Q5

# Consider the following statements: Statement I: In India, income from allied agricultural activities like poultry farming and wool rearing in rural areas is exempted from any tax. Statement II: In India, rural agricultural land is not considered a capital asset under the provisions of the Income-tax Act, 1961. Which one of the following is correct in respect of the above statements? (a) Both Statement I and Statement II are correct and Statement II explains Statement I (b) Both Statement I and Statement II are correct but Statement II does not explain Statement I (c) Statement I is correct but Statement II is not correct (d) Statement I is not correct but Statement II is correct Official key: D.

UPSC Civil Services Prelims 2025 · General Studies · 2 marks · Economy

Indian economy, budget, schemes - Prelims GS Paper I.

## Explanation

### (a)

Both I and II are correct and II explains I. That would need poultry and wool to be tax-exempt because rural land is not a capital asset. Those are different heads. Allied-activity income is not agricultural income, so I fails and cannot be explained by II.

### (b)

- **Both correct but II does not explain I. II is correct. I is not:** exemption under section 10(1) is for agricultural income as defined, not for every rural farm-neighbour business.

### (c)

I correct, II not. Rural agricultural land is, in fact, kept out of 'capital asset' in section 2(14). II holds.

### (d) Official key

I is not correct, II is correct. Agricultural income (rent or revenue from agricultural land, and produce of cultivation) is exempt. Poultry farming and wool rearing do not use land as a crop; they are generally taxable as business income. Rural agricultural land is not a capital asset, so capital gains on its transfer are not charged - that is II, and it does not rescue I.

## Summary

- **Official key is (d):** Statement I is not correct, Statement II is correct. Poultry and wool rearing are not agricultural income, so they are not tax-exempt. Rural agricultural land is excluded from 'capital asset' under section 2(14). (a) and (b) treat poultry as exempt; (c) drops the land line.

## Related possible facts

These can be asked in a future Prelims paper.

**Section 10(1), Income-tax Act**

Agricultural income is exempt. The definition is in section 2(1A): land used for agricultural purposes, not every rural livelihood.

**Section 2(14) capital asset**

Rural agricultural land in India is excluded. Urban agricultural land can be a capital asset.

**Allied activities**

Poultry, dairy, wool and bee-keeping are typically business income. They are not agricultural income merely because they happen in a village.

**CBDT / nursery and seed**

Neighbour disputes on what still counts as agricultural income (saplings, seeds) - still land-linked, unlike poultry.

**GST on farm produce**

A different tax file. This question is income-tax, not GST.

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