

आयकर अपीलिय अधिकरण, 'बी' न्यायपीठ, चेन्नई  
**IN THE INCOME TAX APPELLATE TRIBUNAL**  
**'B' BENCH, CHENNAI**

श्री एस एस विश्वनेत्र रवि, न्यायिक सदस्य एवं श्री एस. आर. रघुनाथ लेखक सदस्य के समक्ष  
**BEFORE SHRI S.S. VISWANETHRA RAVI, JUDICIAL MEMBER AND**  
**SHRI S. R. RAGHUNATHA, ACCOUNTANT MEMBER**

आयकर अपील सं./ITA No.:1637/Chny/2025  
निर्धारण वर्ष / Assessment Year: 2020-21

<b>Mrs. Sisily Jose,</b> 8, Jaibalaji Nagar Main Road, Nesapakkam, K.K. Nagar West, Chennai – 600 078.	vs.	<b>ITO,</b> Non-Corporate Ward -19 (4), Chennai.
<b>[PAN:AAJPJ-6394-H]</b> (अपीलकर्ता/Appellant)		(प्रत्यर्थी/Respondent)

अपीलकर्ता की ओर से/Appellant by : Shri. V.P. Kuriyachan, CA &  
Ms. Shilpa Kuriyachan, CA  
प्रत्यर्थी की ओर से/Respondent by : Ms. Gauthami Manivasagam, JCIT.

सुनवाई की तारीख/Date of Hearing : 11.09.2025  
घोषणा की तारीख/Date of Pronouncement : 14.11.2025

**आदेश / O R D E R**

**PER S. R. RAGHUNATHA, AM:**

This appeal by the assessee is filed against the order of the Commissioner of Income Tax (Appeals), National Faceless Appeal Centre (NFAC), Delhi, (in short "Ld.CIT(A)") for the assessment year (A.Y.) 2020-21, vide order dated 10.02.2025.

2. At the outset, we find that there is a delay of 35 days in appeal filed by the assessee, for which the assessee has filed affidavit stating the reasons for delay, wherein, it is submitted that due to non-receipt of the appellate order through due channels. Hence, there was a delay in filing the appeal by the assessee. After considering the Affidavit filed by the assessee and also hearing both the parties, we find that there is a reasonable cause for the assessee in not filing appeal on or before the due date prescribed under the law and thus, in the interests of justice, we condone delay in filing of appeal and admit the appeal filed by the assessee for adjudication.

3. The assessee raised the following grounds of appeal:

*1. The order of the Commissioner of Income Tax (Appeals) (CIT (A)), as they pertain to the issues contested in this appeal, is opposed to law and facts and circumstances of the case.*

*2. The learned CIT(A) erred in confirming the order of the Assessing Officer in rejecting the claim of exemption of Agricultural Income to the extent of Rs.39,81,121/- though the Commissioner Appeals has accepted the contention of the appellant that the agricultural income in the order*

*3. The learned CIT(A) failed to substantiate that the agricultural Income attracts the Rule 74 of the Act in his order.*

*4. The learned CIT(A) failed to consider the evidence to produced by the Indian Rübber Board mentioning the produce from the land owned by the assessee is an agricultural produce and exempted from tax*

*5. The learned CIT(A) erred in not considering the HSN Code mentioned in the Letter from Indian Rubber Board the HSN Code 4001 2100 is specific to the natural Robber and exempted from tax.*

*6. The learned CIT(A) failed to appreciate the decisions of the Hon'ble High Court's in the case of Deputy Commissioner of A.I.T & S.T vs Raman I.L.R 1960 Ker.624*

*7. For these grounds and such other grounds that may be urged before or during the hearing of the appeal it is most humbly prayed that the Hon'ble Tribunal may be pleased to:*

*(a) Quash the order passed by the Commissioner of Income-tax (Appeals) and*

*(b) Pass such other orders as the Hon'ble Tribunal may deem fit.*

4. The brief facts emanating from the records are that the assessee is an Individual having agricultural income and income from other source. During the Financial Year 2019-20 relevant to the assessment year (A.Y.) 2020-21, the assessee had filed her return of income and declared taxable income of Rs.4,08,815/- and exempt agricultural income of Rs.43,43,129/-. The assessment of the assessee was selected for Limited Scrutiny through CASS on the issue of Agriculture Income.

5. The Assessing Officer, Faceless Assessment Unit, Income Tax Department (hereinafter referred to as 'AO'), made an addition of agricultural income of Rs.39,81,121/- to the total income as 'Unexplained money u/s.69A' and raised a demand amounting to Rs. 42,01,763/- and also initiated penalty proceedings.

6. Aggrieved by the above order of the AO, the assessee filed an appeal before the Id.CIT(A). The Ld.CIT(A), deleted the addition of agricultural income as unexplained money, however, treating the agricultural income as cultivation and treatment of smoked rubber sheets is income from sale of centrifuged latex under Rule 7 and 7A of the Income Tax Rules as partly agricultural and partly business in nature.

7. Aggrieved by the order of the Id.CIT(A), the assessee is in appeal before us.

8. The Id.AR for the assessee submitted that the assessee had submitted before the Ld.CIT(A), that the assessee had carried on agricultural activity of rubber cultivation and rendering the rubber (latex) fit to be taken to the market by preserving it into Ribbed Smoked Sheets for making it marketable cannot be considered as business activity.

9. Further the Id.AR submitted that as per Rule 7A of the Income Tax Rules, 1962, income derived from sale of centrifuged latex or cenex, or latex based crepes (such as pale latex crepe) or brown crepes such as estate brown crepe, remilled crepe, smoked blanket crepe or flat bark crepe or technically specified block rubbers manufactured or processed from field latex or coagulum obtained from rubber plants grown by the seller in India shall be computed as if it were income derived from business and 35% of such income shall be deemed to be income liable to tax.

10. The Id.AR also stated that as per Rule 7A submitted as above, mere drying or smoking of rubber sheets for preserving it fit into take into market does not involve any manufacturing or processing envisaged in Rule 7A as it involves elaborate process with the use of large machinery which a small or marginal farmer can neither undertake nor profitable for them to do so. The assessee had furnished confirmation letter from the Rubber Research Institute, Rubber Board of India, a Statutory Body constituted under the Rubber Act, 1947 under

the Ministry of Commerce and Industry, Government of India, set up for the overall development of the rubber industry in the country which has the technical expertise about the rubber has in its letter dated 05.06.2023 to the assessee confirmed that ribbed smoked rubber sheets are not in the category of manufactured products, whereas it can only be considered as marketable form of natural rubber. A copy of the said letter is attached in the Paper Book.

11. Further, he submitted that converting the field latex into rubber sheet, dry or smoke for rendering the produce fit to be taken to market into marketable form is part of the agricultural activity and can only be considered as agricultural activity and not a business activity so as to treat 35% of the income from sale of the smoked sheets as business income. The Id.AR argued that the Id.CIT(A), has failed to consider the technical opinion of the premier statutory body under the Government of India which has expertise in rubber and rubber industry, that smoked or ribbed rubber sheets does not involve any manufacturing or production process and the Id.CIT(A), was unjustified in holding that Rule 7 and 7A has application in the assessee case and treating 35% of the income as business income which was illegal, arbitrary and bad in law.

12. In continuation of his arguments he relied on the decision of Hon'ble Kerala High Court in the case of *Deputy Commissioner of Agricultural Income-tax and Sales Tax v. Sherneilly Rubber and Cardamom Estates Ltd.*, held that where latex is hardened by the application of sulphuric acid, shaped in the form of sheets and dried with the help of smoke for purposes of preserving the latex

and making it fit for marketing, the rubber is still “produce from land”. The principle in this decision was endorsed by the Hon’ble High Court in *Commissioner of Income Tax Versus Woodland Estates Ltd [1964 (8) TMI 69-Kerala High Court]* and held that income from the sale of latex after its conversion into sole crepe was agricultural income under section 2(1)(b)(ii) of the Indian Income-tax Act, 1922 corresponding to section 2(1A) of the Income Tax Act, 1961.

13. The Id.AR submitted that the Hon’ble Keral High Court in the case of *Meenachil Rubber Marketing And Processing Co-operative Society Limited Versus Commissioner Of Income-Tax [1990(1) TMI 12 – Kerala High Court]* while considering allowability of deduction u/s.80P (2)(a)(iii) of the Act held as under:

“the processing made by the assessee by the centrifugal method was only to preserve the latex so as to enable it to effect a proper sale. In a case where latex was converted into crepe rubber sheets, this court held that the processing of such conversion was only a step taken by the agriculturist to render the natural produce fit to be taken to market and, therefore, the sale of the end product, viz., the smoked rubber sheet or crepe rubber would only be treated as agricultural income”.

14. The Hon’ble Kerala High Court in the case of *Commissioner of Income Tax, Thiruvananthapuram Versus State Farm Corporation of Kerala Ltd., [2011(1) TMI 265 – Kerala High Court]* discussed in detail about the taxability under Rule 7A and held as under:

“4. Natural rubber is obtained by tapping matured rubber trees and when it is extracted from rubber tree by tapping it, it is in liquid form, looks like milk and depending upon the variety, and health of the tree, rubber content in the liquid rubber may vary. Rubber latex has short life and rubber in all forms are industrial raw materials used in the manufacture of various products like tyre, tube, flap, glouse, bush, etc.

Whatever be the form in which natural rubber is sold, that is even when it is sold in the latex form, its price is based on dry rubber content (DRC) in the latex. For the purpose of most of the industries, rubber required is in dry smoked sheet form. However, for industries engaged in production of tubes, gloves, balloon, rubber thread, etc., rubber used is in liquid form. Small and medium farmers do not have factories to process rubber latex and therefore they either sell field latex mixed with ammonia for short term preservation to processing industries or convert field latex into rubber sheet, dry, smoke and sell the same. However, large planters are engaged in processing of field latex into centrifuged latex, from which tube, gloves, rubber thread, etc. are produced. Centrifuging is a process done with extensive machinery in the factory and in the process excess water in the field latex is skimmed out and concentration of rubber content in the latex is increased to around 60 per cent. In other words, centrifuging is nothing but a process whereunder rubber latex is concentrated, coloured and preserved. Centrifuged rubber also has a shelf life of around 6 months. As is clear from Rule 7A, apportionment of income derived from manufacture of centrifuged latex and other products referred to therein for the purpose of assessment between agricultural income and central income is in the ratio of 65:35. What is intended to be taxed under the Central Act is 35 per cent of the income from sale of rubber products referred to in Rule 7A (1), that is centrifuged latex, latex based crepe, pale latex crepe (PLC), etc.” (emphasis added)

15. The Id.AR stated that the assessee had submitted before the Ld.CIT(A) that Rule 7 and 7A devolves around the manufacture of centrifuged latex only and attributing income from Ribbed Smoked Sheets as 35% business is contrary to the facts and bad in law.

16. The Id.AR submitted the Id.CIT(A) has failed to consider the submissions made by the petitioner and considered Rs.13,93,392/- as business income under Rule 7 and 7A. In support of the assessee's claim she had submitted adequate documents to prove the agricultural activity pertains to treatment of raw rubber into Ribbed Smoked Sheets and that Rule 7 and 7A pertains to manufacture of centrifuged latex only. Therefore, the Id.AR argued that the Id.CIT(A) has erred in not considering the submission of the assessee and

attributing the agricultural activity as manufacture of centrifuged latex. In light of the above arguments and submissions and the judicial pronouncements, the Id.AR stated that it is very clear that the finding of the Id.CIT(A), holding that the assessee's activity as that of manufacture of centrifuged latex by applying Rule 7A and upholding the assessment order is unjustified, illegal and against judicial pronouncements and hence prayed to allow the income from sale of smoked rubber sheets as agricultural income by setting aside the order of the Id.CIT(A).

17. Per contra, the Id.DR for the revenue supported the order of the Id.CIT(A) and submitted that there is no error in the decision of the authorities. Further, she also submitted that the Id.CIT(A) has analysed the Rule 7 and 7A before arriving at the conclusion to tax 35% of the agricultural income under the head income from business. Hence, the Id.DR prayed for confirming the order of the Id.CIT(A).

18. We have carefully considered the rival submissions, the material placed on record, gone through the orders of the authorities and the precedents cited. The assessee is an Individual having agricultural income and income from other sources. Admittedly the assessee had filed her return of income for the A.Y.2020-21 and declared taxable income of Rs.4,08,815/- along with the exempt agricultural income of Rs.43,43,129/-. The assessment of the assessee was selected for Limited Scrutiny through CASS on the issue of Agriculture Income. The Assessing Officer, made an addition of agricultural income of Rs.39,81,121/- to the total income as 'Unexplained money u/s.69A'.

19. The assessee filed an appeal before the Id.CIT(A) and he deleted the addition of agricultural income as unexplained money, however, treating the agricultural income as cultivation and treatment of smoked rubber sheets is income from sale of centrifuged latex under Rule 7 and 7A of the Income Tax Rules as partly agricultural and partly business in nature.

20. The only issue before us to decide is whether the income from sale of smoked rubber sheets is liable to be assessed as agriculture income or under Rule 7 and 7A of the Income Tax Rules, 1962 to bring 35% of the income as business income under the Act.

21. According to the Id.AR, the assessee had carried on agricultural activity of rubber cultivation and rendering the rubber (latex) fit to be taken to the market by preserving it into Ribbed Smoked Sheets for making it marketable cannot be considered as business activity.

22. The Rule 7A of the Income Tax Rules, 1962, provides for computation of income from the sale of *centrifuged latex, crepes, and technically specified block rubbers* manufactured or processed from field latex obtained from rubber plants. It deems 35% of such income as business income and the balance as agricultural income.

23. The crucial question, therefore, is whether *ribbed smoked sheets* fall within the ambit of the products specified in Rule 7A. From the plain reading of the Rule and the clarification of the Rubber Board, *ribbed smoked sheets* (RSS)

are merely dried and smoked latex intended to prevent deterioration and make the product marketable. The process does not involve any chemical or mechanical treatment or transformation resulting in a new product. Thus, it cannot be considered “manufacture” or “processing” in the sense contemplated under Rule 7A.

24. This view finds strong support from the judgment of the **Hon’ble Kerala High Court in Sherneilly Rubber & Cardamom Estates Ltd. (supra)**, wherein it was held that conversion of latex into smoked sheets is only a step taken to render the produce fit for marketing and does not constitute manufacture. Similarly, in **Woodland Estates Ltd. (supra)** and **Meenachil Rubber Marketing Society (supra)**, it was consistently held that such income remains agricultural income.

25. The Ld. CIT(A)’s reliance on Rule 7 and 7A, therefore, appears misplaced, since the Rule applies to income derived from the *manufacture or processing of centrifuged latex* and not to the simple smoking or drying of latex sheets.

26. Further, the technical opinion of the Rubber Research Institute, Rubber Board of India — a statutory expert body — confirming that *ribbed smoked sheets* are not a manufactured product, lends authoritative support to the assessee’s contention.

27. In the present facts and circumstances of the case and considering the judicial precedents, we hold that the assessee's activity of converting field latex into *ribbed smoked sheets* constitutes an integral part of the agricultural operation, and the entire income therefrom is *agricultural income* exempt under section 10(1) of the Act.

28. In view of the foregoing discussion, we set aside the order of the Ld. CIT(A) to the extent it treats 35% of the agricultural income as business income under Rule 7A, and direct the Assessing Officer to treat the entire income from sale of *ribbed smoked rubber sheets* as agricultural income.

29. In the result, the appeal filed by the assessee is **allowed**.

Order pronounced in the court on 14<sup>th</sup> November, 2025 at Chennai.

**Sd/-**

(एस एस विश्वनेत्र रवि)

**(S.S. VISWANETHRA RAVI)**

न्यायिक सदस्य/**Judicial Member**

**Sd/-**

(एस. आर. रघुनाथा)

**(S. R. RAGHUNATHA)**

लेखा सदस्य/**Accountant Member**

चेन्नई/Chennai,

दिनांक/Dated, the 14<sup>th</sup> November, 2025

**SP**

आदेश की प्रतिलिपि □ ग्रेषित/Copy to:

1. □ पीलार्थी/Appellant
2. प्रत्यर्थी/Respondent
3. आयकर आयुक्त/CIT– Chennai/Coimbatore/Madurai/Salem
4. विभागीय प्रतिनिधि/DR
5. गार्ड फाईल/GF