Chapter III
Taxes on Agricultural Income

CHAPTER-III
TAXES ON AGRICULTURAL INCOME

3.1 Tax administration

The levy and collection of taxes on agricultural income is governed by The Kerala Agricultural Income Tax (KAIT) Act, 1991 and is administered by Commissioner of Commercial Taxes (CCT). The assessment, levy and collection are done by Inspecting Assistant Commissioners (IAC), Agricultural Income Tax and Commercial Tax Officers (AIT & CTO). The Commercial Taxes Department is under the control of the Secretary to Government (Taxes) at the Government level.

The Companies and persons, who derive agricultural income within the State are liable to pay agricultural income tax (AIT). In respect of Companies, tax is chargeable at the rates prescribed in the Schedule to the KAIT Act, 1991. From April 2000, persons holding landed property upto 500 hectares may opt to pay tax at compounded rate. No tax is payable on first five hectares.

3.2 Internal audit

The details on working of internal audit wing, though called for (June 2014) have not been furnished by the Department (October 2014).

3.3 Results of audit

In 2013-14, test check of the records of nine units relating to agricultural income tax assessments and other records showed underassessment of tax and other irregularities involving ₹ 6.65 crore in six cases which fall under the following categories given in **Table - 3.1**.

Table - 3.1

			(₹ in crore)
Sl. No.	**Categories**	**Number of cases**	**Amount**
1.	Income escaped assessment	5	6.63
2.	Inadmissible expenses	1	0.02
	Total	**6**	**6.65**

During the course of the year, the Department accepted underassessment and other deficiencies of ₹ 2.67 lakh in seven cases which were pointed out in audit during the earlier years. An amount of ₹ 2.61 lakh was realised in seven cases during the year 2013-14. A few illustrative cases involving ₹ 2.53 crore are discussed in the following paragraphs.

Compliance Audit observations

3.4 Short levy of AIT due to acceptance of claim for deduction from income twice

Claim of assessee for deduction of ₹ four crore from net profit towards insurance under 'Group gratuity scheme' which has already been shown as expenditure in P&L account for computing net profit was accepted by assessing officer.

(IAC (AIT) Kottayam)

As per Section 5(k) of KAIT Act, 1991 any sum paid during the previous year to an employee as gratuity in accordance with the provision of the Payment of Gratuity Act, 1972 less such amount if any claimed in any previous year towards provision for gratuity in respect of such employee, is an allowable deduction. Explanation II below Section 5 stipulates that in case of any deduction towards gratuity or bonus, the deduction shall be allowed in the year in which actual payment is made to the employee or to any fund recognised in this behalf by the Government, irrespective of the method of accounting less any deduction already allowed in the previous year or years in respect of the employee.

The Plantation Corporation of Kerala Limited, Kottayam, a public sector company, claimed ₹ four crore paid against insurance premium under 'group gratuity scheme' as deduction from the net profit to arrive at the agricultural income for the previous year 2009-10 as per the statement of computation. Assessing officer accepted the claim as admissible deduction. Audit scrutiny of the accounts of the assessee revealed that the assessee had already accounted this amount as expenditure in the P&L account for arriving at the net profit along with annual insurance premium. Acceptance of the claim for deduction by the assessing officer resulted in short computation of agricultural income to the tune of ₹ four crore and consequent short levy of AIT of ₹ two crore.

The case was pointed out in audit to the Department in December 2013 and reported to Government in February 2014. Their replies have not been received (October 2014).

3.5 Short levy of AIT due to non-reckoning of receipt of previous year against bad debt written off during preceding years

The assessing officer did not reckon the receipt of the assessee during the previous year against the bad debt written off during preceding years.

(IAC (AIT) Kottayam)

As per Section 4(2) (iii) of KAIT Act, 1991 any amount received in the previous year in respect of bad debts written off pertaining to any previous year, shall be deemed to be agricultural income received in the previous year.

As per the P&L account for 2009-10 of The Plantation Corporation of Kerala Limited, Kottayam, a public sector company, they received ₹ 1.38 crore as miscellaneous income which included ₹ 57.85 lakh being bad debt written off in earlier years. Though, any amount received in the previous year in respect of bad debts written off in earlier years should be deemed to be agricultural income of the year in which it is received, the assessing authority while finalising the assessment (October 2012) did not include the above income as agricultural income. This resulted in short levy of AIT of ₹ 28.92 lakh (50 *per cent* of ₹ 57.85 lakh).

The case was pointed out in audit to the Department in December 2013 and reported to Government in January 2014. Their replies have not been received (October 2014).

3.6 Short levy of AIT due to non-consideration of crop insurance received during the previous year

The assessing officer did not reckon the crop insurance claim received by the assessee during the previous year for computing agricultural income.

(IAC (AIT) Kottayam)

As per Section 4(2) (ii) of KAIT Act, 1991 when an allowance or deduction has been made in the assessment for any year in respect of loss, expenditure or liability incurred by the assessee and where the assessee has obtained either in cash or in any other manner in respect of such loss, expenditure or some benefit in respect of such liability during the previous year the amount obtained by him or the value of benefit accrued to him shall be deemed to be agricultural income received in the previous year.

The Plantation Corporation of Kerala Limited, Kottayam, a public sector company, received ₹ 1.38 crore as miscellaneous income as per their P&L

account for 2009-10. Audit found that the miscellaneous income included receipt towards crop insurance of ₹ 48.35 lakh. However, while finalising the assessment for the year 2009-10 (October 2012), the assessing authority did not include ₹ 48.35 lakh as agricultural income for the year 2009-10. This resulted in short levy of AIT of ₹ 24.18 lakh.

The case was pointed out in audit to the Department in December 2013 and reported to Government in January 2014. Their replies have not been received (October 2014).