

Though agricultural income is exempted from tax, but there are certain agricultural produces which cannot be sold without processing. To make the produces marketable or saleable, processing is required. This processing of produces is treated as non-agricultural operations i.e., business operation. Therefore, income from sale of tea, coffee, rubber or other produces after processing comprises both agricultural income and business income.

Rules 7 and 8 of the Income Tax Rules, 1961 provides the following segregation:

Rule	Nature of Income	Agricultural income	Business Income
8	Income from growing and manufacturing of tea sold in India	60%	40%
7A	Income from growing and manufacturing of rubber sold in India	65%	35%
7B(1)	Sale of coffee grown and cured by seller in India	75%	25%
7B(2)	Sale of coffee grown, cured, roasted and grounded by the seller with or without mixing chicory in India	60%	40%

SUM 1:

State with reason, whether the following income are agricultural income or not;

- 1) Income earned from the sale of tea grown and manufactured by the assessee.
- 2) Income from growing flowers and creepers.
- 3) Income by way of selling rice produced from the paddy purchased by the assessee.
- 4) Profit earned from the sale of agricultural land.
- 5) Profit earned from selling agricultural products from a land situated in Bangladesh.
- 6) Interest on capital received by a partner from the firm engaged in agricultural operations.
- 7) Profit earned from the sale of wild grass of spontaneous growth.

Solution:

Particulars	Nature of income	Reason
Income earned from the sale of tea grown and manufactured by the assessee.	60% of such composite income shall be treated as agricultural income and the balance 40% shall be treated as taxable business income	As per rule 8
Income from growing flowers and creepers.	Agricultural income	Basic and subsequent operations are involved
Income by way of selling rice produced from the paddy purchased by the assessee.	Not an agricultural income	As no agricultural operations are involved here
Profit earned from the sale of agricultural land.	Not an agricultural income	As profit has not derived from agricultural land
Profit earned from selling agricultural products from a land situated in Bangladesh.	Not an agricultural income	As the land is situated outside India

Interest on capital received by a partner from the firm engaged in agricultural operations.	Agricultural income	As salary, interest, etc received by the partners are nothing but part of total profit of the firm
Profit earned from the sale of wild grass of spontaneous growth.	Not an agricultural income	As profit has not derived from agricultural land

Sum 2:

Mr. A is engaged in growing and manufacturing of tea, furnished the following information for the previous year 2019-20:

Sale of tea Rs 1500000

Growing and manufacturing expenses of tea Rs 500000

Compute taxable income of Mr.A for the Assessment year 2020-21.

Solution:

Computation of taxable income of Mr.A for the Assessment year 2020-21 relating to Previous year 2019-20

Particulars	Amount	Amount
<u>Profit and gains from business or profession</u>		
Sale of tea	1500000	
Less: Growing and manufacturing expenses of tea	<u>500000</u>	
		1000000
Less: 60% as agricultural income		<u>600000</u>
Gross total income		<u>400000</u>
Less: Deductions		<u>Nil</u>
Taxable income		<u>400000</u>

Sum 3:

Mr. B is 60 years old, a resident individual had furnished the following information for the previous year 2019-20:

Income from Growing and manufacturing of tea Rs 120000

Income from Growing and manufacturing of rubber Rs 200000

Compute her taxable income for the Assessment year 2020-21.

Solution:

Computation of taxable income of Mr. B, a resident individual for the Assessment year 2020-21 relating to Previous year 2019-20.

Particulars	Amount
<u>Profit and gains from business or profession</u>	
Income from Growing and manufacturing of tea Rs (120000*40%)	48000
Income from Growing and manufacturing of rubber Rs (200000*35%)	<u>70000</u>
Gross total income	<u>118000</u>
<u>Less: Deductions</u>	<u>Nil</u>
<u>Taxable income</u>	<u>118000</u>

In case of any query, mail to sabame18@gmail.com