tax and agricultural income.

Gupta, Ankita (2009) argued that taxation induces savings for person and hence, people in India saves with proper taxation rules. Same can be benefitted in agriculture sector. She also mentioned that with increase in savings, agriculture sector may also be given a boost at large. She, however, not commented on agricultural income and taxation difficulties.

Gupta, Radha (2013) opined that taxation structure should be moderate and exemption limit should be larger to benefit marginal tax payers. In such a way, agriculture income should be exempted to help the rural poor.

Aim of the Study

The present study aims to identify the effect of aggregation of agricultural income and non-agricultural income of an assessee. It observes through its five different cases that because of aggregation, if the tax-slab of an assessee increases, it nullifies the exemption of agricultural income and income tax chargeable becomes higher in amount. In other words, such effect actually makes the total income taxable and makes the idea of exemption a false claim. Through such action, government collects income tax from agriculture sector in a hidden mode

and such practice should be abolished for the long-term betterment of the assessee directly or indirectly related to the agriculture sector. It will also increase the chances of persons attracting towards agricultural sector for the sake of further income which will ultimately lead to increase in National Income and GDP of the country at large.

Kinds of Agricultural Income

As per definition of agricultural income given in Sec. 2(1A) of the Income Tax Act, agricultural income may be divided in following categories-

1. Rent derived from land.
2. Income from agricultural operation.
3. Income from operation to render the produce fit for market.
4. Income from sale of produce.
5. Income from farm house used for agricultural purpose.
6. Income from saplings or seedlings.

An individual assessee, having income from number of sources, has to add up his income from different heads in following format to arrive at Gross Total Income:

Computation of Gross Total Income and Total Income- At a Glance

| Particulars | Amount (Rs.) |
|--|--------------|
| Taxable Income from Salary | xxx |
| Taxable Income from House property | xxx |
| Taxable Income from Business/ Profession | xxx |
| Taxable Income from Capital Gain | xxx |
| Taxable Income from Other Sources | xxx |
| Less- Set off and carry forward of losses | xxx |
| Add- Clubbed Income | xxx |
| Gross Total Income | xxxxx |
| Less- Deduction u/s 80C to 80 U | xx |
| Total income | xxxx |
| Total Income (Rounded off) | xxxx |

It is also important to learn that assesses on the basis of residential status, age, and gender, are taxed under following tax-slabs in India:

Tax on Income Liable to Tax at Normal Rates Income- At a Glance

| Tax Rate | Income of resident senior citizen (60 years or more but less than 80 years) | Income of resident super senior citizen (more than 80 years) | Income of other individual (below 60 years) |
|----------|---|--|---|
| Nil | Upto Rs. 3,00,000 | Upto Rs. 5,00,000 | Upto Rs. 2,50,000 |
| 10% | Next Rs. 2,00,000 | NA | Next Rs. 2,50,000 |
| 20% | Next Rs. 5,00,000 | Next Rs. 5,00,000 | Next Rs. 5,00,000 |
| 30% | Next balance (above Rs. 10 lakh) | Next balance (above Rs. 10 lakh) | Next balance (above Rs. 10 lakh) |
| Tax Rate | Income of resident senior citizen (60 years or more but less than 80 years) | Income of resident super senior citizen (more than 80 years) | Income of other individual (below 60 years) |
| Nil | Upto Rs. 3,00,000 | Upto Rs. 5,00,000 | Upto Rs. 2,50,000 |

Also, there are following incomes which are taxed under separate tax rates:

Tax on Income Liable to Tax at Specific Rates

1. Casual income (Lottery, card game, betting, horse race etc.) @ 30%.
2. Short Term Capital Gain u/s 111A @ 15%.
3. Long Term Capital Gain on listed securities or units of UTI or a Mutual fund (computing without indexing the cost of acquisition) @ 10%.
4. Other Long Term Capital Gain @ 20%.

Impact on Tax Liability under Various Circumstances

To know the impact of agricultural income on tax liability tax is determined in different conditions; in which comparison has been made by aggregating and not aggregating the agricultural income with total income and its impact on the tax liability on an individual assessee which have been discussed as under :-

Case 1

1. When net agricultural income and total non-agriculture income of an individual assessee for the A.Y. 2017-18 are Rs. 60,000 and Rs.2,40,000 respectively. Computation of his tax liability for the A.Y. 2017-18 will show following result:
2. **Impact on Tax Liability-** In this case non-agricultural income of the individual assessee is below the minimum exemption limit of Rs. 2,50,000. Hence agricultural income is not aggregated with non-agricultural income even net agricultural income is more than Rs.5,000 and assessee is not liable to pay tax.

Case 2

1. When net agricultural income and total non-agriculture income of an individual assessee for A.Y. 2017-18 are Rs.5,000 and Rs.3,00,000 respectively. Computation of his tax liability for

the A.Y. 2017-18 will be changed in following manner:

2. **Impact on Tax Liability-** In this case agricultural income of the individual assessee is not more than Rs.5,000. Hence agricultural income is not aggregated with non-agricultural income and assessee is liable to pay tax on non-agricultural income only and it is stated that there is no impact of agricultural income on tax liability.

Case 3

1. In case when net agricultural income and total non-agriculture income (taxable income from salary + taxable income from business) of an individual assessee for the A.Y. 2017-18 have been ascertained as Rs.30,000 and Rs.4,00,000 respectively. In this scenario, aggregation effect will come into force however, as the tax-slab remain unchanged, it will have no effect on the tax-liability of the assessee:
2. **Impact on tax liability** In the above case study the tax liability is same in both conditions hence we can say that if aggregate income including agricultural income is not more than Rs. 5,00,000 then tax liability is not affected because there is no change in slab rate. Because of no change in slab rate, aggregation of agricultural income with the total income has no effect on tax liability. It is also explained in the table below:

| Particulars | Tax without Agri. Income (Rs.) | Tax with Agri. Income (Rs.) |
|--|-----------------------------------|--------------------------------|
| Total Income | 4,00,000 | 4,00,000 |
| Add- Agricultural Income | ----- | 30,000 |
| Aggregate Income | 4,00,000 | 4,30,000 |
| Tax on income liable to tax at special rate: | ----- | ----- |
| Casual Income @ 30% | ----- | ----- |
| STCG u/s 111A @ 15% | ----- | ----- |
| Tax on LTCG @ 20% | ----- | ----- |
| Tax on other income (Normal rates) :- | | |
| On first Rs. 2,50,000 | Nil | Nil |
| On balance @ 10% | 15,000 | 18,000 |
| Less- Tax on Agricultural Income | Nil | Nil |
| (2,50,000+30,000) | ----- | 3,000 |
| First Rs.2,50,000 | 15,000 | 15,000 |
| Balance Rs.30,000 @ 10% | ----- | ----- |
| Add- Surcharge @10% | ----- | ----- |
| Add- Education cess @ 3% | 450 | 450 |
| Tax Liability | 15,450 | 15,450 |

Case 4

1. If the net agricultural income and total non-agriculture income (taxable income from salary + taxable income from business) of an individual assessee for the A.Y. 2017-18 have been ascertained as Rs.2,00,000 and Rs.4,00,000 respectively. Then:
2. **Impact on Tax Liability** In the above case, because of aggregation of agricultural income, total income of assessee increases which leads to increase of tax-slab for the assessee from 10%

to 20% and hence, assessee has to pay an additional tax of Rs.10,300 (Rs.25,750-Rs.15,450) which is arises only because of aggregation of agriculture income in the total income. This implies that ordinarily agricultural income is tax-free but with aggregation, in real sense it is taxable at higher rate. This scheme benefits the Govt. by increase in tax- revenue collection while putting additional tax burden on the assessee out of no additional income. Following table explains the change much clearly:

| Particulars | Tax without Agri. Income (Rs.) | Tax with Agri. Income (Rs.) |
|--|-----------------------------------|--------------------------------|
| Total Income | 4,00,000 | 4,00,000 |
| Add- Agricultural Income | ----- | 2,00,000 |
| Aggregate Income | 4,00,000 | 6,00,000 |
| Tax on income liable to tax at special rate: | | |
| Casual Income @ 30% | ----- | ----- |
| STCG u/s 111A @ 15% | ----- | ----- |
| Tax on LTCG @ 20% | ----- | ----- |
| Tax on other income (Normal rates) :- | | |
| On first Rs. 2,50,000 | | |
| On next Rs.2,50,000 @ 10% | Nil | Nil |
| On balance @ 20% | 15,000 | 25,000 |
| Less- Tax on Agricultural Income | ----- | 20,000 |
| (2,50,000+2,00,000) | | 45,000 |
| First Rs.2,50,000 | Nil | Nil |
| Balance Rs.2,00,000 @ 10% | ----- | 20,000 |
| Add- Surcharge @10% | 15,000 | 25,000 |
| Add- Education cess @ 3% | ----- | ----- |
| Tax Liability | 450 | 750 |
| | 15,450 | 25,750 |

Case 5

1. Net agricultural income and total non-agriculture income (taxable income from salary + taxable income from business) of an individual assessee of 60 years for the A.Y. 2017-18 have been ascertained as Rs.3,00,000 and Rs.8,00,000 respectively.
2. **Impact on Tax Liability-** In the above case study the tax liability has been increased when agricultural income is aggregated with normal

income if aggregate income including agricultural income is more than Rs.5,00,000 hence on the basis of above analysis we can say that the aggregation of agricultural income has greater impact on tax liability of an individual assessee when tax slab increases from 20% to 30% as the tax burden increases by Rs.36,050 (Rs.1,23,600-Rs.87,550) in such slab rate because of aggregation only.

| Particulars | Tax without Agri. Income (Rs.) | Tax with Agri. Income (Rs.) |
|--|--------------------------------|-----------------------------|
| Total Income | 8,00,000 | 8,00,000 |
| Add- Agricultural Income | ----- | 3,00,000 |
| Aggregate Income | 8,00,000 | 11,00,000 |
| Tax on income liable to tax at special rate: | | |
| Casual Income @ 30% | ----- | ----- |
| STCG u/s 111A @ 15% | ----- | ----- |
| Tax on LTCG @ 20% | ----- | ----- |
| Tax on other income (Normal rates) :- | | |
| On first Rs. 250000 | Nil | Nil |
| On next Rs.2,50,000 @ 10% | 25,000 | 25,000 |
| On next Rs. 5,00,000 @ 20% | 60,000 | 1,00,000 |
| On balance Rs.1,00,000 @ 30% | ----- | 30,000 |
| Less- Tax on Agricultural Income | 85,000 | 1,55,000 |
| (2,50,000+3,00,000) | Nil | Nil |
| First Rs.2,50,000 | ----- | (25,000) |
| Next Rs.2,50,000 @ 10% | ----- | (10,000) |
| On balance Rs.50,000 @ 20% | 85,000 | 1,20,000 |
| Add- Surcharge @10% | ----- | ----- |
| Add- Education cess @ 3% | 2,550 | 3,600 |
| Tax Liability | 87,550 | 1,23,600 |

Conclusion

From above discussion and illustrations, it is clear that though agricultural income is tax- exempted u/s 10(1) of the individual assessee but in real sense, the aggregation has increased tax burden on the individual assessee. In other words, it can be said that, a kind of pseudo taxation is imposed on

agricultural income with a contribution to total direct tax collection.

It is, therefore suggested that such clauses should be repealed, Aggregation should be done for firm and company assessee, Also the basic exemption limit for aggregation should be increased to Rs.5,00,000 and more so that even a salaried person with small land holding can take benefit of agriculture,

increase in grains production and such lands should be used for agricultural PURPOSE ONLY. This will benefit marginal assessee to increase their earning without greater tax implications and also induce the growth in primary sector of the economy.

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