

IN THE INCOME TAX APPELLATE TRIBUNAL
MUMBAI "A" BENCH : MUMBAI

BEFORE SHRI B.R. BASKARAN, ACCOUNTANT MEMBER
AND
SHRI ANIKESH BANERJEE, JUDICIAL MEMBER

ITA No. 4014/Mum/2024
Assessment Year : 2017-18

Arun Ramchandra Sheth, B/20, Kamana CHS, No.1, S.K. Bole Road, Prabhadevi, Dadar, Mumbai PAN : ALZPS2005D	vs.	DCIT, Central Circle-2, 6 th Floor, Ashar IT Park, Road No. 16, Wagle Estate, Thane Maharashtra
(Appellant)		(Respondent)

For Assessee :	Shri M. Subramaniam
For Revenue :	Shri Ram Krishn Kedia, Sr.DR

Date of Hearing :	06-02-2025
Date of Pronouncement :	06-02-2025

ORDER

PER B.R. BASKARAN, A.M :

The assessee has filed this appeal challenging the order dt.13-02-2024 passed by the Ld. Commissioner of Income Tax (Appeals), Pune-11 [‘Ld.CIT(A)’] and it relates to AY. 2017-18. The only issue urged in this appeal relates to the disallowance of interest expenditure of Rs.16,11,468/- claimed by the assessee against interest income declared under the head ‘Income from Other Sources’.

2. We heard the parties and perused the record. The assessee filed the return of income for the year under consideration declaring a total income of Rs.99,55,560/-. During the course of scrutiny proceedings, the AO noticed that the assessee has claimed interest and salary

expenses of Rs. 79.41 lakhs against the interest income declared under the head 'Income from Other Sources'. The AO noticed that the assessee has also made investment in shares, which was capable of earning exempt income. Accordingly, he took the view that its interest expenditure, which is proportionate to the value of investments made in shares should be disallowed. The AO computed the proportionate interest amount attributable investments in shares at Rs. 16,11,468/- and disallowed the same. The Ld.CIT(A) confirmed the said addition and hence, the assessee filed this appeal.

3. The main contention of the Ld.AR was that the investments have been made by the assessee out of the own funds. Inviting our attention to the Balance Sheet of the assessee, the Ld.AR submitted that the assessee has got capital balance of Rs. 13.23 crores. The investments made by the assessee is Rs. 6.58 crores, out of which investments to the tune of Rs. 4.62 crores are interest bearing investments. Accordingly, the Ld.AR submitted that the interest free investments made by the assessee is only Rs. 1.96 crores only. In any case, the aggregate value of investments is less than the amount of own capital of Rs. 13.23 crores. Accordingly, he submitted that there is no requirement of making any disallowance of interest expenditure, since the presumption is that the investments have been made out of own funds. The Ld.AR further submitted that the assessee has earned interest income of Rs. 73.54 lakhs against which he has claimed interest expenditure of only Rs. 34.88 lakhs.

4. The Ld.DR, on the contrary, submitted that the assessee has not established the direct nexus between the own capital and investment in shares.

5. Having heard the rival submissions, we are of the view that there is merit in the submissions made by the Ld.AR. When the own capital

available with the assessee is in far excess of the value of the investments, the presumption is that the assessee has made the investments out of own funds only. For this proposition, we may take support from the decision rendered by the Hon'ble Bombay High Court in the case of Reliance Utilities and Power Ltd., [313 ITR 340]. Accordingly, we are of the view that the disallowance of proportionate interest expenditure claimed by the assessee is not justified in the facts of the present case. Accordingly, we set aside the order passed by the Ld.CIT(A) and direct the AO to delete the disallowance.

6. In the result, the appeal filed by the assessee is allowed.

Order pronounced in the open court on 06-02-2025

Sd/-
[ANIKESH BANERJEE]
JUDICIAL MEMBER

Sd/-
[B.R. BASKARAN]
ACCOUNTANT MEMBER

Mumbai,
Dated: 06-02-2025

TNMM

Copy to :

- 1) The Appellant
- 2) The Respondent
- 3) The CIT concerned
- 4) The D.R, ITAT, Mumbai
- 5) Guard file

By Order

Dy./Asst. Registrar
I.T.A.T, Mumbai