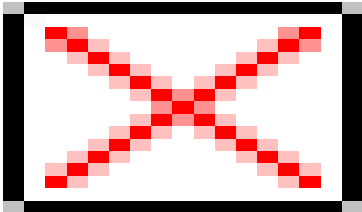


Agricultural Income & ITR 7

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By CA Lukose Joseph & CA Jobby GeorgeÂ



ACCORDING to the Goods and Services Tax (GST) [Act 2017](#)

, only an agriculturist, to the extent of supplyÂ of produce out of cultivation of land is not liable for GST registration requirement. Further, the Act goes on to describe an agriculturist asÂ an individual or a Hindu Undivided Family who undertakes cultivation of land:

- By own labour, or
- By the labour of family, or
- By servants on wages payable in cash or kind or by hired labour under personal supervision or the personal supervision of any member of the family.

Hence, only small agriculturist would be exempt from GST compliance. Any person who operates a company or LLP or any other type of entity for the purpose of undertaking agriculture would be required to obtain GST registration if the aggregate turnover criteria or other GST registration criteria is satisfied and they sell goods that will attract GST liability.

Section 10(1) of the Income Tax Act, 1961 exempts any income generated from any agricultural activities from being taxed. However, agriculture income can be considered for rate purposes provided the net agriculture income is more than Rs.5,000 and the total income minus the agricultural income exceeds the basic exemption limit.

Unlike GST Act (GST exemption only for agriculturist) exemption is applicable for agricultural income under Income Tax Act irrespective of type of person.

In the income tax return other than ITR 7, the agricultural income is to be shown in Schedule EI, which is for showing the exempt income, wherein particulars of agricultural Income, expenses incurred for agricultural activity, losses brought forward/set off etc can be given and its effects automatically reflect in schedule for computation of total income and tax due thereon.

But in the case of ITR 7, which is applicable for entities engaging with no profit motives like charitable organisation. NGOS, political parties, research organisation, universities etc, which are functioning with service motive, there is no schedule provided for exempt income as mentioned in above para.

In the case of assessee claiming exemption under Section 11 and 12 or u/s 10(23C) (iv) or 10(23C) (v) 10(23C) (vi) or 10(23C) (via) has to file return using ITR 7 and the agricultural income is to be shown in Schedule AI. The issue here is if the agricultural income is shown in Schedule A1, it forms income of the entity and if it is a charitable organisation registered under section 12AA/AB of the Income Tax act, 1961, the exemption from taxation applies only if more than 85% of the income is applied towards the objects of the entity.

Let us take the hypothetical situation of a charitable organisation registered under 12A having agricultural income Rs. 10 lakh and which spent Rs 1 Lakh for charitable purpose and assume same is not having any other income.

Then the computation will emerge as follows.

Particulars	Amount(Rs)
Aggregate Income referred to in Section 10, 11 and 12	10,00,000
Income Available for application u/s 11	10,00,000
Income Applied in India during PY	1,00,000
Accumulation to the extent of 15%	1,50,000
Taxable Income	7,50,000
Tax on Total Income	62,500
Cess	2,500
Total	65,000

So, an organisation registered under section 12A is not accomplishing the benefit of section 10(1), that is exemption for agricultural income.

In the case of assessee claiming exemption other than under Section 11 and 12 or u/s 10(23C)(iv) or 10(23C)(v) 10(23C)(vi) or 10(23C)(via) [Eg: 10(21), 10(22B) etc] same to be shown in Part B2 column 13 then the computation will appear as follows.

Particulars	Amount(Rs)
Agricultural Income	10,00,000
Less : Expenses	1,00,000
Agricultural Income	9,00,000
Tax on Total Income	Nil

In above case, agricultural income is getting exemption, but in the case of charitable institution registered under 12A, agricultural income becomes taxable if 85% not applied for charitable purpose irrespective of section 10(1) which allows unconditional exemption to agricultural income.

Yet again, section 11(7) specifically allows institutions granted registration under 12A or 12AB to exclude income under Section 10(1) that is agricultural income from total income of that previous year irrespective of whether applied for charitable purpose. But the return form does not permit that unconditional exemption for charitable institutions.

Now the question before us whether this ITR 7 is as per the objective of law? If yes, what is the reasoning for granting exemption to charitable organisations for agricultural income only if 85 percent of such income (agricultural income) is spent for charitable purpose?

[The views expressed are strictly personal.]

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