


# Agricultural Income: Exemption, Partial Integration and Tax Calculation

## Description

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**Quick summary**

- Agricultural income from land in India is not included in total income (Schedule II of the Income-tax Act, 2025, earlier section 10(1)).
- It covers rent from agricultural land, income from farming and processing the produce to make it fit for market, income from farm buildings, and nursery income.
- Tea, coffee and rubber income is split by Rule 271 of the Income-tax Rules, 2026, with 35% to 40% taxable as business income.
- If net agricultural income exceeds ?5,000 and other income is above the basic exemption limit, the exempt income raises the tax rate on the rest (partial integration).

Farm income is one of the oldest tax exemptions in India, because the Centre taxes income under Entry 82 of the Union List, which does not cover agriculture. From Tax Year 2026-27 the exemption is serial number 1 of Schedule II of the Income-tax Act, 2025 (it was section 10(1) of the 1961 Act), and the definition is in section 2(5).

## What is agricultural income?

The Act defines it as:

1. **Rent or revenue** from land situated in India and used for agricultural purposes.
2. **Income derived from such land** by agriculture, by the process a cultivator or receiver of rent-in-kind ordinarily uses to make the produce fit to be taken to market (for example drying, cleaning, grading), orby selling that produce when nothing more than such a process has been done.
3. **Income from a farm building** owned and occupied by the receiver of rent or revenue, or occupied bythe cultivator, where the building is on or near the land and is needed as a dwelling house, store-houseor other out-building because of the connection with the land. The land must be assessed to landrevenue or a local rate, or, if it is not, it must not lie in a municipal or cantonment area above thepopulation limits and distances in the definition of capital asset.
4. **Income from saplings or seedlings grown in a nursery.**

The definition does not include income from a farm building or land that is used for something other than agriculture, including letting it for residential or business use. It also excludes income from transferring land that falls within the municipal limits and distance bands mentioned above.

## What is not agricultural income?

The income has to come from land through agriculture, so these are taxed under other heads:

- dairy farming, poultry, fisheries and bee-keeping,
- income from timber or forest trees of spontaneous growth,
- income from agricultural land held as stock-in-trade,
- income from butter, cheese or similar factory processing separate from the farm,
- dividends and remuneration that are merely calculated by reference to agricultural profits, and
- agricultural income from land outside India, which is taxable for a resident.

## Tea, coffee and rubber

Where the grower also processes the crop, part of the income is treated as business income. Under Rule 271 of the Income-tax Rules, 2026 (earlier Rules 7, 7A, 7B and 8), the share of income that is liable to tax is:

| Income from | Taxable as business income | Agricultural (exempt) |
|---|---|---|
| Sale of tea grown and manufactured by the seller in India | 40% | 60% |
| Sale of coffee grown and cured by the seller in India | 25% | 75% |
| Sale of coffee grown, cured, roasted and ground by the seller in India, with or without chicory or flavouring | 40% | 60% |
| Sale of centrifuged latex, cenex, latex based crepes, brown crepes or technically specified block rubbers made from field latex or coagulum from rubber plants grown by the seller in India | 35% | 65% |

An allowance is made for the cost of replanting dead or useless plants or bushes in an area already planted.

# Partial integration of agricultural income

Agricultural income is exempt, but a person with substantial farm income and other income is not allowed to benefit from low slab rates twice. The method is laid down each year by the Finance Act. Section 3(2) of the Finance Act, 2026 applies it to Tax Year 2026-27, in both regimes, to an individual, HUF, AOP, BOI or artificial juridical person when:

- net agricultural income is more than ?5,000, and
- non-agricultural income is more than the basic exemption limit.

The basic exemption limit is ?4,00,000 for a person taxed under section 202 (the new regime). In the old regime it is ?2,50,000 below age 60, ?3,00,000 for resident seniors (60 to 80) and ?5,00,000 for resident super seniors (80 and above).

**Steps:**

1. Work out tax on non-agricultural income plus net agricultural income, at the slab rates.
2. Work out tax on the basic exemption limit plus net agricultural income.
3. Tax on total income is (1) minus (2), then rebate, surcharge and cess as applicable.

### Example (old regime, individual below 60)

Non-agricultural income is ?7,00,000 and net agricultural income is ?2,00,000.

| Step | Amount in ? |
|---|---|
| Tax on ?9,00,000 (7,00,000 plus 2,00,000) | 92,500 |
| Tax on ?4,50,000 (2,50,000 exemption limit plus 2,00,000) | 10,000 |
| Tax on total income (92,500 minus 10,000) | 82,500 |
| Cess at 4% | 3,300 |
| Total tax | 85,800 |

Companies, firms, LLPs, co-operative societies and local authorities are outside this method.

# Selling agricultural land

- **Rural agricultural land** (not in the municipal and distance bands) is not a capital asset, so its sale gives no capital gain.
- **Land within those bands** is a capital asset, and the gain is taxable and is not agricultural income. The bands are land inside a municipality or cantonment board area with a population of 10,000 or more, and land within 2 km (population above 10,000 to 1 lakh), 6 km (above 1 lakh to 10 lakh) or 8 km (above 10 lakh) of its limits.
- **Section 83** (section 54B of the 1961 Act) gives relief to an individual or HUF who sells land that the assessee, a parent or the HUF used for agriculture in the two years before the transfer and buys other

agricultural land within two years after the transfer. The gain not exceeding the cost of the new land is not charged. A gain not used by the return due date has to be deposited in a specified bank or institution under the notified scheme.

## Return filing

ITR-1 and ITR-4 cannot be used if agricultural income exceeds ?5,000. Report it in the agricultural income schedule of ITR-2 or ITR-3 as applicable, and keep the evidence of the land and the produce.

## Frequently asked questions

### Is agricultural income taxable?

No. It is not included in total income (Schedule II, Sl. No. 1 of the Income-tax Act, 2025), but it is taken into account to work out the tax rate on your other income if it exceeds ?5,000 and your other income is above the basic exemption limit.

### Is income from agricultural land abroad exempt?

No. The definition covers land situated in India only.

### Is dairy farming, poultry or fishing agricultural income?

No. The income must be derived from land by agriculture. These activities are taxed as business income.

### Is the sale of agricultural land exempt?

Rural agricultural land is not a capital asset, so there is no capital gain. Land inside the municipal limits and distance bands in the definition of capital asset is a capital asset and the gain is taxable, with relief under section 83 if you buy new agricultural land.

### Which ITR form do I use if I have agricultural income?

ITR-1 and ITR-4 cannot be used if agricultural income exceeds ?5,000. Use ITR-2 or ITR-3 as applicable.

## Official sources

- Income Tax Department: Income-tax Act 2025 as amended by Finance Act 2026 (sections 2(5), 2(22), 83 and Schedule II)
- Finance Act, 2026 (section 3(2), partial integration)
- Income Tax Department: Income-tax Rules, 2026 (Rule 271 and the ITR eligibility rules)

## Related reading

- Difference Between Exemption, Deduction and Rebate in Income Tax
- Section 80P: Deduction for Co-operative Societies, Activities and Limits

## Disclaimer

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