

Differentiation between contract farming and agriculture for the purpose of claiming income tax exemption:

Consider 2 case studies:

Case Study 1:

The assessee was engaged in cultivation of hybrid seeds in the domestic market as well as exports of these products. It was doing contract farming by entering into an agreement with farmers for production of tomato seeds with ownership of the land continuing with the farmers.

The assessee was supplying the foundation seeds and financing the cost of all the activities carried out by the farmers at different stages of cultivation, subject to farmers carrying out preparation of the land, sowing of seeds, application of fertiliser, weeding, irrigation, pollination, harvesting and seed extraction and harvesting under supervision of the assessee's personnel with the seeds continuing to be the property of the assessee.

Will assessee be able to claim exemption in this case?

This case is similar to Kar HC judgement in the case of CIT v. Namdhari Seeds (P.) Ltd. [2011] 16 taxmann 83/203 Taxman 565/[2012] 341 ITR 342 (Kar.), wherein it was held that as the assessee had neither derivative interest in the land nor did it actually cultivate the land, the entire activity was in the nature of business, so that the income of the assessee was taxable as non-agricultural income.

Some of the factors which were taken into account for holding against the assessee were that (a) the assessee had not paid any rent for the land and that (b) the consideration which was paid to the farmers depended upon the quantity and quality of the harvested seeds supplied by the farmers.

Case Study 2:

Assessee-company was engaged in the business of production of foundation seeds and hybrid seeds on agricultural land obtained under the lease.

The assessee filed the return of income for the relevant assessment year considering its income as agriculture income and claimed exemption under section 10(1).

Is the stand of the assessee justified?

This case is similar to the ITAT Hyderabad judgement in the case of Profarm Seed India (P.) Ltd. v. ITO - [2022] 143 taxmann 393 (Hyderabad-Trib.), wherein it was held that, merely because the assessee took the land on lease for conducting their research operations to produce the foundation seeds of the hybrid varieties, such a lease cannot ipso facto make the operations of the assessee as contract farming.

The test is whether the assessee is outsourcing the agricultural operations of doing for themselves. The assessee in this case is entitled to exemption.