

IN THE INCOME TAX APPELLATE TRIBUNAL
"SMC" BENCH PANAJI

BEFORE SHRI PAVAN KUMAR GADALE, JUDICIAL MEMBER
I T A. No.252/PAN/2025
(A.Y. 2012-13)

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| Shirguppi Sugar Works Limited, No.62,Ambi Galli, At Post- Manjari, Tal chikodi, Belagavi-591213, Karnataka. | Vs | ITO-Ward-1(1), Feroj khimjibhai cpx, Civil Hospital Road Belagavi-590001. Karnataka. |
| (अपीलार्थी/Appellant) | | (प्रत्यर्थी/Respondent) |

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| Assessee by | Shri.Pramod Y Vaidya.AR |
| Revenue by | Shri.Ish Gupta.Sr.DR |

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| सुनवाई की तारीख/Date of Hearing | 18.09.2025 |
| घोषणा की तारीख/Date of Pronouncement | 22.09.2025 |

ORDER

PER PAVAN KUMAR GADALE, JM:

The appeal is filed by the assessee against the order of ADDL/JCIT(A)-7,Kolkata passed u/sec143(3) and U/sec 250 of the Act. The assessee has raised the grounds of appeal challenging the order of CIT(A) sustaining the addition of interest on fixed deposits and weightment charges under income from other sources made by the assessing officer.

2. The brief facts of the case are that, the assessee company is engaged in the business of integrated sugar mill,co generation plant and distillery unit. The assessee

has filed the return of income for A.Y.2012-13 on 28.09.2012 disclosing a total income of Rs.Nil. Subsequently the case was selected for scrutiny under the CASS and notice u/sec 143(2) and u/sec142(1) of the act are issued. In compliance, the Ld.AR of the assessee appeared from time to time and filed the details and submissions and produced the books of accounts. The Assessing Officer (A.O) dealt on the facts of commissioning and commencement of company project at Para 4 of the order and the audited financial statements and also considered the facts of business loss and unabsorbed depreciation. Whereas the point of dispute in the assessment proceedings, the A.O find that the assessee has earned interest on fixed deposits from various banks aggregating to Rs.14,45,670/- and claimed set off against the pre operative expenses. But the A.O. is of the view that the interest income earned during the preproduction period should be taxed under income from other sources and in reply the assessee has filed the submissions vide letter dated 19.08.2014 substantiating the claim of setoff of interest income on fixed deposits with the preoperative expenses and explaining that the fixed deposits are kept in the banks for issuing bank guarantees which are furnished to customs department to import capital goods under the EPCG Scheme for the project and nexus of interest earned on deposits and expenses incurred for the project. Further the assessee also provided the details of Fixed Deposits kept for issuing the bank guarantees.

Whereas the A.O was not satisfied with the explanations and denied the claim of setoff and treat the interest income on fixed deposits of Rs.14,45,670/- taxable under income from other sources and similarly made addition of weighment charges of Rs.53,044/- and assessed the total income of Rs.14,98,710/- and passed the order u/sec 143(3) of the Act dated 22.08.2014.

3. Aggrieved by the order, the assessee has filed an appeal before the CIT(A), whereas the CIT(A) has considered the grounds of appeal, statement of facts and findings of the AO and has issued notices of hearing and the assessee has filed the details and submissions. But the CIT(A) has confirmed the action of the A.O and dismissed the appeal. Aggrieved by the order of the CIT(A), the assessee has filed an appeal before the Hon'ble Tribunal.

4. At the time of hearing, the Ld.AR submitted that the CIT(A) has erred in confirming the action of the A.O overlooking the facts and submissions of the assessee in the proceedings. Further the Ld.AR emphasized that the assessee in response to notices has submitted the explanations along with the details before authorities and in respect of disputed issue of interest earned on fixed deposits from various banks claimed set off against the pre operative expenses, the Ld.AR contentions are there is a nexus of fixed deposits kept with banks and the bank guarantees are furnished to customs department for import of capital goods. The Ld.AR substantiated the submissions

with the judicial decisions and prayed for allowing the appeal. Per contra, the Ld. DR supported the order of the CIT(A).

5. Heard the rival submissions and perused the material on record. The Ld.AR submitted that the CIT(A) has erred in sustaining the action of the assessing officer overlooking the submissions. The Ld.AR has not pressed the ground of appeal no.3 in respect of addition of weightment charges and accordingly this ground of appeal is treated as withdrawn and is dismissed. On the sole disputed issue, the Ld.AR emphasized that Assessing officer was satisfied with the facts of commissioning and commencement of company project and the audited financial statements but the A.O has erred in his view that the interest income earned during the pr-production period is assessable as income from other sources. Whereas the fixed deposits are kept with the banks and in lieu i.e bank guarantees are issued and are furnished to customs department for import of capital goods under the EPGC scheme for the project by the assessee and such deposits are directly linked with the purchase of capital goods and the Ld.AR relied on the judicial decisions of the Hon'ble Supreme Court and Hon'ble High court. The assessee company has earned interest on fixed deposits from various banks and claimed set off against the pre operative expenses and there is a nexus of interest earned on deposits and expenses incurred for the project i.e capital expenditure. The fixed deposits are

maintained with the banks for issue of bank guarantees to the customs authorities for acquisition of capital goods necessary for setting up of project and there exist a linkage between the fixed deposits with the banks and purchase of capital goods. And the interest income on fixed deposits becomes incidental to the purchase of capital goods under the EPCG Scheme for the project. Hence considering the facts, circumstances, submissions and the ratio of the judicial decisions, the assessee is eligible to claim set off interest income on fixed deposits maintained with the banks against the pre operative expenses/project cost. Accordingly, direct the assessing officer to delete the addition of interest income under income from other sources. And this ground of appeal is allowed in favour of the assessee.

6. In the result, the appeal filed by the assessee is partly allowed.

Order pronounced in the open court on 22.09.2025.

-S/d-
(PAVAN KUMAR GADALE)
JUDICIAL MEMBER

Panaji Dated: 22/09/2025

Copy of the Order forwarded to:

1. The Appellant,
2. The Respondent
3. The CIT(A)-
4. CIT

5. DR, ITAT,
6. Guard file.
//True Copy/

BY ORDER,
(Asstt. Registrar)ITAT,
Panaji

| | | Date | <u>Initial</u> | |
|-----|--|------|----------------|----|
| 1. | Draft dictated on | | | PS |
| 2. | Draft placed before author | | | PS |
| 3. | Draft proposed & placed before the second member | | | PS |
| 4. | Draft discussed/approved by Second Member. | | | PS |
| 5. | Approved Draft comes to the Sr.PS/PS | | | PS |
| 6. | Kept for pronouncement on | | | |
| 7. | File sent to the Bench Clerk | | | |
| 8. | Date on which file goes to the AR | | | |
| 9. | Date on which file goes to the Head Clerk. | | | |
| 10. | Date of dispatch of Order. | | | |
| 11. | Dictation Pad is enclosed | | | |