

**आयकर अपीलीय अधिकरण, ' बी' न्याय पीठ, चेन्नई**  
**IN THE INCOME TAX APPELLATE TRIBUNAL, 'B' BENCH, CHENNAI**  
**श्री वी. दुर्गा राव, न्यायिक सदस्य एवं श्री जी. मंजुनाथ, लेखा सदस्य के समक्ष**  
**BEFORE SHRI V.DURGA RAO, JUDICIAL MEMBER**  
**AND SHRI G.MANJUNATHA, ACCOUNTANT MEMBER**

आयकर अपील सं./I.T.A.Nos.3193 /Chny/2018 & 176/Chny/2019

(निर्धारणवर्ष / Assessment Years: 2014-15 & 2015-16)

M/s. The Travancore Textiles P.Ltd. 22, Haddows Road, Chennai-600 006.	Vs	The Income Tax Officer, Corporate Ward-3(2), Chennai.
PAN: AA ACT 2492E		
(अपीलार्थी/Appellant)		प्रत्यर्थी/Respondent/

अपीलार्थी की ओरसे/ Appellant by	:	Mr.S.Sridhar, Advocate
प्रत्यर्थी की ओरसे/Respondent by	:	Mr. Suresh Periasamy, JCIT

सुनवाई की तारीख/Date of hearing	:	01.02.2021
घोषणा की तारीख/Date of Pronouncement	:	03.03.2021

**आदेश / ORDER**

**PER G.MANJUNATHA, AM:**

These two appeals filed by assessee are directed against separate, but identical orders of learned CIT(A)-11, Chennai dated 16.10.2018 and 31.10.2018 and pertain to assessment years 2014-15 and 2015-16. Since, facts are identical and issues are common, for the sake of convenience, these appeals were heard together and disposed off by this consolidated order.

2. The assessee has more or less filed common grounds of appeal for both assessment years, therefore, for the sake of

brevity, grounds of appeal filed in ITA No.3193/Chny/2018 for assessment year 2014-15 are reproduced as under:-

*“1. The order of the Commissioner of Income Tax (Appeals) - II, Chennai dated 16.10.2018 in I.T.A.No. 172/16-17 for the above mentioned Assessment Year is contrary to law, facts, and in the circumstances of the case.*

*2. The CIT (Appeals) erred in sustaining the apportionment of the expenses relatable to the earning of exempted agricultural income for making disallowance and consequently erred in sustaining the addition of Rs.3,95,650/- in the computation of taxable total income without assigning proper reasons and justification.*

*3. The CIT (Appeals) failed to appreciate that having not disputed the fact of the maintenance of separate books of accounts, the apportionment of expenses for making disallowance of apportioned expenses notionally relatable to the earning of the agricultural income was wholly unjustified.*

*4. The CIT (Appeals) failed to appreciate that the mechanism of the apportionment of expenses for making disallowance of such expenses on the presumption of live link with the earning of exempted agricultural income was wrong, incorrect, invalid, erroneous and not sustainable in law.*

*5. The CIT(Appeals) went wrong in recording findings in para 5 of the impugned order in this regard while not justifying the sustenance of the addition in consequence to the disallowance of expenses on irrational basis of apportionment on the further presumption of live nexus of incurring of such expenses for earning tax free income.*

*6. The ACIT failed to appreciate that there was no proper opportunity given before passing of the impugned order and any order passed in violation of the principles of natural justice would be nullity in law.”*

3. Brief facts are that assessee company mainly engaged in the business of growing and selling coffee filed its return of

income for assessment year 2014-15 admitting total income of ₹2,65,140/-. The case has been taken up for scrutiny and during the course of assessment proceedings, the Assessing Officer noticed that assessee has maintained separate books of account for agricultural activity and non-agricultural activity. The books of account of agricultural activity was separately audited by independent auditor. In the Head Office main source of income of the assessee for impugned assessment year is interest on deposits and against this assessee has claimed various expenses including audit fee, salary and wages, director's remuneration, electricity expenses etc. The Assessing Officer was of the opinion that expenses claimed at Head Office are related to main business activity of agricultural operations as well as non-agricultural operations and hence, needs to be proportionately apportioned to agricultural income and non-agricultural income. Accordingly, by taking ratio of agricultural income and non-agricultural income, total expenses of ₹9,49,555/- has been apportioned to agricultural income to the extent of ₹3,95,650/- and consequently, recomputed income returned from non-agricultural activity at ₹6,60,790/-.

Similarly, the Assessing Officer has reduced agricultural income declared by assessee on account of apportionment of Head Office expenses to the tune of ₹ 3,95,650/-.

4. The assessee carried the matter in appeal before first appellate authority, but could not succeed. The learned CIT(A) for the detailed reasons recorded in appellate order sustained addition made by Assessing Officer towards apportionment of expenses towards agricultural income and non-agricultural income on the ground that Head Office expenses like staff salary, director's salary and other expenses definitely have bearing on the profitability of agricultural division. Aggrieved by the learned CIT(A) order, assessee is in appeal before us.

5. The learned AR for assessee submitted that Assessing Officer has erred in apportionment of Head Office expenses to agricultural income and non-agricultural income without considering the fact that assessee has maintained separate set of books of account for both activities and hence, question of allocation of Head Office expenses to agricultural operations does not arise, more particularly when expenditure incurred at

Head Office had no bearing on agricultural activity. He further submitted that if at all expenses incurred at Head Office is having any bearing on agricultural operations, then it is only the director remuneration because director is overseeing agricultural operations and hence, except director remuneration, no other expenses can be apportioned against agricultural operations and non-agricultural operations.

6. The learned DR on the other hand, strongly supporting the order of learned CIT(A) submitted that when main business activity of the assessee is only growing and selling coffee, then there is no reason to segregate Head Office expenses and plantation expenses and whatever expenses incurred by assessee including expenses at Head Office are related to main business activity of agricultural operations and hence, Assessing Officer was right in allocating expenses to agricultural income and non-agricultural income.

7. We have heard both parties, perused materials available on record and gone through orders of the authorities below. Admittedly, the assessee has maintained separate books of accounts for agricultural activity and for Head Office

operations. Further, at Head Office level except interest income, no other business activity was carried out for impugned assessment year . Further, on perusal of expenses claimed at Head Office level, we find that except director remuneration all other expenses are related to business activity of the assessee. Further, it was claim of assessee before the Assessing Officer that director salary is related to agricultural operations because director personally takes care of estate activity. Therefore, we are of the considered view that if at all allocation of expenses is required between agricultural income and non-agricultural income, then only director's remuneration can be apportioned to agricultural operations and non-agricultural operations. Since assessee himself has admitted that agricultural operations were taken care of by the director, we are of the considered view that remuneration to the director amounting to ₹ 3,00,000/- is related to agricultural operations and hence, direct the Assessing Officer to restrict apportionment of expenses to the extent of director's remuneration. Accordingly, apportionment of all other expenses in the ratio of agricultural income and non-agricultural income has been deleted.

8. In the result, appeal filed by assessee for assessment year 2014-15 is partly allowed.

9. Coming back to assessment year 2015-16. The Assessing Officer has assessed interest income under the head income from other sources and further disallowed total expenditure incurred at Head Office on the ground that said expenditure is relatable to agricultural operations of the assessee. We find that the Assessing Officer is following different method of apportionment of expenses for each year. In the earlier financial year, he has apportioned expenses in the ratio of agricultural income and non-agricultural income and for current financial year, he has disallowed total expenses incurred at Head Office level on the ground that they are related to agricultural operations. It is well settled principle of law that although *res judicata* is not applicable to Income-tax proceedings but principle of consistency needs to be followed. The Assessing Officer having accepted fact that Head Office expenses needs to be apportioned between agricultural income and non-agricultural income, has erred in disallowing

total expenses for impugned assessment year without there being any change in facts. Therefore, we are of the considered view that Assessing Officer has erred in disallowing total expenditure incurred at Head Office and considered as expenditure incurred for agricultural operations. Further, for impugned assessment year also, if we consider nature of expenditure incurred at Head Office, director remuneration and other expenditure are similar to expenditure incurred for previous financial year. Further, for immediately preceding financial year, we have considered identical issue and held that except director remuneration no other expenses can be apportioned to agricultural income and non-agricultural income. Therefore, consistent with view taken by us for immediately preceding year, we are of the considered view that only director remuneration can be apportioned to agricultural operations because director is personally taking care of estate activity. Hence, we direct the Assessing Officer to consider director remuneration to agricultural operations.

10. As regards interest income, the Assessing Officer in the immediately preceding year has accepted interest income

offered by assessee under the head income from business has suddenly changed head of income to 'income from other sources' without there being any change in facts and circumstances for impugned assessment year . Therefore, we direct the Assessing Officer to consider interest income under the head 'income from business' as claimed by assessee and further direct the Assessing Officer to allow expenditure incurred at Head Office except director salary against interest income.

11. In the result, appeal filed by the assessee for assessment year 2015-16 is partly allowed.

12. As a result, both appeals filed by assessee are partly allowed.

Order pronounced in the open court on 3<sup>rd</sup> March, 2021

Sd/-  
( वी. दुर्गा राव )  
(V.Durga Rao)  
न्यायिक सदस्य /Judicial Member  
चेन्नई/Chennai,

Sd/-  
( जी.मंजुनाथ )  
( G.Manjunatha )  
लेखा सदस्य / Accountant Member

दिनांक/Dated 3<sup>rd</sup> March, 2021

DS

आदेश की प्रतिलिपि अग्रेषित/Copy to:

1. Appellant
2. Respondent
3. आयकर आयुक्त (अपील)/CIT(A)
4. आयकर आयुक्त/CIT
5. विभागीय प्रतिनिधि/DR
6. गार्ड फाईल/GF.