IN THE HIGH COURT OF JUDICATURE AT MADRAS

DATED: 17.08.2026

CORAM :

THE HONOURABLE MR. SUSHRUT ARVIND DHARMADHIKARI,
CHIEF JUSTICE
AND
THE HONOURABLE MR.JUSTICE G.ARUL MURUGAN

T.C.A.No.124 of 2026

St.Joseph's Development Trust
No.1, Genguvarpatti,
Theni - 625 203.

Appellant(s)

Vs

The Income Tax Officer
Exemption Ward,
Madurai - 625 002.

Respondent(s)

PRAYER: Appeal filed under Section 260A of the Income-tax Act, 1961 against the order of the Income Tax Appellate Tribunal 'A' Bench, Chennai, dated 29.12.2023 passed in ITA No.588/CHNY/2023.

For Appellant(s): Mr.T.Vasudevan

JUDGMENT

(Delivered by the Hon'ble Chief Justice)

This Tax Case Appeal is filed under Section 260A of the Income-tax Act, 1961. The assessee/appellant challenges the order dated 29.12.2023, passed by the Income Tax Appellate Tribunal, 'A' Bench, Chennai, in I.T.A.No.588/CHNY/2023 for the Assessment Year 2017–18. By the impugned order, the Tribunal upheld the addition of Rs.94,66,848/- as taxable interest income.

2.1. The appellant is a public charitable trust registered under Section 12AA of the Act on 08.02.1995. For Assessment Year 2017–18, the trust filed its original return of income on 24.10.2017, declaring 'NIL' income. A revised return was filed on 12.1.2019, also declaring 'NIL' income. The case was selected for scrutiny and a notice under Section 143(2) of the Act was issued on 22.9.2019. During the assessment, the Assessing Officer observed that the trust received fixed deposit interest of Rs.1,81,83,804/-.

2.2. It is stated that, out of this total interest, the trust credited Rs.87,44,300/- to its Income and Expenditure Account.

However, it directly credited the remaining Rs.94,39,503/- (along with savings interest and other income totaling Rs.94,66,848/-) to the Balance Sheet under a capital fund account titled the "SJDT Sustainable Fund". The trust claimed that these funds were received from Self-Help Groups (SHGs) or foreign donors to be returned with accrued interest. Therefore, it argued that the interest was held as a custodian and did not constitute taxable income.

2.3. The Assessing Officer rejected this contention, treating the entire interest of Rs.94,66,848/- as revenue income for failure to meet the requirements of Section 11(1)(d) of the Act. The total taxable income was determined at Rs.80,46,820/-. The National Faceless Appeal Centre (NFAC) and the Income Tax Appellate Tribunal sequentially dismissed the assessee's appeals. Hence, the present appeal.

3. The assessee/trust raised the following substantial questions of law for consideration:

(i) Whether the Tribunal was correct in law in confirming the order of lower authorities applying Section 11(1)(d) of the Income Tax Act, holding that the amount of interest from deposits is assessable in the hands of assessee?

(ii) Whether the Tribunal was justified in law in holding that the SJDT funds belonging to the SHGs are income of assessee and liable to tax?

(iii) Whether the Tribunal was correct in law in confirming the addition of interest on bank deposits held by assessee as a custodian of the SHG funds and duly returnable as per the agreements between assessee and SHGs?

4. Section 11(1)(d) of the Act exempts voluntary contributions only when made with a specific written direction from the donor that they shall form part of the corpus. Interest earned from investing these capital funds constitutes income generated by the trust. The trust relied on foreign donor correspondence, such as letters from Secours Catholique, CBM, and Kinder Not Hilfe. These

documents show that the original grants were given for micro-credit programmes and revolving loan funds. The letters permitted the appellant to distribute refunded funds to SHGs. However, none of the original donation letters contained an explicit direction from the donors instructing that bank interest earned on fixed deposits must automatically form part of the appellant trust's corpus.

5. The reliance placed by the appellant on the decision of the Kerala High Court in *CIT (Exemptions) v. Mata Amrithanandamayi Math*[1] is misplaced. In *Mata Amrithanandamayi Math* (supra), the donors had issued explicit written instructions that the interest earned on their specific contributions should be added back to the corpus. In the case at hand, no such express direction issued by the donor exists. In the absence of an explicit direction from the donor at the time of contribution, interest earned on bank deposits constitutes revenue receipt and must be routed through the Income and Expenditure Account.

[1] *2017 (9) TMI 1232*

6. The appellant contended that it acted merely as a custodian of the funds for SHGs and had a legal obligation to return the principal and interest. This argument cuts no ice with the court. The appellant accumulated these funds from refunded micro-credit assistance and deposited them in fixed bank deposits under its own name. The interest was generated by the appellant trust's own financial investments. Furthermore, the trust claimed credit for the Tax Deducted at Source (TDS) of Rs.16,45,460/- deducted on the total interest income. The appellant trust cannot claim tax credit for TDS on interest income, while simultaneously excluding the underlying interest from its gross revenue receipts.

7. The judgment of the Delhi High Court in *Director of Income Tax v. Society for Development Alternatives*[2] does not assist the appellant. In that case, unspent project grants from tied-up funding agencies were held as unutilized grants under strict agency terms, where unspent amounts were returnable to the donors. In the instant case, the funds represent interest earned on fixed deposits held by the assessee trust, which the trust is free to use towards its

[2] *2012 (1) TMI 77*

general charitable objects.

8. The appellant trust argued that the Assessing Officer should have followed the re-assessment order for AY 2009–10. In the facts of the present case, it is clear that the interest accrued directly to the trust from its bank deposits. Any subsequent obligation or agreement to spend or allocate those funds for SHGs constitutes an application of income, not a diversion at source. Each assessment year is a separate unit. The failure of the Assessing Officer to tax similar interest in AY 2009–10 does not bar the Revenue from correctly applying Section 11(1)(d) of the Act in AY 2017–18.

9. For the reasons aforegiven, we are of the firm view that the Tribunal correctly held that the interest income of Rs.94,66,848/- earned on bank fixed deposits constitutes taxable revenue receipt. It does not qualify for exemption under Section 11(1)(d) of the Act due to the absence of specific donor directions. The substantial questions of law are answered in favor of the Revenue and against the assessee.

In fine, the tax case appeal is dismissed, by affirming the impugned order dated 29.12.2023 passed by the Tribunal. There shall be no order as to costs.

(SUSHRUT ARVIND DHARMADHIKARI, CJ) (G.ARUL MURUGAN,J)
17.08.2026

Index : Yes
Neutral Citation : Yes
sasi

To:
1. The Registrar
Income Tax Appellate Tribunal
Chennai Benches, Chennai.

2. The Commissioner of Income-tax (Appeals)
Government of India, Ministry of Finance
Income Tax Department
National Faceless Appeal Centre, Delhi.

3. The Income Tax Officer
Exemption Ward
No.12, VP Rathinasamy Nadar Road
CR Building, Bibikulam
Madurai – 625 002.

THE HON'BLE CHIEF JUSTICE
AND
G.ARUL MURUGAN,J.

(sasi)

T.C.A.No.124 of 2026

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