

**IN THE INCOME TAX APPELLATE TRIBUNAL  
'A' BENCH: BANGALORE**

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

<b>ITA Nos. 1883-1885/Bang/2025</b>
<b>Assessment Years: 2016-17, 2017-18 &amp; 2020-21</b>

Shri Bennur Siddegowda Santhosh, Mudramane Coffee Curers, Muthigepura, Sakleshpura Road, Mudigere – 577 132  <b>PAN: AFQPS8157R</b>	<b>Vs.</b>	The Income Tax Officer, Ward-1, Chikmagalur.
<b>APPELLANT</b>		<b>RESPONDENT</b>

Assessee by	:	Shri Ravish Rao, CA
Revenue by	:	Shri Shivanad Kalakeri – CIT DR

Date of Hearing	:	11-03-2026
Date of Pronouncement	:	15-04-2026

**ORDER**

**PER PRASHANT MAHARISHI, VICE – PRESIDENT**

1. All these three Appeals filed by the Assessee involves similar facts and therefore are disposed of by this common order.
2. ITA No. 1883/Bang/2025 is filed by the Assessee for Assessment Year 2016-17 against the Appellate Order passed by the National Faceless Appeal Centre, Delhi dated 02.07.2025 wherein the Appeal filed by the Assessee against the Assessment Order dated 16.03.2022 passed u/s. 147 r.w.s. 144B of the Income Tax Act, 1961 was dismissed. The Assessee has challenged the Assessment Order raising following grounds of appeal: -

- i. On the facts and circumstances of the case, the learned First Appellate Authority (FAA) & AO were not justified in treating Rs. 28,91,906/- as Income under rule 7B of the Income tax Rules.
  - ii. The learned AO has erred in applying Rule 7B of the income tax Rules, when the relevant Rule applicable is 7.
  - iii. That the Appellant craves leave to add, alter, amend and to modify, substitute, delete and to rescind all or any of the GROUNDS OF APPEAL on or before the hearing, if necessary, so arises.
3. The brief facts of the case shows that the Assessee is engaged in the business of purchasing and curing coffee in the business of his proprietary concerned. Assessee is also an agricultural producer growing coffee. The coffee grown by the Assessee is transferred to his proprietary concern M/s. Mudramane Coffee Curers. This proprietary concern also stated to have purchased coffee from other planters. The proprietary concerns sell the coffee after processing. Assessee did not show any business income and claimed all income as agricultural income.
4. The case of the assessee was reopened by issuing a notice under section 148 of the act as the assessee has shown agricultural income of ₹ 14,613,970 out of the total income of ₹ 15,745,860. The original return of income filed by the assessee on 22 September 2020 one was assessed under section 143 (3) of the act on 7 December 2018 assessing the income at Rs. 1,64,03,184 and agricultural income of ₹ 14,613,970. The case of the assessee was reopened under section 148 of the act, notices were served, 142 (1) notices were also served but no reply was received.
5. The reason for reopening was that as per the income tax rules 7B sub rule 1A which states that income derived from the sale of coffee grown, cured, roasted and grounded by the seller in India, with or without mixing chicory or other flavouring ingredients, shall be computed as if it were income derived from business and 40% of such income shall be deemed to be income liable to tax. Therefore, the AO was of the view that 40% of the production of coffee should be treated as business income. Out of the total agricultural receipts of ₹

7,384,150 out of the total agricultural produce of ₹ 14,613,917 being 40% of ₹ 7,229,767 i.e. ₹ 2,891,906 should be treated as business income.

6. The claim of the assessee is that rule 7 of the income tax rules should be applied to the assessee and not rule 7B of the income tax rules. The learned assessing officer rejected the contention and made an addition of ₹ 2,891,906 to the assessed income under section 143 (3) of the act as per the reassessment order passed on 16 March 2022 under section 147 read with section 144B of the income tax act.
7. Thus, the Assessee applied rule 7 of the Income Tax Rules for determining the agricultural income and business income. Whereas the Ld. Assessing Officer applied rule 7B of Income Tax Rules.
8. The assessee has filed an appeal before the learned CIT(A). The assessee contends that Rule 7B is not applicable to their situation, as they sold certain agricultural produce grown on land owned by them to their proprietary concern at market price. The assessee asserts that Rule 7 of the Income Tax Rules should be applied in this case.
9. Further it was also claimed that assessee is engaged in the operation of buying and selling coffee also and rule 7B applies only when the growers' sales grown coffee which is cured by him and therefore it is not possible to determine and identify the lot which was purchased from the state of the assessee, and which was purchased from other parties.
10. The learned CIT – A rejected the contention and stated that rule 7B is a specific rule which should be applied instead of rule 7 which is general in nature and therefore applying rule 7B, he confirmed the order of the learned assessing officer by appellate order dated 2 July 2025.
11. The Ld. Authorized Representative vehemently submitted that rule 7 applies to the facts of the case and rule 7B cannot be applied.
12. The Ld. Departmental Representative vehemently submitted that rule 7B of the Income Tax Rules is applicable in the facts of the case. He referred to rule 7 and submitted that rule 7 is with general case of income which is partially agricultural and partially from business. He further submitted that rule 7A is specifically for income from the manufacture of rubber and rule 7B is specifically

for income from the manufacture of coffee and rule 8 is specifically income from the manufacture of tea. As the Assessee is a curer of coffee and proprietor therein, provisions of rule 7B applies to that and therefore the applicability of rule 7, which is general, could not have been made applicable to the activity of the Assessee.

13. We have carefully considered the rival contention and perused the orders of the Ld. Lower Authorities.
14. Rule 7 of the income tax Rules 1962 provides for general agricultural income other than coffee and rubber. Admittedly the assessee is dealing with coffee, growing it as an agricultural income and carrying on the activities on that product, therefore applicability of general rule 7 does not apply to the facts of the case.
15. Rule 7B of the income tax rules is provided as under: -

**Income from the manufacture of coffee.**

**7B.** (1) Income derived from the sale of coffee grown and cured by the seller in India shall be computed as if it were income derived from business, and twenty-five per cent of such income shall be deemed to be income liable to tax.

(1A) Income derived from the sale of coffee grown, cured, roasted and grounded by the seller in India, with or without mixing chicory or other flavouring ingredients, shall be computed as if it were income derived from business, and forty per cent of such income shall be deemed to be income liable to tax.

**Explanation:** - For the purposes of **sub-rules** (1) and (1A) curing shall have the same meaning as assigned to it in clause (d) of section 3 of the Coffee Act, 1942 (7 of 1942).

(2) In computing the incomes referred to in **sub-rules** (1) and (1A), an allowance shall be made in respect of the cost of planting coffee plants in replacement of plants that have died or become permanently useless in an area already planted, if such area has not previously been abandoned, and for the purpose of determining such cost, no deduction shall be made in respect of the amount of any subsidy which, under the provisions of clause (31) of section 10, is not includible in the total income.

16. Thus, [Rule 7B](#) prescribes that the income in respect of the sale of coffee grown and cured in India shall be computed as if it were income derived from a normal business. 25% of such income is deemed as business income, and 75% of such income is deemed as agriculture income. Further, income derived from the sale of coffee grown, cured, roasted, and grounded in India, with or without mixing chicory or other flavoring ingredients, shall be computed as if it were income derived from a normal business. 40% of such income shall be deemed to be income liable to tax, and 60% of such income is treated as agriculture income
17. Rule 7B of the Income Tax Rules specifically provides respect to the income from the manufacture of coffee grown and cured by the seller in a particular manner. According to that 25% of the income shall be deemed to be income liable to tax. In case of such activity is with or without mixing chicory it is considered at 40% of such income chargeable to tax. The activity of the Assessee is coffee curer and processing coffee. The Assessee has also the plantation in Karnataka state. In view of the provision of determination of income from manufacture of coffee, the general rule under rule 7 could not have been applied.
18. Admittedly in the case of the assessee falls under rule 7B (1A) of the act. Thus, the 40% of the income in such cases would be considered as business income of the assessee and assessee will get an exemption to the extent of 60% of such income as agricultural income.
19. However, the claim of the assessee is that assessee has also purchased coffee from other parties and same is also used by proprietary concern of the assessee and sold after processing. Thus, such transaction does not have any element of agricultural income. It is also a fact that in such circumstances, the provisions of rule 7B does not apply but such income earned by the assessee by processing of the coffee which was purchased from outside planters and not from the estate of the assessee could not have got the benefit of tax exemption as agricultural income.
20. In view of the above facts we restore the whole issue back to the file of the learned assessing officer with a direction to the assessee to submit the detail of coffee grown in the state of the assessee which are sold by the proprietary

concern of the assessee and applying rule 7B of the income tax rules what could be the agricultural income and business income from that operation. The assessee is also further reconciling the income earned by the proprietary concern on sale of coffee which was purchased by that proprietary concern from other planters. Such income did not have any element of agricultural income which is chargeable to tax.

21. Accordingly ground No. 1 and 2 of the appeal are allowed to that extent as indicated above.
22. The facts of ITA No. 1884/Bang/2025 and 1885/Bang/2025 for Assessment Year 2017-18 and 2020-21 are also similar and therefore for similar reasons we allow both these Appeals also as indicated above.
23. In the result, all these three Appeals filed by the Assessee are allowed for statistical purposes.

Order pronounced in the open court on 15<sup>th</sup> April, 2026.

Sd/-  
(SOUNDARARAJAN K)  
JUDICIAL MEMBER

Sd/-  
(PRASHANT MAHARISHI)  
VICE PRESIDENT

Bangalore,  
Dated, the 15<sup>th</sup> April, 2026.

\*TNTS\*

Copy to:

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

By order

Assistant Registrar,  
ITAT, Bangalore