

F. No. 173/49/2022-ITA-I
Government of India
Ministry of Finance
Department of Revenue
Central Board of Direct Taxes

Room No.245A, North Block,
New Delhi, dated 21 October, 2025

To

All Principal Chief Commissioners of Income Tax,

Madam/Sir

Subject: C&AG's performance Audit report No.9 of 2019 on "Assessment of Agricultural income"- observations and suggested course of action during assessment proceedings-reg

Kind reference is invited to C&AG's performance Audit report No.9 of 2019 on "Assessment of Agricultural income (available at: <https://cag.gov.in/en/audit-report/details/121129>).

2. In the above performance audit report of C & AG, it was pointed out that there are some common mistakes in the assessment proceedings despite the facts and circumstances being similar in nature indicating inconsistent approach adopted by Assessing Officers (AOs) in these cases.

3. In this connection, a brief summary of the major issues pointed out by the C & AG in Report No. 9 Of 2019 is tabulated and suggested course of action, wherever necessary, is as indicated below:

| Sr. No. | Observation of C&AG | Summary of the issue | Suggested course of action for AOs |
|---------|--|--|---|
| (i) | Improper Verification and lack of independent cross-verification | ".. agricultural income was allowed without proper verification of land records, sales invoices, and agricultural expenses." | AOs may call for and verify documentary evidences pertaining to: - land records (ownership & land type/ use- viz. Khasra-khatauni/7-12 extract/Mutation etc.), - input expenses (viz. tilling, irrigation, fertilizer/pesticides, electricity, labour, storage, transport etc), |

| | | | |
|-------|--|---|--|
| | | | - sales documents (viz. Mandi/Buyers receipts, bank statements etc.). |
| (ii) | Exemptions granted to Non-agricultural activities. | <i>"Exemptions were granted for income derived from activities not qualifying as agricultural income under Section 2(1A) of the Income Tax Act, such as sale of fish, goats, dry grapes, and milk."</i> | The definition of Agricultural Income u/s 2(1A) of the Income-tax Act, 1961 and correct position of law laid down by judicial precedents in this regard may be looked in order to ensure correct application of law on the facts and circumstances of the given case. |
| (iii) | Income derived from agricultural land | <i>"Incorrect exemption granted for Income derived from agricultural land"</i> | This refers to incorrect exemption granted to claims of rent and revenue derived from agricultural land. AOs may verify the correct characterisation of income derived from land claimed to be agricultural land. |
| (iv) | Partial agricultural income | <i>"Incorrect allowance of exemption for partial agricultural income"</i> | This refers to lack of conceptual clarity about the scope of agricultural income as well as the principle of apportionment embodied in Rules 7, 7A, 7B and 8 of the Income-tax Rules, 1962. AOs may examine each case thoroughly to identify cases meriting apportionment. |

4. In order to facilitate proper verification during assessment of agricultural income, suggested course of action (as above) is only indicative & not exhaustive. The Assessing Officers (AOs) are required to verify every case based on the facts and circumstances of that case,

5. The above may be brought to the notice of all officers posted in your region.


(Meenakshi Singh)
Deputy Secretary
ITA-I, CBDT

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1. PS to FM/PS to MoS (F)
2. PS to Secretary (Revenue)
3. PS to Chairman, CBDT & all Members, CBDT

4. All Pr. DGsIT/DGsIT
5. DGIT (Systems)
6. All Joint Secretaries/CsIT, CBDT


Deputy Secretary
ITA-I, CBDT