



# Agricultural Income & Exempt Income

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# Agricultural Income and it's Taxation



# Myth

Agricultural Income is entirely tax free!

# Fact

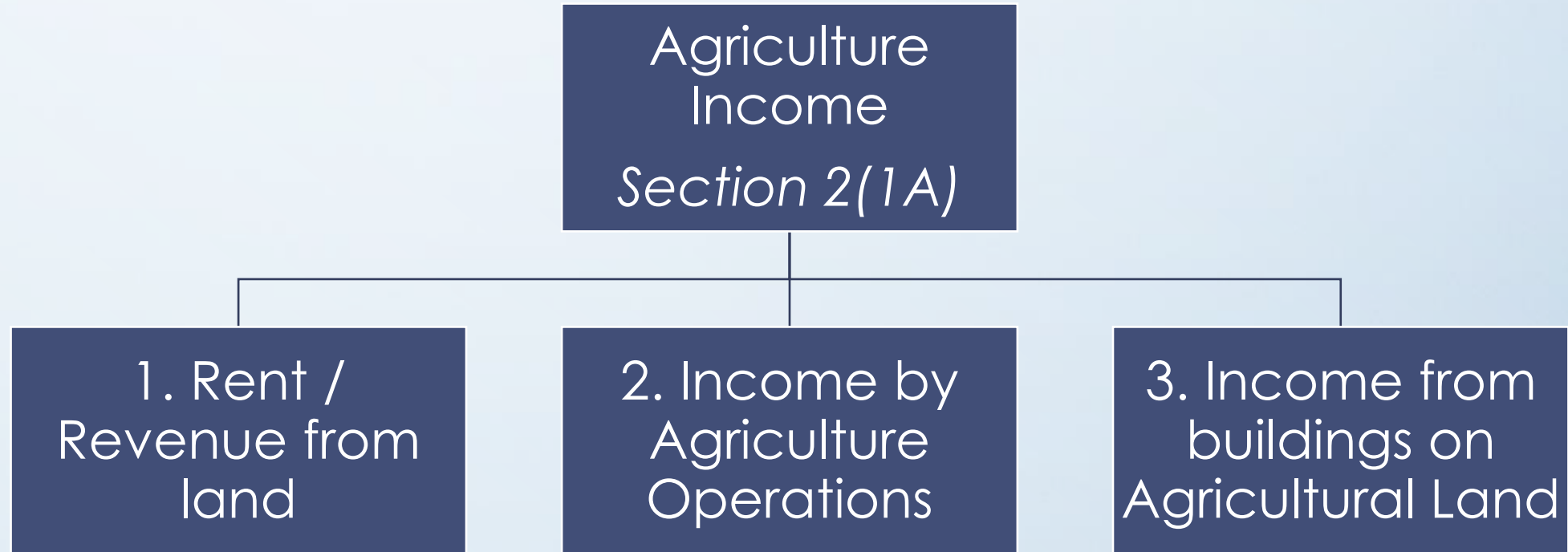
Agricultural Income is tax free on if certain conditions are met. Income from additional sources lead to additional taxes on agricultural income as well.

# Agricultural Income – Sections

## Relevant Sections & Rules with respect to Agriculture Income

<b>Provision</b>	<b>Description</b>
<b>Section 10(1)</b>	Exemption of tax on Agriculture Income
<b>Section 2(1A)</b>	Definition of Agriculture Income
<b>Section 2(14)(iii)</b>	Agricultural land in India excluded from Capital asset definition
<b>Rule 7, 7A, 7B &amp; 8</b>	Income which is partially from agriculture and partially from business

# Agricultural Income – Definition



# Agricultural Income - Definition

## 1. Rent / Revenue from land

### Conditions:

- Income should be derived from the land
- Land to be situated in India
- Land to be used for agriculture purpose.

*Proceeds form sale of such land is not included under Agriculture Income*

## 2. Income by Agriculture Operations

- Income derived by agriculture operations or marketing or sale of agriculture produce
- Conditions as per item 1 to be satisfied
- A portion of the proceeds from the sale will often be classified as non-agricultural and a portion as agricultural revenue. Income tax Rules to be referred.

# Agricultural Income - Definition

## 3. Income attributable to farm houses in certain cases

- Generally includes revenue from buildings, warehouses where the any agriculture produce is stored or agriculture operations are undertaken

### Conditions:

- Building to be in immediate vicinity of the land
- One of the two requirements ought to be met:
  - Government officials either use land revenue or a local rate to determine and collect the assessment of the land; OR
  - If the aforementioned need is not met, the land shouldn't be situated in the specified area.

Aerial distance from the Municipality	Population
Within 2 Kms	10,000 to 1,00,000
Within 6 Kms	1,00,000 to 10,00,000
Within 8 Kms	More than 10,00,000



# Agricultural Income - Examples

Agriculture Income	Non-Agriculture Income
Income from sale of seeds, saplings	Income from breeding of livestock, poultry, dairy farming, bee hiving & fishery
Income from growing of flowers, creepers & bamboo	Sale of naturally grown trees
Income from the sale of replanted trees	Income from cutting & selling of timber trees
Rent received from agricultural land	Income from agricultural land held as stock
Interest on capital, share in profit & partner's salary received from a firm involved in agriculture activities	Receipts from commercial usage of farm house including shooting income
Income from lease of land for grazing of cattle required for agricultural purpose	Interest on arrears of rent receivable in respect of agricultural land
Compensation received from an insurance company for damage of any agriculture crop	Director's remuneration as a % of net profit from agriculture income
	Dividend paid from an company's agriculture income
	Interest received by a money lender in the form of agricultural produce
	Income from supply of water for irrigation purpose



# Agricultural Income – Computation

In the following situations, there is a full tax refund on agricultural income:

- Income from agricultural land is the only source of income.
- Total agricultural income < Rs. 5,000 per year
- If your total income, excluding your agricultural income, is less than the basic exemption limit and you have both other and agricultural income.

**Where income from non-agricultural sources exceeds the basic exemption limit and agriculture income is > Rs. 5,000 per year, tax on the total income shall be computed as per the prescribed method.**

- **Basic Exemption limit**
  - **Old Regime: Rs. 2,50,000**
  - **New Regime Rs. 3,00,000**

# Agricultural Income - Computation

The following three steps are used to determine the agriculture income tax :

- **Step 1:** Calculate the tax due on net agricultural income plus non-agricultural revenue.
- **Step 2:** Calculate the tax based on the net agricultural income plus the maximum exemption amount according to the relevant tax slab.
- **Step 3:** Subtracting the amount of step 2 from the amount of step 1 to arrive at the ultimate tax amount.

*Tax determined above would be subject to applicable surcharge and cess.*

**10. Illustrations—Illustration 1**—Mr. X is an individual, aged 45 years having total income of ₹ 5,60,000 and net agricultural income of ₹ 1,60,000 for the previous year 2023-24. The computation of income-tax payable will be as under (as per old regime).

Aggregate total income	= Non-agricultural income + Net agricultural income
	= [5,60,000 + 1,60,000] = ₹ 7,20,000
Income-tax thereon	= ₹ 56,500
Basic limit plus net agricultural income	= ₹ 2,50,000 + 1,60,000 = ₹ 4,10,000
Income-tax thereon	= ₹ 8,000
Net income-tax payable	= ₹ 56,500 - 8,000 = ₹ 48,500
Net tax payable including health and education cess @ 4%	= ₹ 50,440


Had the agricultural income not been included the tax payable would have been ₹ 25,480 only.

**Note :** As non-agricultural income is more than ₹ 5,00,000, hence tax rebate under section 87A will not be allowed.

*What if Mr. X is chargeable to tax under new tax regime provided under section 115BAC—In that case tax will be determined as under :*

(a) On aggregate income	= ₹ 27,000
(b) On basic limit plus net agricultural income	= ₹ 8,000
(c) Net income-tax payable	= ₹ 27,000 - ₹ 8,000 = ₹ 19,000
(d) Net tax payable including health and education cess @ 4%	= ₹ 19,760

# Agricultural Income – Disclosure in ITR

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## Add Agricultural Income

\* Indicates mandatory fields

i. Gross Agricultural receipts ⓘ	₹ 5,01,000
ii. Expenditure incurred on agriculture	₹ 1,000
iii. Unabsorbed agricultural loss of previous eight assessment years	₹
iv. Agricultural income portion relating to Rule 7, 7A, 7B(1), 7B(1A) and 8 ⓘ	₹ 0
<b>v. Net Agricultural income for the year ( i- ii- iii + iv ) ⓘ</b>	<b>₹ 5,00,000</b>

ⓘ In case the net agricultural income for the year exceeds ₹5 lakh, please furnish the following details:

### Location of Agricultural Lands (Fill up details separately for each agricultural land)

Name of District *	<input type="text"/>	<input type="button" value="Delete"/>	PIN Code *	<input type="text"/>
Measurement of agricultural land *	<input type="text"/>			
in acres				
Whether the agricultural land is owned or held on lease? *		Whether the agricultural land is irrigated or rain-fed? *		
<input type="radio"/> Owned	<input type="radio"/> Held on Lease	<input type="radio"/> Irrigated	<input type="radio"/> Rain-fed	
<input type="button" value="Cancel"/>		<input type="button" value="Add"/>		

**Where the Net Agricultural Income for the year exceeds Rs.5 lakhs, additional details of the Agricultural Land are to be disclosed in the ITR**

# Exempt Income



# Section 56: Gifts from Relatives

- Gifts obtained from any relative or on the occasion of an individual's marriage, are considered tax-free income in India. These include money, property, jewellery, archaeological collections, drawings, paintings, sculptures, any work of art or bullion, including virtual digital assets.
- Relative means:
  - (i) spouse of the individual;
  - (ii) brother or sister of the individual;
  - (iii) brother or sister of the spouse of the individual;
  - (iv) brother or sister of either of the parents of the individual;
  - (v) any lineal ascendant or descendant of the individual;
  - (vi) any lineal ascendant or descendant of the spouse of the individual;
  - (vii) spouse of the person referred to in clauses (ii) to (vi);

**No specific option to report the value of such exempted gifts in the ITR Form.  
However, as a conservative approach the same can be reported as “Any Other Income” under the Schedule  
“Exempt Income”**

# Section 10(14): Special Allowances

**Allowance exempt u/s 10(14)(i)**- exempts from income tax such receipts from the employers as are in the nature of special allowances or benefits **specifically granted to cover the expenses incurred by the employee wholly, necessarily and exclusively in the performance of his duties**. Only such expenses will, however, be allowable as have been specified by the Central Government through Official Gazette.

**Rule 2BB (1)** For the purposes of sub-clause (i) of clause (14) of section 10, prescribed allowances, by whatever name called, shall be the following, namely

- (a) any allowance granted to meet the **cost of travel on tour or on transfer** (including any sum paid in connection with transfer, packing and transportation of personal effects on such transfer).
- (b) any allowance, whether, granted on tour or for the period of journey in connection with transfer, **to meet the ordinary daily charges incurred by an employee on account of absence from his normal place of duty**;
- (c) any allowance granted to meet **the expenditure incurred on conveyance in performance of duties** of an office or employment of profit, provided that free conveyance is not provided by the employer;
- (d) any allowance granted to meet the **expenditure incurred on a helper where such helper is engaged for the performance of the duties of an office** or employment of profit;
- (e) any allowance granted for **encouraging the academic, research and training pursuits** in educational and research institutions;
- (f) any allowance granted to meet the **expenditure incurred on the purchase or maintenance of uniform** for wear during the performance of the duties of an office or employment of profit.

## Pre-conditions for claiming exemption

- a. Allowance to be specifically granted to meet expenses
- b. Should not be in the nature of perquisite or entertainment allowance
- c. Expense should be wholly incurred in the performance of duties
- d. Allowance should be prescribed by the CG
- e. Exemption is only to the extent of expense incurred
- f. Allowance should not be granted for personal expenses



# Section 10(14): Special Allowances

**Allowance exempt u/s 10(14)(ii)-** exempts from income tax such receipts from the employers as are in the nature of personal allowances or benefits **specifically granted to cover the expenses incurred by the employee's personal expenses at the place of employment or the place of residence or to compensate him for the cost of living**

**Rule 2BB (2)** specifies a detailed list of such expenses that can be claimed along with the maximum exempt amount.

Few such expenses include:

- a. Children Education expense
- b. Children Hostel Expense
- c. Transport allowance to persons who are disabled
- d. Allowance to members of armed forces, etc.

**Assessees who have opted for new regime of tax u/s 115BAC, shall not be allowed to claim most of the exemptions allowed u/s 10(14), except for few**

## Pre-conditions for claiming exemption

- a. Allowance to be specifically granted to meet employee's personal expenses
- b. Expense should incur at the place where of employment or at the place where the employee resides
- c. The allowance may be a compensation for the increased cost of living as prescribed by the CG
- d. Any allowance granted to compensate for performing his duties of special nature will not be allowed



# Receipts on death/ termination

Provision	Description
<b>Circular No.573 dated 21.08.1990</b>	<ul style="list-style-type: none"> <li>- CBDT vide the said circular had clarified that any lump-sum payment received gratuitously or by way of compensation or otherwise, by a widow or legal heirs of an employee, who dies while still in active service, will not be taxable as income under the Act in the hands of the recipient.</li> <li>- In DCIT vs Mrs Lakshmi M Aiyer: [2011] 131 ITD 436 (Mumbai), the amount received by a widow of a partner from the partnership firm upon his death and in terms of the partnership deed was held to be non-taxable.</li> <li>- Compensation received by legal heir of a Government employee, even if received on a monthly basis and not as lump sum payment, was capital receipt not chargeable to tax.</li> </ul>
<b>Circular No. 776, dated 8-6-1999.</b>	<ul style="list-style-type: none"> <li>- Ex gratia payment received by a person or his heir from the Central Government/State Government/Local Authority/Public Sector Undertaking, consequent upon injury to the person/death of a family member, while on duty, is not liable to tax.</li> </ul>
<b>Section 10(10) Gratuity</b>	<ul style="list-style-type: none"> <li>- Gratuity received upon death, termination, becoming incapacitated or resignation are covered.</li> <li>- Fully exempt for Govt. Employees</li> <li>- Employees under Payment of Gratuity Act: Least of – a) actual gratuity received, b) last 15 days salary for every year of service or c) Rs. 20,00,000 (from 29-3-2018 onward)</li> <li>- Any other employee: Least of – a) actual gratuity received, b) ½ month’s salary for each completed year of service (Avg. salary is calculated based on last 10 months salary) or c) Rs. 20,00,000 (from 29-3-2018 onward)</li> <li>- Gratuity received while in service is taxable</li> <li>- Re-employment with the same employer after retirement – Gratuity paid in such case is exempt.</li> </ul>

# Section 10 Exemptions

Provision	Description
<b>Section 10(4)(ii)</b>	Interest income from an Non-Resident (External) Account
<b>Section 10(5) Leave Travel Concession or Assistance (LTA)</b>	<ul style="list-style-type: none"> <li>- Travel on leave or on termination to any place in India. Lodging/ boarding expenses not allowed.</li> <li>- Expense incurred by way of travel by air, rail or bus</li> <li>- Exemption in respect of only two journeys in a block of four years</li> <li>- Travel with a foreign leg, is not considered as travel within India</li> <li>- Carryover of exemption- where such exemption is not availed in a particular block, a single journey can be claimed in the first year of the immediately succeeding block.</li> <li>- Exemption not allowed under new regime</li> </ul>
<b>Section 10(10AA) Leave Encashment</b>	<ul style="list-style-type: none"> <li>- Any payment received in respect of any period of leave not availed by an employee is taxable as salary, except where exempted u/s 10(10AA)</li> <li>- Fully exempt for Govt. Employees</li> <li>- Other Employees: Least of the following               <ul style="list-style-type: none"> <li>- Amount actually received</li> <li>- Rs. 25,00,000 (from 01/04/2023 onward)</li> <li>- 10 months average salary</li> <li>- Average salary x no. of earned leave in months (no exceeding 30 days in each year)</li> </ul> </li> <li>- Leave encashment received during the employment is not exempt</li> </ul>

**10(34A) – Exemption on buyback of unlisted/ listed shares in the hands of shareholders - No such exemption from 01/10/2024**

# Thank You!

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Taxation of  
Equity Ownership Plans for *Employees*  
(RSUs, ESOPs, ESPP)  
&  
Recent Amendments in TDS

CA Pankaj Kumar Trivedi

# Agenda

- TYPES OF EQUITY OWNERSHIP PLANS
- IMPORTANT DATES
- TAXATION-RSU, ESOP's and ESPP
- OBLIGATIONS OF EMPLOYEES
- TAX SAVINGS
- Recent Amendments in TDS

# Types of Equity Ownership Plans

- Restricted Stock Units (RSU)
  - Employee gets ownership of shares/cash equivalent without any payment in the future
- Employee Stock Option Plan (ESOP)
  - Employee is given an option to buy shares at a pre-determined price at a later date
- Employee Share Purchase Plan (ESPP)
  - Option given to employees to enrol for ESPP monthly payroll deductions (% of salary)
    - At end of offering/purchase period (usually 6 months), shares are allotted at a pre-determined discount (generally up to 15%) to market value.
- SARS- Payment in lieu of Allotment of Shares

# Important Dates

- Grant Date
- Vesting date
- Exercise date
- Exercise Period
- Sale Date



# Taxation

➤ Tax is levied at two stages:

1. Stage 1 - At the time of Vesting/Exercise/Allotment

- Taxed under the head salary (perquisites) as per the normal tax slab of the employee

2. Stage 2 - At the time of selling the shares by Employee

- Taxed under the head capital gains

➤ Fair Market Value or FMV means prevailing market price

- In case of listed shares, FMV = listed share price
- In case of the unlisted shares, FMV = As per the Valuation Certificate obtained from the merchant banker on the specified date ( i.e. Exercise date or any earlier date not being more than 180 days prior to the date of exercise)

# Stage 1: Taxation of RSUs

- Date on which Taxed: Vesting Date and *not* upon grant
- Value for Taxation: FMV of Shares allotted at vesting
- Taxed as: Perquisite
- Responsibility: Employer

# Stage 1: Example for Taxation For RSU's

- On 01-01-2022, A is granted 100 shares in X Co.
- 25 shares vest to him after every completed year.
- FMV on date of First Vesting, i.e. 01-01-2023 is 20\$ per share.
- He sells all these shares on 15-04-2023 @ 30\$ per Share.
- The taxation will be as under:

Shares Offered	100	
Date of Grant	01/01/2022	
Date of First Vesting	01/01/2023	
Number of shares Vested	25	
<b>FMV at time of Vesting</b>	<b>20\$</b>	
<b>Stage 1 : Taxation at the time of Vesting (FY 2022-2023)</b>		
Taxation Date	01/01/2023	
	Value	No of Shares
Perquisite to be taxed (25 shares*20\$ per share)	500\$	25
Tax @ 31.2% (as per slab rate)	156\$	7.8 ~ 8 (Balance shares = 25-8 = 17)
<b>Stage 2 : Taxation at the time of Sale of Shares</b>		
Sale price (30\$*17)	510\$	
Less Cost price (20\$*17)	340\$	
Capital Gains	170\$	

- What Happened to 8 Shares

# Stage 1: Taxation of ESOPs & ESPP

- Date on which Taxed: Exercise Date/Purchase and *not* upon grant/Vesting
- Value for Taxation: FMV of shares allotted on the exercise date  
(Less) Amount paid by the Employee
- Taxed as: Perquisite
- Responsibility: Employer

# Stage 2: Taxation on Subsequent Sale of ESPP/RSU

- Taxed as: **Capital Gains** (Long-term/ Short-term depending on the holding period of shares)
- Unlisted shares in India/Listed out of India, if sold within
  - $\leq 24$  months of holding = STCG, taxable as per slab rates
  - $> 24$  months = LTCG, taxable @ 12.5% without indexation (Sold Before 23/07/24 at 20% with Indexation). SC & Cess as applicable
- Date on which Taxed: Transfer Date.
- Value for Taxation: Sale Price – FMV considered for the purpose of Calculating Perquisite.
- Responsibility: **Employee**

# Obligations of Employees

- Dividends Credited, interest credited In the Brokerage account need to be declared as income .
- Form No 67 to be mandatorily filed to claim rebate of withholding tax on Dividends
- Capital Gain/Loss irrespective of the amount involved need to be declared in Income tax returns
- Schedule FA to mandatorily Include the Shares held as on 31<sup>st</sup> December.
- Penalty for Non disclosure is Rs 10 lakhs (Subject to Limit of 20 Lakhs w.e.f. AY 2024-25)

# Tax savings

If the Period of holding of Shares from date of Vesting/Exercise is Equal to or More than 24 months (i.e. Long Term)

- Tax saving U/s 54F is available if amount is invested in the acquisition of a New House Property..... Subject to conditions
- 54EE is not available as No Bonds have been notified.
- In case of losses - Benefits of Set Off and carry Forward and Set off is also available for both Long Term and Short Term assets.



## Recent Amendments in TDS

- **TCS brought under the Purview of Section 192**
- **Fall in TDS rates –Includes reduction of TDS to 2% from 5% on Commission or Brokerage, 194H, Payment of Rent by Individual U/s 194IB, Payment of Certain Sums by Certain Individuals & HUF U/s194 M and**
- **Payment of Certain Sums by E Commerce operators to e commerce Participant from 1% to 0.1% U/s194 O**

## Recent Amendments in TDS

- **194 IA- TDS on sale of Immovable Properties-Clarification Provided that TDS is applicable when Aggregate of Amounts Payable by all transferees to Transferor or all the transferees Exceed Rs 50 lakhs.**
- **194T- 10% from Resident Partner, for any sum Paid to Partner in nature of Salary, remuneration, commission, bonus or Interest at time of Credit or Payment whichever is earlier. In case Partner is Non Resident 10%+Surcharge as Applicable+Cess. Threshold limit is Rs 20000.**  
**Applicable from Payments made from 01/04/2025**
- **Aadhar Pan Linking**

# Recent Amendments in TDS

## **Time Limit for Correction Statements:**

To be done within 6 Years from the end of Financial Year in which TDS/TCS statements are required to be delivered.

Similarly no order shall be made deeming any person to be assessee in default for failure to deduct/Collect Tax after expiry of 6 Years from the end of Financial Year in which TDS/TCS statements are required to be delivered.  
Helpful for Non Residents.

## **TDS on Purchase of Immovable Property from Non Residents:**

Should the TDS be 20% or 12.5% +SC+E cess whichever is responsible.

Is it same for Short Term Capital Gain

# Recent Amendments in TDS

## **Claiming TCS Credit of Minor in Hands of Parent**

Where income of minor is clubbed in Hands of Parent TCS credit is allowed in the hands of Parent

Helpful for TCS recovery for money's sent abroad for Minors Education

## **Penalty for Failure to Furnish TDS/TCS Statement**

Time limit for not levying Penalty U/s 271H reduced from 1 Year from time prescribed for furnishing such statement to 1 month to help Assessee submit Revised/Belated Return.

Thank You

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