

आयकर अपीलीय अधिकरण, हैदराबाद पीठ में  
IN THE INCOME TAX APPELLATE TRIBUNAL  
HYDERABAD BENCHES "B", HYDERABAD

BEFORE  
SHRI RAMA KANTA PANDA, ACCOUNTANT MEMBER  
&  
SHRI K.NARASIMHA CHARY, JUDICIAL MEMBER

आ.अपी.सं / ITA Nos.	निर्धारण वर्ष / A.Y.	अपीलार्थी / Appellant	प्रत्यर्थी / Respondent
26/Hyd/2022	2016-17	M/s. Mandava Holdings Private Limited, Hyderabad [PAN: AAFCM4964M]	Deputy Commissioner of Income Tax, Central Circle-1(2), Hyderabad
27/Hyd/2022	2017-18		
54/Hyd/2022	2017-18	Assistant Commissioner of Income Tax, Central Circle-1(2), Hyderabad	M/s. Mandava Holdings Private Limited, Hyderabad [PAN: AAFCM4964M]

निर्धारिती द्वारा/Assessee by: Shri P. Vinod, AR

राजस्व द्वारा/Revenue by: Shri Sunku Srinivas, CIT DR

सुनवाई की तारीख/Date of hearing: 26/09/2022

घोषणा की तारीख/Pronouncement on: 26/09/2022

आदेश / ORDER

**PER K. NARASIMHA CHARY, JM:**

Aggrieved by the order(s) passed by the Learned Commissioner of Income Tax (Appeals)-11, Hyderabad ("Ld. CIT(A)") in the cases of M/s. Mandava Holdings Private Limited ("the assessee") for the assessment years 2016-17 & 2017-18, both the assessee and Revenue filed these appeals.

2. Brief facts of the case are that the assessee is a company engaged in non-banking financial services. While passing the assessment order for the assessment years 2016-17 & 2017-18 under section 143(3) read with section 153A of the Income Tax Act, 1961 (for short "the Act") among other additions, learned Assessing Officer also made addition on account of disallowance of certain amounts by invoking Section 14A of the Act read with Rule 8D of the Income tax Rules, 1963 ("the Rules").

3. Assessee challenged this disallowance along with other additions before the Ld. CIT(A). Insofar as these appeals are concerned, grievance of the assessee is that the Ld. CIT(A) failed to appreciate the contention of the assessee that the assessee made investments in the subsidiary companies and inasmuch as such an investment is in furtherance of its business interests, the interest expenditure incurred for such purpose is allowable under section 36(1)(iii) of the Act and, therefore, the disallowance is not justified.

4. It could be seen from the impugned orders that while following the decision of the Hon'ble Apex Court in the case of Maxxop Investment Ltd. Vs. CIT (2018) 91 taxmann.com 154 (SC), Ld. CIT(A) held that the dominant purpose for which the investment was made in the shares is not relevant for disallowance under section 14A of the Act read with Rule 8D of the Rules. Ld. CIT(A) accordingly brushed aside the contention of the assessee that the interest expenditure incurred for the purpose of investment in furtherance of business expediency in the subsidiaries has to be allowed under section 36(1)(iii) of the Act and, therefore, in respect of such interest expenditure, disallowance under section 14A of the Act read with Rule 8D of the Rules cannot be invoked.

5. Before us, learned AR vehemently contended that the loans were obtained for the purpose of making investments in the subsidiary companies on account of business expediency, the interest expenditure on such loans is allowable under section 36(1)(iii) of the Act and, therefore, in respect of the said amount, Section 14A of the Act read with Rule 8D of the

Rules cannot be invoked. He, therefore, prayed that the entire amount of addition is liable to be deleted.

6. Per contra, learned DR submitted that whether or not the assessee earned any exempt income in any year, since investments are made with a reasonable expectation of receiving dividend income, disallowance under section 14A of the Act read with Rule 8D of the Rules has to be made.

7. We have gone through the record in the light of the submissions made on either side. It could be seen from the impugned orders that, though the assessee contended in respect of the assessment year 2017-18 that the disallowance under section 14A of the Act read with Rule 8D of the Rules should be restricted to the exempt income earned during the year, no such plea is taken in respect of the assessment year 2016-17. Inasmuch as the Ld. CIT(A) dismissed the appeal for the assessment year 2016-17, following the decision of the Hon'ble Apex Court in the case of Maxxop Investment Ltd. (supra), we do not find any reason to interfere with the findings of the Ld. CIT(A). Accordingly, ITA No. 26/Hyd/2022 is dismissed.

8. For the assessment year 2017-18, the assessee pleaded before the Ld. CIT(A) that at any rate, the disallowance under section 14A of the Act read with Rule 8D of the Rules cannot exceed the quantum of exempt income earned during the year. For this purpose, assessee placed reliance on the decision of the Tribunal in the case of Mylan Laboratories Ltd. in ITA No. 2335/Hyd/2018. Ld. CIT(A) accepted the said contention of the assessee and directed the learned Assessing Officer to restrict the disallowance under section 14A of the Act only to the extent of exempt income earned by the assessee during the year under consideration and thereby granted relief to the assessee to an extent of Rs. 3,28,76,323/- and confirmed the addition to the tune of Rs. 16,81,44,511/-. Challenging the deletion, the Revenue preferred ITA No. 54/Hyd/2022 and aggrieved by the confirmation of the part of the disallowance, assessee preferred ITA No. 27/Hyd/2022.

9. It is the settled principles of law by now that the disallowances u/s.14A of the Act read with Rule 8D of the Rules cannot exceed amount of exempt income. In the case of Pr. CIT Vs State Bank of Patiala, (2018) 99 taxmann.com 285 while dismissing SLP filed by the Revenue against order of the Hon'ble Punjab & Haryana High Court in the case of Pr.CIT Vs State Bank of Patiala, held that disallowance u/s.14A has to be restricted to amount of exempt income only. The Hon'ble Jurisdictional High Court of Madras in the case of Marg Ltd Vs. CIT (2020) 120 Taxmann.com 84, has taken a similar view and held that disallowances under section 14A read with Rule 8D can never exceed exempt income earned by the assessee during particular assessment year.

10. There is no dispute as to the facts that during the year, the assessee earned exempt income of Rs. 16,81,44,511/-. Id. CIT(A), therefore, rightly restricted the disallowance to this amount only. Such an action of the Id. CIT(A) cannot be found fault with, because it is in accordance with the settled principle of law. We, therefore, while respectfully following the consistent view taken by the higher fora, do not find any reason to interfere with the findings of the Id. CIT(A) on this aspect and accordingly dismiss ITA Nos. 27 & 54/Hyd/2022 also.

11. In the result, all these appeals are dismissed.

Order pronounced in the open court on this the 26<sup>th</sup> day of September, 2022.

Sd/-  
**(RAMA KANTA PANDA)**  
**ACCOUNTANT MEMBER**

Sd/-  
**(K. NARASIMHA CHARY)**  
**JUDICIAL MEMBER**

Hyderabad,  
Dated: 26/09/2022

TNMM

Copy forwarded to:

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2. Deputy Commissioner of Income Tax, Central Circle-1(2), Hyderabad.
3. Asst. Commissioner of Income Tax, Central Circle-1(2), Hyderabad.
4. The CIT(A)-11, Hyderabad.
5. The Pr.CIT(Central)-Hyderabad.
6. DR, ITAT, Hyderabad.
7. GUARD FILE

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