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With this thought, we hereby present to you

TAXATION OF AGRICULTURAL INCOME IN INDIA: A LEGAL AND ECONOMIC PERSPECTIVE

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ABSTRACT

This research examines the tax regime on agricultural income in India from both legal and economic perspectives, with a focus on new reforms introduced by the Income Tax Bill 2025. Historically, agricultural income was exempt from taxation to protect rural lives and support agrarian stability in line with constitutional provisions and judicial dicta recognizing the distinct nature of farming activities. Recent reforms, however, have brought significant modifications, including clearly defined income thresholds for mandatory disclosure, advanced digital verification protocols, and stricter distinctions between genuine farming revenue and ancillary agro-based earnings. Employing a hybrid analysis that combines doctrinal legal inquiry with quantitative economic assessment, this study explores how these reforms redefine the traditional tax exemption framework. Legally, the reforms clarify uncertainties in income classification, thereby enhancing compliance and accountability while preserving essential protections for small-scale farm producers. Economically, the revised tax framework is shown to boost revenue mobilization and improve fiscal transparency, though care must be taken to avoid undue burdens on the primary agricultural sector. In conclusion, this paper calls for a balanced policy framework that protects rural stakeholders while promoting fiscal sustainability, and it highlights the need for further research on the long-term impacts of these reforms across sectors.

Keywords: Agricultural Income, Income Tax Bill 2025, Legal Perspective, Economic Perspective, Agrarian Stability, Rural Livelihood, Income Thresholds, Judicial Dicta, Compliance and Accountability

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Introduction

India's agricultural sector has long been the backbone of its economy, with traditional tax exemptions on agricultural income playing a crucial role in protecting rural livelihoods and ensuring agrarian stability. Rooted in constitutional mandates and judicial interpretations, the historic non-taxable status of agricultural income was designed to shelter small-scale farmers from the uncertainties of a rapidly changing economic landscape. However, as India positions itself on the cusp of modernization, recent regulatory changes under the Income Tax Bill 2025 have sparked a re-examination of this longstanding framework.

The new legislation marks a significant shift by introducing clearly defined income thresholds—mandating that agricultural income exceeding ₹10 lakh annually must now be declared—while integrating advanced digital verification protocols to bolster transparency and accountability. These reforms further delineate between genuine farming revenue and ancillary income from non-core agro activities, thereby narrowing the scope for potential tax evasion. The digital tools now require meticulous documentation, including land lease agreements and crop yield reports, ensuring that only authentic agricultural earnings remain exempt while income derived from ancillary, non-farm activities is scrutinized.

Methodologically, this research adopts a hybrid approach, weaving together doctrinal legal analysis with quantitative economic assessments to explore the implications of these reforms. By interrogating how these changes reconcile fiscal sustainability with the protection of rural stakeholders, the study aims to shed light on whether the revamped tax regime can effectively balance economic modernization with the social and financial security of India's agrarian communities, while setting the stage for further empirical research.

Agricultural Income under the Income Tax Act, 1961

Definition (Sec.2(1A)) – The Act broadly defines “agricultural income” to include: (a) any rent or revenue from land in India used for agriculture; (b) income from such land from agriculture or processes ordinarily employed to make produce marketable; (c) income from buildings (dwelling houses, store-houses etc.) on or adjacent to such land used by the cultivator; and (d) income from nursery saplings or seedlings.³ For example, rent paid to a landowner by a tenant farmer, or the sale proceeds of crops (after simple cleaning/drying), qualify as

³ <https://tax2win.in/guide/income-tax-agricultural-income>

agricultural income. Explanations to Sec.2(1A) clarify that sapling production, plantation activities, and customary farm operations are included, but purely commercial activities (e.g. milling, packaging) are not. **Excluded activities:** Income from allied activities – such as dairy or poultry farming, fisheries, forestry or bee-keeping – is explicitly *not* classified as “agricultural income” under the Act.

Exemption (Sec.10(1)) – Section 10(1) of the Act exempts all agricultural income (as defined) from central income tax.⁴ In practice this means a farmer’s net earnings from cultivation are not charged at all under the Income-tax Act. Moreover, income from sale of agricultural land and compensation for compulsory acquisition of agricultural land are also exempt under Sec.10(1).⁵ (These continue to be sheltered as part of the “agricultural income” concept, provided the land meets statutory criteria.) Even when farmers have other taxable income, the Act uses a *partial integration* rule: if a taxpayer’s agricultural income exceeds ₹5,000 and non-agricultural income exceeds the basic exemption limit, the two incomes are aggregated to compute tax on the non-farm portion. The central tax is then levied only on that calculated non-farm amount (agricultural income itself remains untaxed), ensuring no double taxation.

Other provisions: Under Sec.2(1B), “aggregate income” is defined to facilitate this partial integration. Section 80P provides deductions for certain co-operative societies (e.g. primary agricultural credit societies) engaged in farm credit or produce marketing, reinforcing tax relief for rural credit. Overall, the 1961 Act’s framework treats genuine farm income as tax-exempt (subject to reporting requirements), while closely taxed commercial or allied activities as ordinary business income.

Proposed Treatment in the Income Tax Bill, 2025

The new Income Tax Bill, 2025 maintains the core exemption for genuine agricultural income but sharpens definitions and closes loopholes. **Definitions:** Clause 2(5) of the Bill redefines “agricultural income” almost identically to Sec.2(1A) of the 1961 Act. It again includes rent from Indian farmland used for agriculture, income from cultivation or market-preparing processes, farm-building income (dwelling/storehouse on or near land used for farming), and

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<https://www.taxbuddy.com/blog/agricultural-income-in-income-tax#:~:text=amount%20of%20income%20used%20to,agricultural%20income>

⁵ <https://economictimes.indiatimes.com/wealth/tax/what-is-agriculture-income-different-types-of-agriculture-income/articleshow/104818288.cms?from=mdr>

nursery income.⁶ For instance, rent from land used for crops and proceeds from crop sales (after basic cleaning or drying) remain covered. Crucially, the Bill *explicitly* excludes certain items: renting the farmhouse or land for non-farm uses, and gains on the sale of land located in specified urban areas (as per Clause 22(iii)(A)/(B)), are no longer “agricultural income”. (Income from dairy, poultry, fisheries, etc. – already outside the old definition – are confirmed as taxable business income.)

Key changes: The Bill clarifies and narrows the scope of the exemption as follows:

- **Farming activities:** Income from direct cultivation (growing crops, horticulture, etc.) remains fully exempt, as before. However, to claim exemption, taxpayers must substantiate genuine farming (e.g. through land records, receipts) – a new emphasis on documentation.⁷⁸
- **Lease/rent of land:** Under the Act, any rent from farmland was exempt. The Bill retains exemption for rural leases used for farming, but makes rentals from *urban or commercially purposed* farmland taxable. In effect, leasing large tracts for non-farm development (even if nominally farmland) will not qualify as agricultural income.⁹
- **Farm-buildings:** Income from farmhouses or agricultural outbuildings occupied by the cultivator is still exempt (subject to distance and usage conditions). But rent from such farmhouses used as residences or businesses (rather than farm operations) is now expressly taxable.
- **Processing of produce:** The Act exempts income from processes “ordinarily employed” to make produce marketable (e.g. winnowing, drying). The Bill continues this: simple cleaning and drying are tax-free. However, any *value-added* activity beyond mere preparation (such as milling into finished products or packing) is no longer “ordinary” processing and yields taxable income.
- **Nurseries:** Small-scale nurseries remain exempt (nursery sapling income is still agricultural). The Bill does, however, indicate that large commercial nurseries – those

⁶ <https://www.businesstoday.in/personal-finance/tax/story/income-tax-bill-2025-heres-how-taxation-of-agricultural-income-farmland-has-been-tweaked-464590-2025-02-13>

⁷ <https://www.outlookmoney.com/tax/income-tax-bill-2025-tweaks-taxation-on-agricultural-income-heres-what-has-changed#:~:text=The%20Bill%20also%20seeks%20to,expected%20to%20come%20under%20scrutiny>

⁸ <https://krishiujala.in/income-tax-bill-2025-agriculture-income/#:~:text=Cultivation%20of%20Land%3A%20Tax%20exemption,documentation%20to%20verify%20a%20rming%20activities>

⁹ <https://www.outlookmoney.com/tax/income-tax-bill-2025-tweaks-taxation-on-agricultural-income-heres-what-has-changed#:~:text=,or%20seeds%20in%20a%20nursery>

operating more like businesses – will now pay tax.¹⁰

- **Allied sectors:** Activities like dairy farming, poultry, fisheries, and other agri-businesses are specifically carved out. The Bill notes that *any* income from these is “no longer considered ‘agricultural income’” and hence is taxable under normal income heads. Likewise, large-scale agro-processing industries lose former tax breaks, while only truly small farmer producers retain preferential treatment.
- **Structural changes:** Section 10 exemptions (including agricultural income) are moved into *Schedule II* of the Bill, presented in tabular form. This reorganization (along with removal of intricate provisos) is intended to simplify the law, making the criteria for exemption clearer to taxpayers and administrators.

The 2025 Bill retains the core principle that genuine farm income is exempt, but it narrows down the scope by tightening definitions and adding explicit exclusions. It aims to curb misuse of the agricultural-income exemption (e.g. by high-income individuals claiming non-farm income), while still protecting typical farmers.

Comparison: 1961 Act vs 2025 Bill

- **Scope of Exemption:** Under the 1961 Act, essentially *any* income satisfying Sec.2(1A) was tax-free.¹¹ The Bill largely preserves those core categories but narrows others. For example, Act-era “agricultural income” included **all** rent from farmland; the Bill makes an exception for urban or non-agricultural land rentals. Processing income beyond marketability – lightly taxed or exempt before – is now treated as business income.¹² Thus, the Bill’s legally exempt category is a subset of the Act’s, with many borderline cases (commercial leases, value-added activities, allied farms) excluded.
- **Regulatory Clarity:** The Act’s definitions and exemptions were scattered with provisos and explanations, often leading to litigation. The new Bill reorganizes these into clear clauses and schedules. For instance, Section 2’s agricultural-income definition is almost word-for-word the same but now tabulated for clarity. Section 10’s long list of exempt incomes has become Schedule II in table form. Experts note this streamlining should reduce ambiguity.

¹⁰ <https://www.businesstoday.in/personal-finance/tax/story/income-tax-bill-2025-heres-how-taxation-of-agricultural-income-farmland-has-been-tweaked-464590-2025-02-13>

¹¹ <https://www.taxbuddy.com/blog/agricultural-income-in-income-tax#:~:text=amount%20of%20income%20used%20to,agricultural%20income>

¹² <https://www.businesstoday.in/personal-finance/tax/story/income-tax-bill-2025-heres-how-taxation-of-agricultural-income-farmland-has-been-tweaked-464590-2025-02-13>

- **Exemptions & Thresholds:** Both laws exempt core farm income. However, the Act granted blanket exemption (subject to aggregation rules) for all Sec.2(1A) items, whereas the Bill effectively imposes conditions (e.g. documentation, urban zone tests) before an income qualifies. The 2025 Bill has not explicitly introduced new tax rates on farm income – it simply removes some items from exemption. (Farmers below all income thresholds remain exempt.)
- **Administration:** Implementation under the Act relied on self-reporting with minimal verification; this enabled wealthy individual to misuse the exemption. The Bill empowers the tax authorities with finer criteria and technological tools (e.g. satellite verification of cultivation) to enforce compliance. The emphasis on records and digital land-record linkage means genuine farmers must maintain proof, but fake claims will be harder to sustain.¹³

In essence, the Bill's legal treatment is **stricter**: it keeps genuine agricultural income tax-free, but excludes more “Gray-area” income than before. It thus shifts the tax base slightly upward (toward higher earners and agribusinesses) while clarifying and documenting the exemption to benefit bona fide farmers.¹⁴

Economic Implications

- **Revenue Effects:** By extending tax to incomes previously hidden in the “agricultural” exemption, the government can raise substantial revenue. One study notes that the richest ~2.8% of farmers (wealthy landowners) could contribute “thousands of crores” annually if taxed, easing the fiscal burden on salaried taxpayers. Curbing agricultural-income abuse thus has large potential – even a modest tax on those high earners could fund rural development or subsidize small farmers.
- **Farmers and Rural Income:** The Bill's retention of the exemption for genuine crop production provides *certainty* for small and marginal farmers, acknowledging agriculture's volatility. By closing loopholes exploited by wealthy owners, the reforms aim to prevent misuse of subsidies and ensure that tax breaks accrue to true cultivators. Analysts argue this will reduce income inequality in rural areas: taxing rich farm fortunes and using the proceeds to improve rural infrastructure or farmer welfare could

¹³ <https://www.fincalci.com/blog/new-income-tax-bill-for-farmers>

¹⁴ <https://timesofindia.indiatimes.com/business/india-business/the-case-for-taxing-rich-farmers/articleshow/117843318.cms#:~:text=Rajesh%20Shukla%2C%20founder%20of%20People.taxpaying%20%E2%80%94%20farmers>

“improve the lot of poorer farmers”. The promised extra deductions and support for low-income cultivators (as reported by some sources) would further protect small farmers.

- **Rural Economy and Investment:** There are mixed effects on the rural economy. Taxing allied activities (dairy, poultry, etc.) may raise costs for those sectors and potentially discourage private investment or expansion. Agribusinesses that previously enjoyed tax breaks will face higher rates, which could slow growth in commercial agriculture. However, the Bill appears designed to shield truly small farmers (with special tax treatment below thresholds), while ensuring large agribusinesses pay a fair share. In the long run, a more transparent tax regime may improve credit availability and public spending in rural areas, supporting productivity.
- **Inequality:** Overall, the changes are progressive: high-income farmers pay more, low-income farmers continue to be exempt. This may modestly reduce rural inequality. The anticipated revenue windfall (from very rich farmers and large corporate farms) could finance social programs or agricultural extension services, benefiting poor farming communities. But critics caution that **compliance costs** (paperwork, audits) could burden even marginal farmers if not managed carefully. The net effect on incomes will depend on implementation, but policy intent is to widen the tax base among the rich without harming subsistence agriculture.

State-Level Agricultural Income Taxation

Agricultural income is exclusively in the **State List** (Entry 46 of List II, Constitution). Under Article 265, income already taxed by the State cannot be taxed again by the Centre. Thus, only state governments can levy a tax on “income from agriculture”, while the central Income Tax Act must exempt it.¹⁵ In practice, very few states impose such a tax. Notable examples are Assam, Odisha, Tamil Nadu and West Bengal, which have special Agri-income tax laws (usually limited to large landholders or commercial crops). Kerala, which once had an agricultural income tax, **repealed** that law in January 2023. State taxes typically apply only above a high-income threshold and vary by crop – for instance, taxing plantation crops like tea or rubber. If a state does tax a particular Agri income, the central law treats it as exempt (to avoid double-taxation).

¹⁵ <https://economictimes.indiatimes.com/wealth/tax/what-is-agriculture-income-different-types-of-agriculture-income/articleshow/104818288.cms?from=mdr>

In sum, central and state tax systems are complementary: the Centre exempts all agricultural income (per constitutional mandate) while a few states raise revenue through limited agricultural taxes. The 2025 Bill does not alter this federal balance. Its narrower definition of agricultural income (excluding non-farm receipts) may reduce the scope of what states can tax as “agriculture”. For example, if the Centre now taxes income from leasing urban farm property, states cannot tax that component (since it was never covered by the State tax law). But on core farming income the status quo remains: truly agricultural receipts fall only under state jurisdiction, and the Centre’s Income Tax Act leaves them untouched.

Agrarian Stability

Historically, agriculture in India has been shielded from direct taxation to support **agrarian stability**. Section 10(1) of the Income Tax Act, 1961 exempts all “agricultural income” (as defined in Section 2(1A)). The rationale was to protect farmers’ volatile earnings (which depend on weather and market) and prevent rural distress. In practice, this broad exemption has meant that crop-growing activities on qualifying land produce tax-free income.¹⁶ The proposed Income-tax Bill, 2025 retains the core exemption (see the new definition of “agricultural income” in Clause 3, mirroring Section 2(1A))¹⁷ but strengthens enforcement. Experts note that the Bill tabulates complex definitions (e.g. of “agricultural land”) for clarity.¹⁸ At the same time, it requires better documentation of farming operations (e.g. land titles, crop sales) to prevent abuse.¹⁹ In effect, the tax policy still aims to support stable farm livelihoods, but tighter rules (“digital verification”) are introduced so that only bona fide cultivation enjoys the exemption. This balance reflects long-standing policy: exempting genuine farm income, yet curbing the loopholes that have been used to shelter non-farm wealth.

- *Income Tax Act, 1961*: Agricultural income is fully exempt under Section 10(1). The Act defines “agricultural income” broadly to include rent/lease of farmland, crop cultivation, basic processing of produce, income from farmhouses or buildings used in

¹⁶ <https://taxguru.in/income-tax/section-10-1-exemption-agricultural-income.html#:~:text=3.sale%20of%20the%20agricultural%20produce>

¹⁷ https://prsindia.org/files/bills_acts/bills_parliament/2025/The_Income-tax_Bill,_2025.pdf#:~:text=,kind%20of%20the

¹⁸ <https://www.businesstoday.in/personal-finance/tax/story/income-tax-bill-2025-heres-how-taxation-of-agricultural-income-farmland-has-been-tweaked-464590-2025-02-13>

¹⁹ https://www.lincolninst.edu/app/uploads/legacy-files/pubfiles/907_james_complete_pdf.pdf#:~:text=income%20comes%20from%20there%2C%20the,taxable%20agricultural%20receipts

farming, and income from nursery saplings. In practice, Central tax law historically supported agriculture's stability by not taxing these receipts.

- *Income Tax Bill, 2025*: Retains the exemption but restructures it into schedules. Clause 3 of the Bill reprises the definition of agricultural income in clear sub-clauses. Key changes include tabulated descriptions and stricter proof requirements. For example, pure cultivation still yields “tax-free” income, but taxpayers must furnish records (plots, crop details, receipts) to substantiate claims. The Bill thus maintains agrarian stability in policy while introducing accountability.
- *Economic Implications*: By continuing the exemption, the policy eases fiscal pressure on farmers, stabilizing rural incomes. However, closing loopholes could bring more taxpayers (not genuine farmers) into the net, improving revenue and fairness. Analyses suggest a significant revenue upside: one estimate finds that taxing agricultural income as currently defined could raise about ₹85,000 crore (≈11% of the tax base) without affecting small farmers.²⁰ Thus, the Bill's design tries to uphold agrarian stability (by shielding true farmers) while ensuring the tax system remains equitable and sustainable.

Rural Livelihoods

Agricultural taxation affects the livelihoods of rural households. Most rural families engage in mixed activities: only a fraction of rural income actually comes from farming. The agriculture sector has a larger share of workforce but a smaller share of rural earnings: NCAER estimates ~75% of rural people work in farming, but only ~53% of rural income is from agriculture. Many small and marginal farmers earn below threshold levels (exemption limits), and also rely on livestock, fisheries or off-farm jobs. Under the Act, all those qualifying as “agricultural income” earn tax-free; but incomes from allied activities (e.g. dairy, poultry, fisheries) historically fell outside the exemption and could be taxed if large enough. The new Bill makes this explicit: it clarifies that income from animal husbandry (dairy, poultry, fisheries) will **no longer be considered agricultural income**, and thus will be taxed like other business income.

- *Income Tax Act, 1961*: By definition (and past judicial interpretation), pure farming receipts are exempt, but allied activities often are not. For example, several court rulings held that breeding or dairy income is not “agricultural income”. Thus, farmers who also rear livestock or run poultry generally paid tax on that portion of income. Small farmers

²⁰ <https://nipfp.org.in/publication-index-page/blog-index-page/tax-on-agricultural-income-a-revisit-via-tax-laws/#:~:text=If%20that%20be%20so%2C%20the,of%20the%20present%20base>

with only crop income up to the ₹5,000 threshold and below exemption limit had effectively no tax burden (see below), so rural livelihoods were largely untaxed.

- *Income Tax Bill, 2025*: Continues to shield genuine crop farming. However, it explicitly taxes some farm-related incomes to broaden the base. Notably, **nursery income** and **basic processing** (drying/cleaning) remain exempt only if minimal. Large-scale or value-added operations (commercial nurseries, packaged goods) now generate taxable income. Importantly, **dairy, poultry and fisheries income are expressly made taxable**. Moreover, the Bill contemplates additional support for smallholders: commentary suggests new deductions or subsidies for those earning below certain modest levels (e.g. ₹5 lakh per year).²¹
- *Livelihood Implications*: For subsistence farmers, the core exemption still applies, so their modest crop earnings remain untaxed, preserving rural welfare. For more diversified or commercial farmers, however, the changes imply higher tax liability on non-crop income. Economic experts note that since rural incomes are now increasingly from non-farm sources, the tax changes mainly impact relatively wealthier or larger farmers. For example, large agribusinesses (over ₹5 crore turnover) lose special status and are taxed like any company. At the same time, the Bill seeks to maintain support for genuine small farmers (through targeted benefits). Overall, the policy aims to make taxation more equitable without undermining the livelihood of marginal farmers.

Digital Verification

A central theme of the new Bill is **verifying claimed agricultural income via digital records**. The government plans to link tax filings to official land records using technology. Under the current system, agricultural claims were largely accepted at face value, which allowed wealthy non-farmers to misclassify income. The proposed Bill introduces a *digital verification system*: all land ownership and farming activities would be cross-checked with tax returns.²² For example, taxpayers reporting high agricultural income must provide digitally-linked proof of land ownership, crop sowing and sale receipts. In practice, this builds on the existing **Kisan Pehchaan Patra (KPP)** framework: India has already issued digital land IDs to over 34 million farmers (covering land parcels and crop history). By connecting these IDs to income-tax records, the Bill aims to ensure that only bona fide farm income is treated as exempt.

²¹ <https://www.fincalci.com/blog/new-income-tax-bill-for-farmers>

²² <https://www.financialexpress.com/policy/economy-36-million-farmers-now-have-digital-ids-linked-to-land-records-3765023/#:~:text=To%20develop%20a%20database%20of,according%20to%20a%20senior%20official>

- *Income Tax Act, 1961*: The old Act contained no specific digital verification for agricultural claims; exemptions were self-reported. Compliance was enforced through traditional audits and tribunals, which proved difficult in rural areas. As noted by experts, this created opportunities for *evasion* – many households with mixed incomes covertly reported business receipts as agricultural income.
- *Income Tax Bill, 2025*: Explicitly mandates stricter checks. It prescribes that assesses must present **proof of cultivation** (land registry extracts, crop sowing certificates, produce sales records, etc.) to claim the exemption. Official commentary highlights a “digital verification system” linking land records and tax filings. Additionally, the Bill streamlines reporting for large farmers: e.g. persons with >₹10 lakh farm income must furnish detailed statements of land, crops and receipts. This modernization reflects national initiatives (e.g. the AgriStack) where millions of farmers already have digital IDs tied to their fields.
- *Administrative Implications*: The digital approach should tighten accountability and reduce manual paperwork. It enables the tax department to cross-reference land title databases (state land registries, PM-Kisan beneficiary lists, etc.) to validate claims. Ultimately, farmers will have to maintain credible records, and non-farmers pretending to farm will be unmasked. This raises compliance costs for large or dubious filers, but promises greater fairness and transparency in the long run.

Income Thresholds

Tax liability on agricultural income hinges on certain **thresholds**. Under the current Act, agricultural receipts by themselves are always exempt – *per se*. However, if (1) total agricultural income **exceeds ₹5,000** in a year, *and* (2) the taxpayer’s non-agricultural income (plus ₹5,000) exceeds the basic exemption limit, then the income-tax is computed by including the agricultural income in the slab determination. Concretely, if a farmer earns ₹8 lakh non-farm income and ₹10 lakh from farming, the law under the old regime would put him in the 30% slab (because 8+10 > 10 lakh), then compute tax only on the ₹8 lakh after appropriate deductions (the difference principle)²³. These thresholds (₹5,000 and the basic exemption) have remained largely unchanged. In practice, most small farmers fall below the basic exemption (currently ₹2.5 lakh for individuals under 60) or have less than ₹5,000 in surplus agricultural

²³ <https://www.businesstoday.in/personal-finance/news/story/budget-2024-agriculture-income-to-be-considered-while-determining-tax-slab-under-new-tax-regime-415934-2024-02-02>

income, so they pay no tax.

- *Income Tax Act, 1961*: Key thresholds are codified in Sections 10 and 115C. Agricultural income up to ₹5,000 annually is effectively ignored; above that, it is only notionally added to determine the slab rate (if total non-Agri income also exceeds the exemption). The basic exemption itself (e.g. ₹2.5 lakh for non-senior individuals) sets a de facto entry point for tax. These rules mean that even a large farm income can remain untaxed if the farmer has no other income, but if the farmer has business income, the combined sum determines the rate.
- *Income Tax Bill, 2025*: The Bill preserves the structural concept of these thresholds. It continues to exclude pure agricultural income from tax, subject to the familiar conditions. However, recent budgetary proposals (e.g. Budget 2024) clarified that *even under the new optional tax regimes*, agricultural income must count for slab computation. The Bill is expected to codify this parity explicitly. Additionally, new provisions reportedly require filers with **very high farming incomes** (e.g. over ₹10 lakh) to furnish detailed disclosures. (One commentator notes that if farming income exceeds ₹10 lakh, it must be declared with land/receipts to claim full exemption.) Thus, while the numerical thresholds (₹5,000, basic exemption) remain as in the Act, the Bill tightens reporting above those levels.
- *Implications*: For most peasants, these thresholds continue to shelter them from tax. The main impact is on wealthier or professional farmers: large agricultural profits will still remain exempt per se, but high-income farmers will have to justify their claims and effectively get taxed at higher slabs via the calculation mechanism. This aligns with national policy to include agricultural income in “total income” only for slab purposes, as affirmed by recent law clarifications.

Judicial Dicta

Judicial interpretations have long shaped what counts as “agricultural income.” The courts have generally adopted a broad approach: **anything arising directly from farming on qualifying land is exempt**. Landmark Supreme Court cases illustrate this. In *Raja Benoy Kumar Sahas Roy v. CIT*, the Court held that all income from agricultural land (even indirectly) falls under agricultural income. *Namdhari Seeds v. CIT* similarly ruled that proceeds from sale of seeds, fruits and vegetables grown on the land are agricultural income. Likewise, income from **rent/lease of farmland** (even if the owner is not a farmer) was held exempt (*Shiv Shankar*

Lal). Several High Court and Appellate decisions extended exemptions to various crops: sale of sugarcane (*Raza Buland Sugar Co.*), rubber (*K. Lakshmanan*), coffee (*Sri Ranganatha Enterprises*), bamboo (*Bhanja Deo*), flowers (*Suresh Chand Talera*), etc. In each case, the courts emphasized that these incomes arose from cultivation on land used for agriculture, so they fell under Section 2(1A) and were exempt under Section 10(1).²⁴

- *Sale of Crops and Produce:* Income from harvesting and selling crops (cereals, cotton, rubber, pepper, tea leaves, etc.) has repeatedly been held exempt. For example, sale of rubber grown on owned farmland was ruled agricultural income. Sales to unrelated parties were usually included, as long as the crop was grown by the claimant (though one case, *B. Nagi Reddi*, denied exemption when an agriculturist sold to a non-agriculturist, highlighting minor exceptions). Overall, the judiciary's stance was that no "substantial processing" should be involved – basic operations like picking, drying or cleaning are fine. Any further industrial processing (e.g. milling, canning) would push the income into the "business" category.
- *Buildings and Land Use:* Income from structures on farmland (e.g. farmhouses or storage buildings) can be exempt if they are ancillary to farming. Courts have allowed exemption when rent was derived from buildings used by cultivators in connection with the land. However, income from letting farm land for non-agricultural purposes (e.g. commercial or residential use) is taxable (as clarified under the new Bill). Likewise, sales of land itself, or operations on land not "used for agricultural purposes", fall outside the exemption (e.g. *Haroocharai Tea Co.* held that tea grown on non-agricultural land is not exempt).
- *Nurseries and Plantations:* Courts have struggled with nursery incomes. For instance, the Karnataka High Court in *Soundarya Nursery* denied exemption for sale of ornamental plants and flowers, treating them as a business activity. The new Bill addresses this by distinguishing small-scale ("traditional") nurseries (still exempt) from large commercial nurseries (now taxable). Similarly, income from timber or forest produce on land specially planted by the farmer has been held agricultural (*Tamil Nadu Forest Plantation Co.*).
- *Net Effect:* These precedents underline that "agricultural income" hinges on the nexus of activity and land use. The Bill codifies much of this case law in its definitions. For

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<https://www.caclubindia.com/articles/landmark-rulings-on-agricultural-income-49608.asp#:~:text=9,falls%20within%20the%20definition%20of>

example, it explicitly excludes income from buildings or land “used for any purpose (including letting) other than agriculture”. It also makes clear that activities like dairy or poultry (previously addressed in cases such as *Raja Benoy Kumar*) are not part of the agricultural definition. In sum, the judicial dicta built a framework that the Act leaves intact, while the Bill’s detailed clauses aim to implement those rulings with less litigation.

Compliance and Accountability

Improving **compliance** is a major goal of the Bill. Under the old law, rural tax administration was weak, and many filers could inflate agricultural receipts without proof. The new regime seeks to hold farmers and landowners accountable for their exemptions. It introduces specific reporting and verification steps. For instance, farmers must maintain and furnish supporting documents: land ownership titles, records of crop cultivation, sale bills, fertilizer invoices, etc. Those claiming large agricultural incomes will come under special scrutiny. Commentators note that if a taxpayer reports agricultural earnings above certain levels (e.g. ₹10 lakh), the onus is on them to demonstrate authenticity of that income. Failure to provide credible verification could lead to denial of the exemption or reassessment as non-agricultural.

- *Record-Keeping:* The Act placed no formal obligation on farmers to keep records beyond normal filing. The Bill, however, effectively requires it. For example, it demands that income from cultivation be “substantiated” by evidence. Tax officials may ask for farm registers, bank statements tied to crop receipts, or entries in land revenue records. This mirrors trends in tax transparency: a digital database of Kisan IDs means that even if a non-farmer tries to claim farm income, land-record data may reveal the fraud.
- *Large-Taxpayer Provisions:* The Bill sets compliance thresholds. It treats large agribusiness more like industry. Firms or individuals with agricultural turnover above a high threshold (e.g. ₹5 crore) will now “pay tax like others” – losing any preferential status. Likewise, any high-value loan or deposit related to farming may invite penalty unless properly documented as a genuine agricultural transaction (echoing provisions in Sections 269T/269SS of the Act). Smaller farmers, in contrast, face minimal change, but they may benefit from explicit deductions aimed at supporting incomes.²⁵

²⁵ <https://www.fincalci.com/blog/new-income-tax-bill-for-farmers>

- *Administrative Impact:* The combination of digital land-linking and documentation is expected to boost audit effectiveness. Tax authorities will have databases (land records, Kisan IDs, Aadhaar linkages) to cross-check declarations. In theory, this makes evasion harder: one recent probe found entities declaring crores in agricultural income without owning any land, which would be caught under the new system. Greater accountability also means increased filing of farm income returns and more accurate revenue statistics. Overall, the stricter compliance regime should raise effective tax discipline without fundamentally changing the taxpayer base among genuine farmers.

Fiscal Transparency

The Bill aims to enhance **transparency** in the agricultural tax exemption regime. The existing Income-tax Act, 1961 grew through layers of amendments, provisos and exceptions, making it hard to interpret; agricultural exemptions were scattered across sections, leading to ambiguity. The new law restructures and tabulates these provisions. By moving exemptions into clear schedules and removing convoluted language (no more nested provisos), the Bill makes it easier for taxpayers and officials to see what is exempt. This clarity itself is a transparency gain.

- *Law Simplification:* The Finance Ministry notes that the Bill replaces the prose-based Act with numbered sections and tables, explicitly listing exempt items. For agricultural income, the precise definition and exclusions are now easy to locate (in Clause 3 and related schedules). Such consolidation helps taxpayers understand their obligations, reducing unintentional non-compliance.
- *Data and Reporting:* On the fiscal side, the Bill's measures will produce better data on farming incomes. As farmers report land IDs and crop details on returns, the government gains visibility into the true size of agricultural receipts. This contrasts with the past when agricultural income largely "hid" from Central tax accounts. Enhanced data means the Centre can more transparently report how much revenue is effectively foregone by the exemption, and how much could be recovered if tax rules are tightened.
- *Reducing Evasion:* Linking farm income to verifiable sources improves integrity of the tax system. Analysts have documented widespread misuse of the exemption: rural returns often included disguised non-farm gains, which distorted revenue figures. The Bill's transparency measures (digital linkage, auditing) aim to eliminate much of this "black box" effect. In budget discussions, officials have explicitly included agricultural

income in slab calculations to remove double benefits. Over time, these steps should make government budgets and tax collections more reflective of actual economic activity. In summary, by codifying definitions and tightening reporting, the Bill brings greater fiscal transparency to an area long plagued by opacity.

Policy Framework

Agricultural income taxation sits at the intersection of constitutional and economic policy. By the Constitution's design (List II, Entry 46), **agricultural income is a state subject**, so the Centre largely refrains from direct tax on it. Central policy has therefore been to maintain the exemption (barring capital gains exceptions) while aligning with state interests. Over the decades, successive governments have balanced the goal of supporting farmers with the need for revenue. This Bill is the latest repetition of that policy balance.

- *Current Legislation:* The Act's Section 10(1) reflects a long-standing national policy: to treat farming income as tax-exempt relief for the agricultural sector. Economic and political considerations (such as rural welfare and social equity) underlie this stance. At the same time, reports like the Kelkar Committee have pointed out how narrow definitions and poor enforcement shrink the tax base, recommending reforms to curb misuse. The Bill embodies these reform impulses while respecting the core policy of exemption.
- *Reform Trends:* In recent years, India's tax policy has emphasized simplification and equity. For example, the Budget 2024 explicitly unified the treatment of agricultural income under both old and new personal income tax regimes, ensuring consistency. The Income-tax Bill 2025 similarly codifies definitions to reduce litigation and "loopholes". Experts have welcomed the change as bringing parity and clarity between regimes²⁶. At the same time, the Bill signals that agricultural income will not be taxed lightly – only real farming gains will stay exempt, aligning with broader efforts to mobilize revenue without unduly burdening subsistence farmers.
- *Decision Factors:* Ultimately, decisions about taxing agricultural income are highly political. The Bill's introduction follows extensive debate over revenue needs versus farmer support. Analysts estimate that taxing farm income within the current legal definition could have modest fiscal effects (11% of the revenue base) while targeting

²⁶ <https://www.businesstoday.in/personal-finance/tax/story/income-tax-bill-2025-heres-how-taxation-of-agricultural-income-farmland-has-been-tweaked-464590-2025-02-13>

relatively wealthy taxpayers. Policymakers must weigh such studies against social goals. As one analysis concludes: any move to tax agriculture will only impact a “minuscule” (and non-poor) slice of the population and could bolster public resources, but it remains a sovereign policy choice. The Bill reflects the government’s chosen compromise: uphold the historic exemption to stabilize rural livelihoods, but strengthen the framework to ensure that choice is transparent, equitable and not exploited.

Empirical Research

Several studies and data analyses illuminate the context of agricultural taxation. Empirical research shows that India’s rural economy is diversifying, that large parts of reported farm income are effectively unearned or inflated, and that the potential tax revenue from farms is substantial. For instance, a survey-based study noted that *only about 53% of rural household income comes from farming*, with the rest from non-farm activities.²⁷ This suggests many taxpayers mix incomes, leading to classification issues under tax law. Another analysis (NIPFP) uses national accounts to estimate forgone tax: it found that treating current agricultural income as taxable would raise roughly **₹85,000–90,000 crore per year** (≈11% of direct tax revenue).²⁸

- *Agricultural Incomes in Practice:* Official surveys (e.g. the NSS Structural Census 2018–19) provide estimates of farm household incomes, which typically range around ₹8,000–12,000 per month in major agricultural states – often only around or below the tax exemption threshold. These data imply most farm households are not in a position to pay income tax, consistent with the low effective taxation seen historically. However, economic researchers (like Thiagu and Ranganathan) have documented that even small areas of land can generate significant receipts, fuelling abuse of the exemption. The Lincoln Institute analysis shows that the formal definition of agriculture covers only crop cultivation (about 15% of GDP), implying large gaps in enforcement.
- *Tax Evasion and Compliance Studies:* Research reports (e.g. Comptroller & Auditor General audits, the Kelkar Committee reviews) highlight that agricultural income clauses have been used to conceal non-agricultural gains. For example, a CAG study mentioned over ₹10,000 crore of returns falsely claimed as agricultural in a sample

²⁷ https://www.lincolninst.edu/app/uploads/legacy-files/pubfiles/907_james_complete_pdf.pdf#:~:text=that%20while%2075,have%20both%20sources%20of%20income

²⁸ <https://nipfp.org.in/publication-index-page/blog-index-page/tax-on-agricultural-income-a-revisit-via-tax-laws/#:~:text=If%20that%20be%20so%2C%20the,of%20the%20present%20base>

from Mumbai. The NIPFP blog (a quantitative study) also underscores that broad exemptions have meant the “effective tax base” omits a sizeable share of high rural incomes.

- *Implications:* These empirical findings have driven the policy debate. They indicate that targeting tax benefits to truly small, marginal farmers (who are typically below the taxable threshold) could align with equity goals, while bringing wealthier farmers and agribusinesses into the tax net could improve fiscal health. The Bill’s measures – stricter definitions, verification, and targeted exemptions – mirror recommendations from this research. By codifying the empirical reality that only basic farming activities should be exempt, and by planning to use digital records to audit claims, the law responds directly to the data. In sum, academic and administrative studies on agricultural incomes and tax compliance have strongly influenced the 2025 Bill’s provisions.

Conclusion

This study examines reforms in the taxation of agricultural income, contrasting the longstanding provisions of the Income Tax Act, 1961 with the proposed Income Tax Bill, 2025. Under the 1961 Act, agricultural income – including rents from farmland and basic crop proceeds – has been fully exempt from federal tax,²⁹ a measure intended to protect farmers but often misused by wealthy landholders. The 2025 Bill largely preserves core cultivation exemptions but makes major definitional and compliance changes: it refines the definition of “agricultural income,” tabulates exemption criteria, and mandates stricter documentation of genuine farming. Crucially, it brings several incomes previously sheltered into the tax net: rent on urban farmland, value-added processing of produce, large nurseries, and allied sectors like dairy, poultry, and fisheries are now outside the exemption. Economically, these changes broaden the tax base and aim to curtail loopholes exploited by high-income taxpayers, thereby improving fiscal transparency. Compliance is reinforced through documentation requirements and penalties for misclassification. The findings indicate that while small-scale farmers retain protection, agrarian-linked incomes face new tax burdens. Overall, the Bill substantially narrows agricultural exemptions with far-reaching economic impact, underscoring the need to balance revenue objectives with rural livelihoods and agrarian stability.

²⁹ https://www.business-standard.com/finance/personal-finance/weekend-retreats-or-tax-retreats-india-s-elite-use-farmland-to-save-crores-125052000134_1.html