RAMA UNIVERSITY

www.ramauniversity.ac.in

FACULTY OF COMMERCE AND MANAGEMENT

COURSE: B.COM VI SEM.

SUBJECT: Corporate Tax Planning

SUBJECT CODE: BCH 403

LECTURE: 07

NAME OF FACULTY: DR. PALASH BAIRAGI

LECTURE-07

AGRICULTURAL INCOME

Taxability of Agricultural income

Agricultural income is considered for rate purposes while computing the income tax liability, if following two conditions are cumulatively satisfied:

i. Net Agricultural income exceeds Rs. 5,000/- for previous year, and

ii. Total income, excluding net Agricultural income, exceeds the basic exemption limit.

Note: If aggregate agricultural income of the assessee is up to Rs. 5,000/- during FY 2018, then the entire income shall be exempt from tax. Accordingly, you need to disclose the agricultural income in the **income tax return** (ITR) 1 form to be compliant from the disclosure perspective. But if the agricultural income exceeds Rs.5,000, then form ITR 2 applies, which has a separate column for disclosure of agricultural income.

Once the aforementioned conditions are satisfied then we shall compute the Tax liability in the following manner:

♠ **First**, include the Agricultural income while computing your income Tax liability.

Example – Let us say that an Individual Assessee has a Total income of INR 7,50,000/- (excluding Agricultural income) and a Net Agricultural income of INR 100,000/-. Then, per this step, Tax shall be computed on INR 7,50,000/- + INR 1,00,000/- = INR 8,50,000/-. Thus, *income Tax amount as per this step shall be INR 82500/- for an individual who is below the age of 60 Years during the P.Y. 2017-18*.

♠ **Second**, add the applicable basic tax slab benefit, as applicable, to the Net Agricultural income. Thus, per our example mentioned above we shall add INR 2,50,000/- to INR 1,00,000/- as the applicable Tax slab benefit available to an individual below 60 Years of age is INR 2,50,000/-. *Now we will compute income Tax on INR 3,50,000/- (Tax slab benefit 2,50,000 + Net Agricultural income 1,00,000). The amount of Tax shall be INR 5000/-.*

♠ **Third**, *subtract the Tax computed in Second step from the Tax computed in First step = INR 77,500/-*. Thus, this is the income Tax liability subject to deductions, Education Cess etc., as applicable.

This process of computation is, however, followed only if the assessee's non-agricultural income is in excess of the basic exemption slab.

Clearly, despite agricultural income being tax-exempt, assessees have to be cautious while dealing with such income. They must make sure that they aggregate agricultural income with their total income to avoid interest payments and possible penalties for concealment of income. Assessees must also maintain credible records to provide the tax authorities with proof of ownership of agricultural land and evidence of having earned agricultural income.

****