

Mere supervision of agricultural land without carrying out cultivation won't give rise to agricultural income

Summary – The Delhi ITAT in a recent case of P.H.I. Seeds (P.) Ltd., (the Assessee) held that where assessee entered into lease and service agreement with farmers for cultivation of seeds on their own land, since farmers had to ensure watering, fertility and suitability of land, mere supervision by assessee without carrying out basic operation for cultivation of land would give rise to business income in hands of assessee and not agricultural income

Facts

- The assessee-company, was engaged in business to procure various variety of seeds from growers, processing and packing, and subsequent sale of same. The assessee filed its return and claimed exemption under section 10(1).
- The assessee submitted that the lease agreement and service provider agreement was entered between the farmers and the assessee. As per said agreement the farmers were provided seeds for planting by the assessee and on the directions and guidance by the assessee the entire range of agricultural operations were carried out.
- The Assessing Officer was of a view that the charges for supervision and guidance could not be said to be agricultural activities within the meaning of the Act. It was further held that the assessee did not indulge in agricultural operations in accordance with tests laid in the judgment of the Supreme Court in the case of *CIT v. Raja Benoy Kumar Sahas Roy* [\[1957\] 32 ITR 466](#), accordingly the claim of exemption under section 10(1) was denied by Assessing Officer.
- On appeal, the Commissioner (Appeals) dismissed the appeal of the assessee on grounds that the assessee-company was not engaged in the performance of agricultural operations because the basic operations like tilling, sowing etc. were being performed by the farmer.
- On appeal to the Tribunal:

Held

- The factual matrix of the present case reveals that it was the case of assessee that the farmer and assessee had entered into lease agreement with the assessee-company and farmer was the lawful owner of the land had leased the farm land to the assessee-company which had handed it back to the farmer to carry out cultivation of seeds on behalf of the assessee-company. The parent seeds are provided free of cost to the farmer by the assessee-company. The farmer was paid, amount for procurement of seeds by the assessee at fixed rate, which was bifurcated under the heads, land lease rent, fertilizers and chemicals and labour and services charges.
- The actual cultivation on the land is done by the farmer like tilling, sowing, etc. the mere supervision by the assessee without the carrying of the basic operations would leave no manner of doubt that no agricultural income arose in the hands of the assessee. The argument of the assessee that the

company is an artificial person and could not have conducted the agricultural operations by itself and, therefore, required such kind of an arrangement with the farmers for earning agricultural income does not have any merit. The farmers are not the employees of the assessee-company. Had it been the case where the actual agricultural operations were carried out by the employees of the assessee-company, it would have been a different case altogether.

- The features of the agreement relied upon by the assessee like composite payment, giving parent seeds free of cost to the farmer, not carrying out any agricultural operations by itself clearly shows that the assessee-company is only earning business income from the activity and not agricultural income. It is the farmer in the instant case, who has to ensure the watering of the land, fertility and the suitability of the land. Without carrying out the basic operations along with the subsequent operations on the agricultural field, the assessee cannot claim agricultural income. The facts of the instant case though represent a legal business model preferred by the assessee and the farmer but the said arrangement only gives rise to business income in the hands of the assessee and not agricultural income. The leave and license agreement as well as the service provider agreement read along with the statements of the farmers also show that the agricultural operations are carried out by the farmers only.
- In view of the aforesaid, the reasoning given by the Assessing Officer and the Commissioner (Appeals) is admitted and grounds raised by the assessee and the appeal of the assessee stands dismissed.