

Farming on leased land ipso facto isn't 'contract farming'; Co. is entitled to claim exemption u/s 10(1): ITAT

Facts of the case - Profarm Seed India (P.) Ltd. v. ITO - [2022] 143 taxmann.com 393 (Hyderabad - Trib.)

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).

However, Assessing Officer (AO) contended that the assessee takes the agricultural land on lease to develop the foundation seeds and considered it to be in the nature of Contract Farming. Also, the production of hybrid seeds is not natural but involved scientific procedures. Thus, he considered it in the nature of business income and denied the exemption under section 10(1). Aggrieved by the order of AO, the assessee preferred an appeal to the CIT(A).

On appeal, CIT(A) passed the order in favour of the assessee and the matter reached the Hyderabad Tribunal.

Decision of the case:

- The Tribunal held that there was no dispute that the assessee took the agricultural lands on lease and conducted normal agricultural operations to produce the hybrid variety of foundation seeds in order to sell them in the open market to the seed industries, and in that pursuit, they engaged the labour, supervisors, etc.
- The assessee produced voluminous record to show the engagement of labour and the payment of salaries to the supervisors apart from producing the agreements with the landowners.
- 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. Further, the fact that foundation seeds of hybrid varieties are produced as per customer requirements will also not make it a case of contract farming.
- Contract farming case would be that if the assessee outsources the agricultural operations which they are doing for themselves now, to some other third party. Thus, AO erroneously jumped to the conclusion that the nature of work conducted by the assessee falls under the category of contract.