



CNR: KAHC010545362019

NC: 2026:KHC:50771-DB
ITA No. 62 of 2021

IN THE HIGH COURT OF KARNATAKA AT BENGALURU

DATED THIS THE 17TH DAY OF SEPTEMBER, 2026

PRESENT

THE HON'BLE MR. JUSTICE S.G.PANDIT

AND

THE HON'BLE DR. JUSTICE CHILLAKUR SUMALATHA

INCOME TAX APPEAL NO. 62 OF 2021

BETWEEN:

1. PRINCIPAL COMMISSIONER OF INCOME TAX-7
BMTC COMPLEX, KORAMANGALA,
BENGALURU.
2. THE DEPUTY COMMISSIONER OF INCOME TAX
CIRCLE - 7(1)(1)
BMTC COMPLEX,
KORAMANGALA, BENGALURU.

...APPELLANTS

(BY SRI. SANMATHI E. I.,ADVOCATE)

AND:

M/S. TECHNOTREE CONVERGENCE LTD.,
394-PHASE-IV, UDYOG VIHAR,
GURGAON - 122 001
PAN. NO. AAACL 7345 L

...RESPONDENT

(BY SRI. P.D. ANKUR, ADVOCATE FOR
SRI. K. R. VASUDEVAN, ADVOCATE)

THIS ITA / INCOME TAX APPEAL UNDER SEC.260-A
OF INCOME TAX ACT 1961, ARISING OUT OF ORDER
DATED 03/07/2019 PASSED IN ITA
NO.1520/BANG/2017, FOR THE ASSESSMENT YEAR
2011-2012 PRAYING TO
DECIDE THE FOREGOING QUESTION OF LAW AND / OR
SUCH OTHER QUESTIONS OF LAW AS MAY BE

Digitally signed
by AASEEFA
PARVEEN
Location: HIGH
COURT OF
KARNATAKA



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FORMULATED BY THE HON'BLE COURT AS DEEMED FIT AND SET ASIDE THE APPELLATE ORDER DATED 03/07/2019 PASSED BY THE INCOME TAX APPELLATE TRIBUNAL, C BENCH, BENGALURU (ANNEXURE-A) IN APPEAL PROCEEDINGS NO. ITA 1520/BANG/2017 FOR THE ASSESSMENT YEAR 2011-2012 AS SOUGHT FOR IN THIS APPEAL.

THIS APPEAL, COMING ON FOR HEARING, THIS DAY, JUDGMENT WAS DELIVERED THEREIN AS UNDER:

CORAM: HON'BLE MR. JUSTICE S.G.PANDIT
and
HON'BLE DR. JUSTICE CHILLAKUR SUMALATHA

ORAL JUDGMENT

(PER: HON'BLE MR. JUSTICE S.G.PANDIT)

This Appeal filed by the Revenue under Section 260A of the Income Tax Act, 1961 is directed against the order dated 03.07.2019 passed by the Income Tax Appellate Tribunal, 'C' Bench, Bangalore, in ITA Nos.1447 and 1448/Bang/2017 for assessment years 2010-11 and 2011-12.

2. Heard learned counsel Sri.E.I.Sanmathi for the appellants and learned Senior Counsel Sri.K.R.Vasudevan



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for learned counsel Sri.P.D.Ankur for the respondent-
assessee. Perused the entire appeal papers.

3. The above appeal was admitted on 28.06.2021
to examine the following Substantial Questions of Law:

"1. "Whether on the facts and circumstances of the case, the Tribunal was right in law in setting aside disallowance made under section 40 (a) (ia) of the Act in respect of commission payment by holding that the provisions of section 195 are not applicable in the facts of present case ignoring that assessee had failed to establish nature of payments and even during the appellate proceedings, the assessee had not submitted complete details about the nature of services rendered by the payees for which commission has been paid and whether this would fall beyond the scope for fee for technical services?"

2. "Whether on the facts and circumstances of the case, the Tribunal was right in law in holding that the nature of commission payments are not in dispute when the assessing authority has clearly disputed the same and made disallowance under section 40(a)(ia) of the Act since all the conditions set out in said provision was fulfilled"?

3. "Whether on the facts and circumstances of the case, the Tribunal was right in law in setting aside the addition made by assessing authority by treating amounts recovered from employees and liabilities written back as when the assessing authority has clearly disputed the same and made disallowance under section 40(a)(ia) of the Act since all the conditions set out in said provision was fulfilled"?

4. "Whether on the facts and circumstances of the case, the Tribunal was right in law in setting aside the addition made by assessing authority by treating amounts recovered from employees and liabilities written back as



CNR: KAHC010545362019

business income instead of 'other income' as claimed by assessee by following the decision of this Hon'ble Court in case of Hewlett Packard Global Soft Ltd even though the nature of receipt of income do not have any nexus with export turnover and same is not incidental to export business"?"

4. At the outset, learned counsel for the respondent submits that the Substantial Questions of Law No.1 and 2 raised by the appellants-revenue is answered by the Co-ordinate Bench of this Court in ITA No.223/2018 in Principal Commissioner of Income Tax-5 and Another vs. M/s.Puma Sports India P., Ltd.

5. It is further submitted that the SLP filed against the said judgment was dismissed by the Hon'ble Apex Court by order dated 29.10.2021 in SLP(C) No.15834/2021. It is also pointed out that by following the judgment in M/s.Puma Sports India P., Ltd., ITA No.834/2018 [M/s.Principal Commissioner of Income Tax-7 vs. M/s.Technotree Convergence Pvt. Ltd.,] was also disposed of. By following the decision of Co-ordinate Bench in Ms.Puma Sports India Pvt Ltd., the substantial



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ITA No. 62 of 2021

question Nos.1 & 2 are answered against Revenue and in favour of the assessee.

6. In so far as substantial question Nos.3 & 4 are concerned, it is submitted that the said question is answered by Full Bench of this Court in Commissioner of Income Tax v/s Hewlett Packard Global Soft Ltd., reported in [2017] 87 Taxmann.com 182 (Karnataka) (FB), wherein, relevant paragraphs 34 and 37 read as follows:

"34. We are of the considered opinion that the above referred decisions relied upon by the learned counsel for the Revenue, Mr. Aravind do not cover the cases under Sections 10-A and 10-B of the Act which are special provisions and complete code in themselves and deal with profits and gains derived by the assessee of a special nature and character like 100% Export Oriented Units (EOUs.) situated in Special Economic Zones (SEZs), STPI, etc., where the entire profits and gains of the entire Undertaking making 100% exports of articles including software as is the fact in the present case, the assessee is given 100% deduction of profit and gains of such export business and therefore incidental income of such undertaking by way of interest on the temporarily parked funds in Banks or even interest on staff loans would constitute part of profits and gains of such special Undertakings and these cases cannot be compared with deductions under Sections 80-HH or 80-IB in Chapter VI-A of the Act where an assessee dealing with several activities or commodities may inter alia earn profits and



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ITA No. 62 of 2021

gains from the specified activity and therefore in those cases, the Hon'ble Supreme Court has held that the interest income would not be the income "derived from" such Undertakings doing such special business activity.

37. On the above legal position discussed by us, we are of the opinion that the Respondent assessee was entitled to 100% exemption or deduction Section 10-A of the Act in respect of the interest income earned by it on the deposits made by it with the Banks in the ordinary course of its business and also interest earned by it from the staff loans and such interest income would not be taxable as 'Income from other Sources' under Section 56 of the Act. The incidental activity of parking of Surplus Funds with the Banks or advancing of staff loans by such special category of assessee covered under Section 10-A or 10-B of the Act is integral part of their export business activity and a business decision taken in view of the commercial expediency and the interest income earned incidentally cannot be de-linked from its profits and gains derived by the Undertaking engaged in the export of Articles as envisaged under Section 10-A or Section 10-B of the Act and cannot be taxed separately under Section 56 of the Act."

7. Respectfully following the above Full Bench decision of this Court, we answer substantial question Nos.3 and 4 in favour of the respondent-Assessee and against the appellant-Revenue.



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Accordingly, the appeal stands ***disposed of***.

**Sd/-
(S.G.PANDIT)
JUDGE**

**Sd/-
(DR.CHILLAKUR SUMALATHA)
JUDGE**

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CT:TSM
List No.: 1 Sl No.: 27