

**IN THE INCOME TAX APPELLATE TRIBUNAL
'SMC' BENCH, BANGALORE**

**BEFORE SHRI WASEEM AHMED, ACCOUNTANT MEMBER AND
SHRI KESHAV DUBEY, JUDICIAL MEMBER**

ITA No.104/Bang/2026
Assessment Year: 2020-21

Erki Krishnamurthy HUF, #1, Kalleri House, Ramakunja Post, Puttur Taluk, Ramakunja – 571 241. PAN – AAAHE 1269 F	Vs.	The Income Tax Officer, Ward – 1, Puttur.
APPELLANT		RESPONDENT

Assessee by	:	Shri Narendra Sharma, Advocate
Revenue by	:	Shri Ganesh R Ghale, Advocate – Standing Counsel for Revenue

Date of hearing	:	26.02.2026
Date of Pronouncement	:	17.03.2026

ORDER

PER WASEEM AHMED, ACCOUNTANT MEMBER:

The present appeal has been instituted by the assessee against the order of the Ld. CIT(A) passed u/s 250 of the Act dated 09 .10.2025.

2. The assessee has raised several grounds of appeal which are interconnected. The interconnected issue raised by the assessee is that the learned CIT(A) erred in confirming the disallowances of agricultural income and treating the same as income from other sources.

3. The facts in brief are that the assessee is a HUF. In the original return filed for the year under consideration, the assessee declared total taxable income of Rs. 2,63,450/-only. Subsequently, the return was revised declaring agricultural income for Rs. 41,51,600/- only which was claimed as exempted under the Act. The return was selected for limited scrutiny under CASS for verification of agricultural income.

4. During the assessment proceedings, the assessee submitted that he holds 31.39 acers of land in own name and also having ¼ share in 35.10 acers of agricultural land jointly held in the name of 4 brothers. In support of land holding, the assessee furnished copies of Records of Rights, Tenancy and Corps (RTC) form. The assessee claimed that crops like Arecanut, Coconut, Cashew Nut, Rubber, Pepper, Banan, Mangoes and vegetables were grown. During the year under consideration, the approximate sale proceed of agricultural produce was at Rs. 69,19,350/-, and expenditure incurred for Rs. 27,67,750/- net agricultural income realised at Rs. 41,51,600/- only.

4.1 The assessee claimed that agricultural produces were sometime sold directly from farm on cash and carry basis and some time to dealer through bank. The sale proceeds sold on credit basis received in bank accounts held in Karnataka Bank and Union Bank and the relevant bank statement was furnished. Likewise, the expenditure such as payment toward farm labour, fertilizer, chemical, pesticides etc was also made through cash only. The assessee submitted that the proper books of account were not maintained with respect to agricultural activity, therefore he is not in a possession to furnish cash flow statement.

4.2 However, the AO after verification of assessee's submission and materials placed on record found that the assessee owned 31.09 acres of agricultural land and also had a 1/4th share in 35.10 acres of jointly held agricultural land with his brothers. However, the assessee admitted that no proper books of account were maintained in respect of agricultural activities and that most of the expenditures towards labour, fertilizers, chemicals and pesticides were incurred in cash. The assessee also stated that the agricultural sales were partly made directly from the farm on cash basis and partly through dealers. The AO observed that the assessee failed to furnish supporting evidence in respect of crop-wise yield, quantity of agricultural produce, details of sale such as sale bills, name of purchasers, rate per quintal or date of sale. The assessee also could not substantiate that the credits appearing in the bank accounts (from the parties such as Areca Enterprise, Manish Traders, AR Traders etc. represented sale proceeds of agricultural produce. Further, no documentary evidence was produced to support the expenditure of Rs. 27,67,750/- claimed to have been incurred for agricultural operations. The AO also noted that the RTC records relied upon by the assessee only indicated the nature of crops grown but did not establish the actual yield or income derived during the relevant financial year.

4.3 In the absence of proper books of account and supporting documentary evidence, the AO held that the agricultural income declared by the assessee was not fully verifiable. Accordingly, considering the extent of land held and the crops grown as per RTC records, the AO estimated reasonable agricultural income at Rs. 60,000 per acre. On this basis, agricultural income of Rs. 26,32,500 [(31.39 x 60K) + {(35.10 x 60K)/4}] was accepted as genuine and the balance amount of Rs.

15,19,100/- (41,51,600 – 26,32,500) out of the agricultural income declared by the assessee was treated as income from other sources and brought to tax.

5. The aggrieved assessee preferred an appeal before the learned CIT(A). Along with the appeal, the assessee filed statement of facts where in the assessee made identical contention that the assessee HUF holds 31.39 acer of land. Areca nut was cultivated on 17.67 acer of land where Coconut and Rubber were produced at remaining 13.42 acers of land. Likewise on the join land of 35.10 acers in which the share of the assessee is $\frac{1}{4}$, Areca nut was produced at 28 acers of land and on the remaining join land, Rubber, cashew, banana and other crop were produced. In the statement of facts, it was reiterated that the agricultural produce were sold directly from farm in cash as well as to dealer for which payment was received through banking channel which can be verified from bank statement where the receipts from the parties such as Areca Enterprise, Manish Traders, AR Traders etc. were reflected. In the statement of facts, it was also claimed that to substantiate the agricultural income, the return of income from A.Ys. 2017-18 to year under consideration (A.Y. 202-21) were also furnished. Accordingly, the assessee through statement of facts prayed that the part of agricultural income disallowed by the AO on the basis of estimation is unjustified and required to deleted.

6. However, the learned CIT(A) dismissed the assessee appeal in limine by observing that there were several notices issued to the assessee during the appellate proceedings, but the assessee failed to make any response. Accordingly, the learned CIT(A) held that the

assessee has no explanation about the agricultural income being treated as income from other sources. The learned CIT(A) referring to the judgment of Hon'ble Supreme Court in the case of BN Bhattacharjee and another reported in 118 ITR 461, held that where the assessee does not want to pursue the appeal, appellate authorities have inherent power to dismiss the appeal for non-prosecution.

7. Being aggrieved by the order of the learned CIT(A) the assessee is in appeal before us.

8. The learned AR before us besides reiterating the assessee's submission arising from assessment & appellate proceeding contended that the assessee has been consistently disclosing agricultural income. In the return of income filed for A.Y. 2018-19 and 2019-20 the assessee has declared agricultural income of Rs. 47,41,855/- and Rs. 67,74,170/- respectively which were accepted by the Revenue. Therefore, the income declared by the assessee should be accepted as genuine and the addition should be deleted.

9. On the other hand, the learned DR supported the orders of the lower authorities and submitted that the assessee had failed to substantiate the agricultural income claimed. It was contended that the assessee had not maintained proper books of account and could not furnish crop-wise yield details, sale bills, names of purchasers or documentary evidence for the agricultural expenditure claimed. The DR further submitted that the credits appearing in the bank accounts were not conclusively proved to be sale proceeds of agricultural produce. In these circumstances, the AO was justified in estimating agricultural

income at Rs. 60,000 per acre and treating the balance amount as income from other sources.

10. We have heard the rival contentions of both the parties and perused the materials available on record. The issue for our consideration is whether the learned CIT(A) was justified in dismissing the appeal of the assessee in limine and in confirming the addition made by the AO by treating a part of the agricultural income as income from other sources.

10.1 At the outset, we note that the assessee is a HUF owning substantial agricultural land measuring 31.39 acres in its own name and also having 1/4th share in 35.10 acres of jointly held agricultural land with his brothers. The assessee has claimed to have cultivated crops such as arecanut, coconut, rubber, cashew, pepper, banana, mangoes and vegetables. During the year under consideration, the assessee declared agricultural income of Rs. 41,51,600 after claiming agricultural receipts of Rs. 69,19,350 and expenditure of Rs. 27,67,750. The AO, however, rejected the claim partly on the ground that the assessee did not maintain proper books of account and failed to furnish crop-wise yield, sale bills and complete details of expenditure. Accordingly, the AO estimated agricultural income at Rs. 60,000 per acre and treated the balance amount of Rs. 15,19,100 as income from other sources.

10.2 On further appeal, the learned CIT(A) dismissed the appeal of the assessee in limine on the ground that the assessee did not respond to the notices issued during the appellate proceedings and therefore the appeal was treated as not pursued. However, from the records, we find

that the assessee had filed a detailed statement of facts along with the appeal wherein the assessee explained the extent of agricultural land held, the crops cultivated, the mode of sale of agricultural produce and also pointed out that the receipts credited in the bank account from parties such as Areca Enterprise, Manish Traders and AR Traders. As such the receipts from these parties represented sale proceeds of agricultural produce. The assessee had also referred to the agricultural income declared in earlier years to demonstrate the consistency of such income. Interestingly, the learned CIT(A) himself has reproduced the contents of the statement of facts in the appellate order. Thus, it cannot be said that there was absolutely no material available before the learned CIT(A) to examine the issue on merits.

10.3 In our considered view, the approach adopted by the learned CIT(A) is not in accordance with the scheme of the Act. The learned CIT(A) being the first appellate authority is duty bound to adjudicate the issues arising in the appeal on merits. Even in a situation where the assessee does not appear before him, the learned CIT(A) cannot summarily dismiss the appeal for non-prosecution. The powers of the learned CIT(A) are co-terminus with those of the AO, and he is required to examine the assessment order, the grounds of appeal and the materials available on record and thereafter pass a reasoned order on merits. The dismissal of an appeal in limine without adjudicating the grounds raised by the assessee defeats the very purpose of the appellate mechanism provided under the Act.

10.4 In the present case, we find that the learned CIT(A) has merely relied upon the decision of the Hon'ble Supreme Court in the case of

B.N. Bhattacharjee (supra) to dismiss the appeal for non-prosecution. However, the said decision cannot be read to mean that the first appellate authority can avoid adjudication of the issues on merits, particularly when the assessee had already placed detailed facts on record in the statement of facts filed along with the appeal. Once such material was available on record, it was incumbent upon the learned CIT(A) to examine the correctness of the estimation made by the AO and pass a speaking order on the merits of the addition.

10.5 Coming to the merits of the addition, we find that the AO has not brought any material on record to establish that the agricultural activities claimed by the assessee were not carried out. The AO himself has accepted that the assessee owns substantial agricultural land and that crops are reflected in the RTC records. The AO has also accepted agricultural income to a substantial extent by estimating the income at Rs. 60,000 per acre. Having accepted that agricultural operations were indeed carried out, the further estimation made by the AO without any comparable data or scientific basis appears to be purely arbitrary. The estimation adopted by the AO does not take into account the nature of crops grown such as arecanut and coconut which are capable of generating higher agricultural income depending upon yield and market conditions. Moreover, the assessee had also explained that part of the sale proceeds were received through banking channels from traders, which was verifiable from the bank statements.

10.6 In the absence of any contrary materials brought on record by the Revenue to demonstrate that the agricultural income declared by the assessee was not genuine, we are of the considered view that the

addition made by the AO purely on estimation cannot be sustained. The learned CIT(A) also failed to examine these aspects and simply dismissed the appeal without any adjudication on merits.

10.7 In view of the above discussion, we hold that the learned CIT(A) was not justified in dismissing the appeal of the assessee in limine. Further, on merits also, the estimation made by the AO for treating a sum of Rs. 15,19,100 as income from other sources is not supported by any cogent materials. Accordingly, the findings of the AO as well as the learned CIT(A) are set aside and the addition made by the AO is directed to be deleted. Hence, the grounds of appeal raised by the assessee are allowed.

11. In the result, the appeal of the assessee is allowed.

Order pronounced in court on 17th day of March, 2026

Sd/-

(KESHAV DUBEY)

Judicial Member

Bangalore

Dated, 17th March, 2026

/ vms /

Copy to:

1. The Applicant
2. The Respondent
3. The CIT
4. The CIT(A)
5. The DR, ITAT, Bangalore.
6. Guard file

Sd/-

(WASEEM AHMED)

Accountant Member

By order

Asst. Registrar, ITAT, Bangalore