

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### Incomes not part of Total Income

### Build Your Confidence (BYC)

#### AGRICULTURAL INCOME

#### B1. MASTER QUESTION - Are the following incomes exempt from tax as agricultural income?

#	Income	Exempt?	Comment
1	Rent of Rs. 3 lakh from land situated in Rajasthan which is used for growing paddy.	Yes	Rent from agricultural land in India
2	Income of Rs. 10 lakh from sale of urban agricultural land situated in Assam.	No	Taxable as capital gains.
3	Income from growing flowers and herbs	Yes	-
4	Income from sale of butter and cheese made using milk of cattle located on agricultural land	No	No operations on land
5	Income from poultry farming	No	No operations on land
6	Suraj produces cotton in his fields and uses it as raw material to make clothes for sale in the market.	Partly	Partly agricultural and partly business income. Apportionment will be done to arrive at exempt agricultural income and taxable business income.
7	Das grows tobacco which he first dries and then takes to the market for being sold.	Yes	Process is ordinarily employed to render the produce fit to be taken to the market (compulsory process).
8	Rama carries on the activity of growing sugarcane on her farm land situated in a rural area. She has a store house adjacent to the farm land where she stores sugarcane before taking to the market for being sold.	Yes	Building used for agriculture and it is not situated in urban area.
9	Jane owns a building situated on land which she uses to cultivate crops. The building is used for storing cans of milk used in the dairy business that she carries on. Income from dairy business is Rs. 4 lakh.	No	Building not used for agriculture by Jane.

#### B2. CA2017(M) – Discuss with brief reasons, whether rent received for letting out agricultural land .....

*Rent* – Not exempt since not derived from agriculture.

*Sale of seedlings* – Exempt since deemed agricultural income, whether or not any basic operations are carried out on land.

#### B2a. CA2021(JAN) - Discuss the taxability of the following transaction giving reasons, in light of relevant provisions, for....

Rajpal receives rent from land situated in India and used for agricultural purposes. It is agricultural income u/s 2(1A).

Ownership of land is not necessary. Expenditure incurred in relation to exempt income is not deductible u/s 14A (para 31).

#### B2b. CA2021(JAN) - Discuss the taxability of the following transaction giving reasons, in light of relevant provisions, for.....

Income from any process ordinarily employed to render the produce fit to be taken to the market (compulsory process) is agricultural income. This may involve both manual and mechanical operations. Thus, income entire income is exempt.

#### B3. CA2016(N) – MASTER QUESTION - Mr. Kamal grows paddy and uses the same for the purpose of .....

Particulars	Business income	Agricultural income
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	Rs.	Rs.	Rs.
<b>SALE OF RICE</b>			
<b>Business income:</b>			
Sale proceeds of rice	30,00,000		
Less : Market value of paddy used as raw material (60%)	(-) 24,00,000		
Less: Manufacturing expenses	(-) 2,00,000		
<b>Agricultural income:</b>			
Market value of paddy (60%)		24,00,000	
Less : Cost of cultivation		(-) 12,00,000	
Balance			12,00,000
<b>SALE OF PADDY</b>			
Sale proceeds of paddy produce (40%)		15,00,000	
Less : Cost of cultivation		(-) 7,00,000	
Balance			8,00,000
<b>Total</b>	<b>4,00,000</b>		<b>20,00,000</b>

**B4. CA2018(M) - Miss Kavita, a ROR in India, has derived the following income for year ended 31.3.2022. ....**

Particulars	Rs.	Business income	Agricultural income	Comment
Income from sale of centrifuged latex processed from rubber plants grown in Darjeeling	1,00,000	35,000	65,000	35:65 apportioned u/r 7A
Income from sale of coffee grown and cured in Yercaud, Tamil Nadu	2,00,000	50,000	1,50,000	25:75 apportioned u/r 7B
Income from sale of coffee grown, cured, roasted and grounded in Colombo. Sale consideration received in Chennai.	5,00,000	5,00,000	-	Rule 7B applies when operations in India.
Income from sale of tea grown and manufactured in Shimla	10,00,000	4,00,000	6,00,000	40:60 apportioned u/r 8
Income from sapling and seedling grown in a nursery at Cochin. Basic operations are not carried out on land.	2,00,000	-	2,00,000	Deemed to be agricultural income
<b>Total</b>	<b>20,00,000</b>	<b>9,85,000</b>	<b>10,15,000</b>	

*Mistakes made by students – Apportioned 5 lakh though R. 7B is not applicable. No reasoning for exempting income from sapling and seedling.*

**B5. Mr. Rose sells tea grown and manufactured by him in Darjeeling, West Bengal. ....**

Total income comprises agricultural income and business income.

Particular	Rs.
Rule 8 applies?	Yes
Sale proceeds of tea	30,00,000
Less: Cost of growing tea leaves	(10,00,000)
Less: Cost of manufacturing tea	(15,00,000)
Business income (before apportionment)	5,00,000
Less: Agricultural income (60% exempt under Rule 8)	(3,00,000)
<b>Business income (40% Taxable)</b>	<b>2,00,000</b>

**B6. Examine whether the following incomes are chargeable to tax, and if so, compute the amount liable to tax.**

#	Income	Taxable?	Comment
1	Agricultural income of Rs. 1,27,000 earned by a resident of India from a land situated in Malaysia	Yes	Land not situated in India. Taxable assuming assessee is ROR.
2	CA2013(N) - Rent of Rs. 72,000 received for letting out agricultural land for a movie shooting	Yes	Land not put to agricultural use. Taxable.
3	Sale proceeds of raw tea leaves of Rs. 2 lakh. Cultivation	No	Agricultural income. R. 8 does not apply.

expenses of Rs. 50,000.

**B7. CA2018(M) – MASTER QUESTION - Mr. Avani, a resident aged 25 years, manufactures tea leaves from .....**

Computation of total income	Rs.
Rule 8 applies?	Yes
Sale proceeds of tea	40,00,000
Less: Cost of growing tea plants	(15,00,000)
Less: Cost of manufacturing	(10,00,000)
Business income (before apportionment)	15,00,000
Less: Agricultural income (60% exempt under Rule 8)	(9,00,000)
<b>Business income (40% Taxable)</b>	<b>6,00,000</b>

Computation of tax liability	Rs.	Rs.
Net agricultural income	9,00,000	
Non-agricultural income (total income)	6,00,000	
Is NAI > 5,000 and TI > 2,50,000?	Yes	
Tax on NAI + TI, i.e., 15,00,000		2,62,500
Less: Tax on NAI + 2,50,000, i.e., 11,50,000		(-) 1,57,500
Tax on total income		<b>1,05,000</b>
HEC @ 4%		4,200
<b>Tax liability</b>		<b>1,09,200</b>

**B8. Jagan is a resident and ordinarily resident in India. During the PY 2021-22, he manufactured rubber .....**

Computation of total income	Amount
Rule 7A applies?	Yes
Sale proceeds of rubber	50,00,000
Less: Cost of growing rubber plants	(25,00,000)
Less: Cost of manufacturing rubber	(10,00,000)
Business income (before apportionment)	15,00,000
Less: Agricultural income (65% exempt under Rule 7A)	(9,75,000)
<b>Business income (35% Taxable)</b>	<b>5,25,000</b>

Computation of tax liability	A. He is 34 years of age		B. He is 61 years of age	
Net agricultural income (NAI)	9,75,000		9,75,000	
Non-agricultural income (total income)	5,25,000		5,25,000	
Is NAI > 5,000 and TI > 2,50,000 (A) or 3,00,000 (B)?	Yes		Yes	
Tax on NAI + TI, i.e., 15,00,000		2,62,500		2,60,000
Less: Tax on NAI + 2,50,000, i.e., 12,25,000 (A) OR NAI + 3,00,000, i.e., 12,75,000 (B)		(1,80,000)		(1,92,500)
Tax on total income		<b>82,500</b>		<b>67,500</b>
HEC @ 4%		3,300		2,700
<b>Tax liability</b>		<b>85,800</b>		<b>70,200</b>