IJMFR
INTERNATINAL JOURNAL OF MULTI FACETED RESEARCH

Volume 2, Issue 2
July to December 2025
ISSN: 3006-7936, eISSN 3006-7944

Taxation of agriculture income in India: A loophole in the system?

Akshika Dubey
Faculty of Law, Jagran Lakecity University
Email -akshikaballb@gmail.com

Article History

Received: *October 2,2025*
Revised: *November 2, 2025*
Accepted: *December 10, 2025*
Published: *December 31,2025*

Abstract

The income of farmers who were small and marginal farmers in India was initially exempted under the Section 10(1) of the Income Tax Act, 1961, which was aimed at protecting the interests of these farmers. Nonetheless, this good policy has been subject to criticism over time, whereby it has been used as a tax evasion loophole, by individuals and organizations who have high net worth. This paper will discuss the historical justification, legal framework and the working definition of agricultural income and critically evaluate the system flaws that enable abuse of the system. By examining case studies, recommendations of expert committees, and information on income tax returns one can determine that there is no proper verification mechanisms, intergovernmental coordination and political consensus that has resulted in a good environment to avoid taxes. The paper suggests some policy suggestions, among them threshold-based taxation, computerized land and income files, and computer-aided audits to maintain the spirit of the agricultural protection, yet to reestablish the integrity of the tax system. The results emphasize the necessity of a necessary reform where there will be economic fairness and fiscal responsibility.

Key Words: *Taxation, Agricultural Income, System flaws*

Introduction

India Agricultural income has had a special status under the Income Tax Act, 1961 (Income Tax Act, 1961). According to Section 10(1) of the Act, the agricultural income is not subject to the central income tax (Income Tax Act, 1961). This was initially enacted to safeguard the interests of the farmers and to achieve agricultural growth (Economic Survey of India, 2022; Economic Survey of India, 2023). Nevertheless, over the years, this exemption has become a possible loophole currently being misapplied by the high-income individuals and organizations to avoid paying the taxes (Business Today, 2023; The Tribune, 2023). The write-up explores the nature, the reasons behind, and the consequences of the tax exemption of agricultural income, how it is being abused, and how it can be reformed.

Historical Background and Reasoning

The agricultural income in India is tax exempt; this policy has its origins in the colonial policies (Singh, 2023). During the British rule, agriculture became highly taxed and in most cases, it resulted in peasant uprisings and economic sufferings. Following the independence, the Indian

government resolved to tax agricultural income but later withdrew the tax to favour the agrarian economy as well as relieve millions of small and marginal farmers (National Council of Applied Economic Research [NCAER], 2004).

This decision was likewise strengthened by the framers of the Constitution of India. Entry 46 in the State List of the Seventh Schedule of the Constitution gives exclusive power to state governments to levy taxes on agricultural income (Constitution of India, 1950). The rationale was twofold: economic justice for farmers and administrative convenience, as the central government lacked the infrastructure to assess rural income effectively (Kelkar, 2002).

Defining Agricultural Income

As per Section 2(1A) of the Income Tax Act, agricultural income includes: Rent or revenue collected in land located in India which was utilized in agricultural activities (Income Tax Act, 1961). Such land is used in agricultural activities such as processing the agricultural produce to generate income.

Revenue on a farm building that is needed in carrying out farming activities. Such definition makes sure that only the incomes that are directly related to agriculture are eligible to exemption. The language however is broad and can be interpreted and manipulated (Sharma and Gupta, 2023).

The Practice of Agricultural Income: Who Wins?

Although the original idea was to support small-farming, the statistics indicate that a big percentage of the proclaimed farming revenue belongs to the high-net-worth folks and companies (Right to Information Disclosures, 2022; The Tribune, 2023). There have been reports and revelations of crores of rupees as agricultural income being reported by persons with known business or political backgrounds.

The reports of the income taxes which are submitted by certain entities indicate unrealistically high amounts of agricultural income, way beyond the average yield or market value of agricultural products. This casts grave doubts on the validity of these statements and suggests that the exemption could be abused (Business Today, 2023). Even the Income Tax Department has begun relying on satellite imagery and other forms of data analytics to bust claims of inflated agricultural income (Income Tax Department, 2023).

The Loophole Explained

The essence of the supposed abuse is that there are no rigorous verification processes to declared agricultural revenues. The Income Tax Department has long been lenient in examining such returns as compared to other types of income because agricultural income is exempt (Singh, 2023). Nevertheless, technology checks and a tightened documentation requirement are now included as well (Income Tax Act, 1961).

Some of the typical ways of taking advantage of this loophole are:

- Fictitious Land Ownership: These include claiming income on the agricultural land that is not owned or cultivated (Singh, 2023).
- Inflated Agricultural Sales: The display of inflated income of crop sales without proper documentation (Sharma and Gupta, 2023).
- Black Money conversion: Lauering the unaccounted money using the agricultural income to present it as legal (Singh, 2023).

- Layering through Multiple Entities: Shell company or through the Multiple PAN cards, this is used to divide the income so that it does not exceed the scrutiny threshold (Business Today, 2023).

Law and Administrative Problems

State jurisdiction is concerned with the taxation of agricultural income, and most states impose no tax on it (Constitution of India, 1950; Outlook Business, 2024). This forms a policy vacuum and a gap in treatment to non-agricultural income.

Moreover, the Income Tax Department cannot enquire into agricultural income claims which remains in addition to the calculation of non-agricultural areas (Income Tax Act, 1961). This makes it difficult to identify and stop the misuse successfully, but reforms are designed to achieve improved documentation and verification (Income Tax Department, 2023).

Economic Implications

Agricultural income is exempt and this leads to massive loss of revenues to the government (Sharma and Gupta, 2023). This loophole compromises the tax base and makes the tax system less effective at a time when fiscal deficits are growing and the needs of the population in terms of public spending are increasing (Economic Survey of India, 2023).

Besides, it generates a retrogressive tax environment that overtaxes small salary earners and honest taxpayers, whilst the rich who have access to legal and accounting services were abusing the system (Outlook Business, 2024).

Calls for Reform

Some and expert committees and economists have suggested reforms. According to the NCAER Report (2004), large agricultural income was to be taxed and protect small and marginal farmers. According to the Kelkar Committee a threshold based taxation system was suggested and under this system income above a given threshold is taxed (Kelkar, 2002). Economic commentary of recent times promotes that blanket exemption is a practice that distorts fairness and must be adjusted to a balance between revenue and equity (Outlook Business, 2024; Sharma and Gupta, 2023).

Policy Recommendations and Choices

Create a Threshold-Based Tax: A slab taxing system should be introduced where agricultural income exceeding a fixed threshold is taxed (Sharma and Gupta, 2023).

Improved Record Management and Digitalisation: Requirement to maintain a digital account of land ownership, crop yields and sales to ascertain claims (Income Tax Department, 2023).

Audit Trails: Advise the state governments to keep audit trails and provide data to the central tax authorities.

Reward Voluntary Disclosure: Try to institute voluntary disclosure of income with minimal punishment in order to lure compliance. Public Awareness and Political Will: Build public discussion and politics of the necessity of reform.

Technology Utilization: Use AI and data analytics to identify suspicious behaviors and indicate fraudulent claims (Income Tax Department, 2023).

Case Studies and Examples

A number of cases have emerged in which people reported huge agricultural earnings without any obvious source or history of cultivating land (Business Today, 2023). For example:

- One of the prominent politicians reported in excess of Rs. 100 crore as agricultural income in a number of years (Right to Information Disclosures, 2022).
- Shell companies that did not have agricultural activities recorded were claiming exemption under Section 10(1). These instances point to the high necessity of an effective regulatory framework (The Tribune, 2023).

Conclusion

The Agricultural income was not taxed in India, which is a good policy but one that was designed to safeguard the farmers and encourage them to engage in agricultural activities (Economic Survey of India, 2022). But as it exists now it is a loophole that can and is being used to evade taxes (Business Today, 2023; The Tribune, 2023). In order to maintain the integrity of the tax system and be reasonable, it is essential to introduce reforms balancing the protection of real farmers and stopping its abuse (Outlook Business, 2024; Sharma and Gupta, 2023).

One of them is taxing the high-income agricultural earners and protecting the small farmers with thresholds and exemptions. Enhancing the inter-departmental coordination, increasing the intensity of the verification mechanism, and capitalizing on the technological side can do a long way to curb this systemic vice.

References

Business Today. (2023). Agricultural income exemption under scrutiny: How fake farm income is used for tax evasion. *Business Today India*.

Comptroller and Auditor General of India. (2022). *Report of the Comptroller and Auditor General of India on direct taxes*. Government of India.

Constitution of India. (1950). *The Constitution of India: Seventh Schedule (State List, Entry 46)*. Government of India.

Economic Survey of India. (2022). *Economic Survey 2021–22*. Ministry of Finance, Government of India.

Economic Survey of India. (2023). *Economic Survey 2022–23*. Ministry of Finance, Government of India.

Income Tax Act, 1961. (2024). *The Income Tax Act, 1961 (as amended up to the Finance Act, 2024)*. Government of India.

Income Tax Department. (2023). *Annual report 2022–23*. Ministry of Finance, Government of India.

Kelkar, V. L. (2002). *Report of the Task Force on Direct Taxes*. Ministry of Finance, Government of India.

National Council of Applied Economic Research. (2004). *Fiscal reforms and agricultural taxation in India*. NCAER.

Outlook Business. (2024). Should India tax rich farmers? Rethinking agricultural income exemption. *Outlook Business*.

Right to Information Act Disclosures. (2022). *RTI responses on high-value agricultural income declarations*. Government of India.

Sharma, R., & Gupta, P. (2023). Agricultural income exemption and tax equity in India. *International Journal of Law, Social Sciences and Statistics, 9*(2), 45–59.

Singh, A. (2023). Tax evasion through agricultural income: Issues and policy responses. *Journal of Public Finance and Policy Studies, 15*(1), 77–92.

The Tribune. (2023). Panel flags misuse of agricultural income exemption. *The Tribune*.