

**IN THE INCOME TAX APPELLATE TRIBUNAL
“A” BENCH : BANGALORE**

BEFORE SHRI PRASHANT MAHARISHI, VICE PRESIDENT
AND
SHRI SOUNDARARAJAN K., JUDICIAL MEMBER

ITA No.2065/Bang/2025
Assessment year : 2022-23

Mrs. Channamma Rachappa Saradagi, Prop. M/s. Srinidhi Transports, Sangondeshwar Nagar, Kamatagi, Amingad, Bagalkot – 587 120. PAN: AWEPS 8300D	Vs.	The Income Tax Officer, Ward 6(3)(1), Bangalore.
APPELLANT		RESPONDENT

Appellant by	:	Shri Siddesh N Gaddi, CA
Respondent by	:	Shri K. Saravanan, Addl.CIT (DR)(ITAT), Bengaluru.

Date of hearing	:	28.01.2026
Date of Pronouncement	:	23.02.2026

ORDER

Per Prashant Maharishi, Vice President

1. Captioned appeal for Ay 2022-23 is filed by Mrs. Channamma Rachappa Saradagi against the appellate order passed by the National Faceless Appeal Centre, Delhi (NFAC) [Id. CIT(A)] dated 29 August 2025 wherein the appeal filed by the assessee against the assessment order dated 22nd of March 2024 passed under section 143 (3) read with section 144B of the Income Tax Act, 1961 [the Act] passed by the learned assessing officer was dismissed. Therefore the assessee is in appeal before us.

2. The grievance of the assessee is with respect to the (i) confirmation of addition of Rs.145,35,354/- of the addition made by the learned assessing officer under section 68 of the Act, (ii) disallowance of interest under section 36 (1) (iii) to the extent of Rs.2,21,518 on account of interest on MSME loans and (iii) further disallowance under section 37(1) of the Act to the extent of ₹ 1,209,401 on account of salaries and wages. The learned CIT – A has confirmed all these additions made by the learned assessing officer.
3. The briefly stated facts show that the assessee is a proprietor of Srinidhi Transports. The assessee is primarily stated to be in the business of service sector renting transport vehicles. She takes on hiring the goods transport vehicles and further gives those vehicles on hire to the companies for the transportation activities. The assessee filed her return of income at a total income of ₹ 419,470 on 2nd of October 2022. The return was picked up for scrutiny and relevant notices were issued to the assessee.
4. During the course of assessment proceedings the learned assessing officer noted that with respect to the sundry creditors/loans outstanding, assessee has not submitted any income tax return, bank statements, ledger accounts to ascertain the creditworthiness of the parties from whom assessee has availed unsecured loan of Rs.145,35,354. Therefore such loan was added under section 68 of the Act.

5. The assessing officer further noted that in the business expenses the assessee has claimed deduction of interest expenditure of Rs.2,21,518 but the total interest on gold loan and MSME loan amounting to Rs.2,21,518 cannot be termed as business expenditure and hence disallowed the above interest expenditure.
6. Further the learned assessing officer noted that assessee has debited an expenditure of ₹ 1,209,401 with respect to the salaries paid directly to the staff and contractual staff. The assessee has not provided any transaction details with regard to the disbursement of salary of those staff and therefore he disallowed the same.
7. Accordingly the assessment order under section 143 (3) was passed on 22nd of March 2024 under section 143 (3) r.w.s. 144B of the Act.
8. The assessee aggrieved with the same preferred an appeal before the learned CIT – A unsuccessfully and therefore assessee is in appeal before us.
9. The learned authorised representative, Mr Siddesh N Gaddi, CA, submitted a brief synopsis of the whole appeal and also submitted the financial statements of the appellant, confirmations, ledger, affidavits regarding the unsecured loans. He further referred to the statement of interest expenditure with respect to the MSME loan and gold loan along with the copies of the interest expenditure. He further submitted a salary Ledger and other documents for the purpose of claiming that the disallowance made by the learned assessing officer is not proper.

10. With respect to the unsecured loan his statement was that all these loans accounts were outstanding from the earlier years and therefore it could not have been added under section 68 of the Act. He further stated that during the course of assessment proceedings before the Id. AO assessee has submitted the documents which are placed at page No. 30 – 110 of the paper book containing confirmations, ledger, affidavits regarding the unsecured loans.
11. With respect to the loan accounts on which interest has been claimed by the assessee he referred to page No. 111 – 116 of the paper book and also the page No. 117 of the paper book where the interest expenses are tabulated. He submitted that assessee has incurred this interest expenditure for the purpose of the business of the assessee and therefore those are allowable.
12. With respect to the salary details the assessee submitted that page No. 118 – 128 of the paper book was submitted before the learned assessing officer which clearly shows that the salary expenditure has been incurred by the assessee for the purposes of the business. He further stated that none of the expenditure was held to be personal or without supporting.
13. According to him the additions made by the learned assessing officer deserves to be deleted. With respect to the order of the learned CIT – A he submitted that the learned CIT – A despite verifying everything, did not delete the addition but confirmed the same without giving any reason.

14. The learned departmental representative vehemently supported the orders of the learned lower authorities and submitted that assessee has not submitted any information before the learned assessing officer and therefore the learned assessing officer has categorically held that in absence of any details coming forth from the assessee, these additions were made. With respect to the order of the learned CIT – A, the learned departmental representative vehemently supported and submitted that the learned CIT – A has correctly confirmed the addition.

15. In the rejoinder the learned authorised representative submitted that the unsecured loans have been added in the hands of the assessee which are opening balance. The assessee has produced the books of accounts before the assessing officer. Further the copies of the Ledger account confirmation etc. were also produced. According to the copies of the Ledger account it is apparent that there are outstanding balances in those Ledger accounts and therefore same could not have been added under the provisions of section 68 of the Act. With respect to the disallowance of the interest expenditure he submitted that that assessee has obtained MSME loan and gold loan but same have been utilised for the purposes of the business and therefore the same could not have been disallowed. He further stated that all these loans are disbursed and sanctioned in the name of Srinidhi Transport. With respect to the salary expenditure he referred to the fact that assessee has submitted the complete details such as profit and loss account, Ledger account of salary expenditure, salary Ledger for the earlier years also. The salary

Ledger clearly depicts the payment made to the accounting staff, housekeeping staff, drivers and other support staffs. The salary payments are also made through banking channels and also supported by the vouchers. He further referred to the fact that assessee is a small entity operating as a proprietor engaged in transportation service and therefore asking for the details as employees Provident fund related documents, is not possible. He even otherwise submitted that if the assessee has not deposited employees Provident fund or is not liable to the same, the amount of expenditure incurred by the assessee of the employees who are not covered under the provident fund Act, cannot be disallowed. He further submitted that it is not the case of the assessing officer that assessee is covered under the provident fund Act. Accordingly he submitted that the learned AO as well as the learned CIT – A has erred in making the disallowance of salary expenditure.

16. We have carefully considered the rival contention and perused the orders of the learned lower authorities. The assessee is an individual, proprietor of Srinidhi Transport, engaged in the business of renting and hiring of transportation vehicles. The assessee is stated to be maintaining regular books of accounts and her accounts are also audited under section 44AB of the Act.
17. The first addition made by the learned assessing officer is with respect to the unsecured loan obtained by the assessee. We have been shown the confirmation, Ledger, affidavits regarding the unsecured loan received from the various parties. We find that the assessee has

obtained the unsecured loan from her relatives mostly and sister concerns. The opening balances of the unsecured loan of all the parties taken together is ₹ 1.72 crores. The assessee has given the breakup of the parties from whom the loans have been taken. According to that the opening balances are outstanding in most of the parties account. In some of the parties account the opening balances have been repaid partly and the balance sum is shown as outstanding. To support the case of the assessee, the assessee has submitted the name and address of the creditor permanent account No. of the creditor and also submitted the confirmation letter from the creditors. When questioned the assessee also submitted the affidavits of the lenders. We find that in case of Mr Adesh M Saradagi, the opening and closing balance of the unsecured loan of ₹ 10 lakhs remains the same. Similarly is the case of Mr Amaresh M Saradagi where the opening and closing balances of ₹ 9 lakhs remains the same. In case of Mr Manjunath M Saradagi, the outstanding unsecured loan of ₹ 1,539,962 is also the closing balance. In case of M/s SSM Transport the opening outstanding balance of ₹ 13 lakhs was reduced to ₹ 8 lakhs. Except in case of Rachappa Saradagi where the opening balance was ₹ 2,630,871, assessee received a further sum of Rs.1,21,41,446 and also paid a sum of Rs.1,02,01,000 leaving the closing balance of ₹ 4,471,317 shows the transactions during the year. For this also the assessee has submitted the confirmation stating the permanent account No. and also the affidavit of the lender. With respect to Mr Shivanand Mareguddi the opening credit balance was ₹ 68 lakhs which was repaid to the extent of ₹ 12 lakhs resulting into a

closing balance of ₹ 56 lakhs. Thus the complete analysis of the each of the accounts clearly shows that in most of the cases it is the opening balance outstanding in the books of account of the assessee as sundry unsecured loan is also carried forward at the end of the year. Thus we find that in most of the cases there is no further credit received during the year but it is merely a repayment of the loan that too in some of the accounts. Thus in those cases the addition made u/s 68 of the act cannot be sustained as there is no sum found credited in the books of the assessee which is necessarily the initial triggering point of making addition u/s 68 of the act.

18. Further in only one case of Rachappa Saradagi there is also a credit received of Rs.1.2 crores during the year, though the closing balance is less than the opening balance, this needs to be verified by the assessing officer.
19. In view of the above facts out of the addition of Rs.143,60,354 we delete the addition except to the extent of ₹ 4,471,317 in case of Rachappa Saradagi which needs to be verified by the assessing officer. Accordingly the balance addition deserves to be deleted as there is no credit received during the year. Accordingly ground No. 4 – 13 of the appeal are allowed as indicated above.
20. Next with respect to the disallowance of interest expenditure of Rs.221,518 being interest expenditure on gold loan and MSME loan obtained by the assessee. It is the claim of the assessee that the interest paid on these loans is deductible as a business expenditure under

section 36 (1) (iii) of the Act as the loan amounts obtained by the assessee is in the name of Srinidhi Transport and the loan is also used for the purposes of the business. The assessee has obtained a MSME loan from Kotak Mahindra bank. It is not the case of the assessing officer that the money borrowed by the assessee from Kotak Mahindra bank as an MSME loan have been used for personal purposes. The assessee has submitted the confirmation of the loan from Kotak Mahindra bank which was disbursed on 27 July 2020 during Covid times and which was used for the purposes of the business. The gold loan interest of ₹ 608,061 is also on the loan obtained by the assessee during Covid period. Assessee is eligible to get deduction of interest paid on loans or capital borrowed for the purposes of the business or profession under the provisions of section 36 (1) (iii) of the Act. It is not the case of the learned assessing officer that the borrowal of the MSME loan and gold loan is not for the purposes of the business therefore we find that the disallowance by the learned assessing officer and confirmed by the learned CIT – A is not correct. Accordingly we direct the learned assessing officer to delete the above disallowance.

21. With respect to the disallowance of salary expenditure of ₹ 1,209,401 the assessee has submitted the bills of Mr Ankit Trivedi, labour manpower contractor, whose permanent account No. as well as the complete address is provided to the learned AO. The assessee has hired him who is having the proper GST No. for Manpower services. The assessee has obtained the services for supplying labour for housekeeping as well as the drivers. Those bills were submitted before

the learned assessing officer. The assessee also submitted the labour registration certificate of the persons employed by the assessee. The payment made to Mr Ankit Trivedi was also supported by tax deduction at source certificate as well as the income tax return of the labour contractor, therefore the labour contract payment charges made by the assessee to Mr Ankit Trivedi could not have been disallowed. Over and above, the assessee has made a payment of salary of ₹ 50,000 to one Mr Sivakumar who is an accountant of the assessee through banking channels. Further support staff payment is also made at ₹ 6000 per month which is also recorded in the books of accounts. Thus the total payment made of ₹ 1,048,740 to Mr Ankit Trivedi for housekeeping staff salary, salary paid to accountant as well as to the small staff which is on monthly basis is demonstrated by the assessee to have been incurred for the purposes of the business of the assessee. The major salary payment is to Mr Ankit Trivedi who is the manpower supply contractor of the assessee for which the assessee has furnished the complete details. Other salary payments are of small amount and paid on monthly basis. In view of the above fact we do not find any reason to uphold the above disallowance. Accordingly we direct the learned AO to delete the disallowance of salary expenditure of ₹ 12,09,401.

22. Coming to the reason that why the learned CIT – A has dismissed the appeal of the assessee stating only one reason that all the grounds of appeal raised by the assessee are not maintainable as there exists no infirmity in the order of the learned assessing officer. He has not

discussed at all the various evidences produced by the assessee before him. Therefore the order of the learned CIT – A is not sustainable and deserves to be quashed.

23. In view of this appeal of the assessee is partly allowed.

Pronounced in the open court on this 23rd day of February, 2026.

Sd/-
(SOUNRARAJAN K.)
JUDICIAL MEMBER

Sd/-
(PRASHANT MAHARISHI)
VICE PRESIDENT

Bangalore,
Dated, the 23 February, 2026.

/Desai S Murthy /

Copy to:

1. Appellant
2. Respondent
3. Pr. CIT
4. CIT(A)
5. DR, ITAT, Bangalore.

By order

Assistant Registrar
ITAT, Bangalore.