

IN THE INCOME-TAX APPELLATE TRIBUNAL “E” BENCH,
MUMBAI

BEFORE MS. KAVITHA RAJAGOPAL, JUDICIAL MEMBER
&
SHRI PRABHASH SHANKAR, ACCOUNTANT MEMBER

ITA No.6543/MUM/2024
(A.Y. 2018-19)

ECL Finance Limited, Tower 3, Wing B, Kohinoor City Mall, Kohinoor City, Kirol Road, Kurla West, Mumbai – 400 070, Maharashtra	v/s. बनाम	Deputy Commissioner of Income Tax, Central Circle – 1(1), CGO Building, New Marine Lines, Mumbai – 400020, Maharashtra
स्थायी लेखा सं./जीआइआर सं./PAN/GIR No: AABCE4916D		
Appellant/अपीलार्थी	..	Respondent/प्रतिवादी

Appellant by :	Shri Ravikant Pathak,AR
Respondent by :	Shri Hemanshu Joshi, (Sr.AR)

Date of Hearing	21.07.2025
Date of Pronouncement	15.09.2025

आदेश / ORDER

PER PRABHASH SHANKAR [A.M.] :-

The present appeal is filed by the assessee against the order passed by the Learned Commissioner of Income-tax, Appeal, CIT(A) 47, Mumbai [hereinafter referred to as “CIT(A)”] pertaining to the order passed u/s. 143(3) of the Income-tax Act, 1961 [hereinafter referred to as “Act”] dated 21.03.2022 for the Assessment Year [A.Y.] 2018-19.

2. The amended grounds of appeal are as under:

1. *The Commissioner of Income Tax (Appeals) - 47, Mumbai (hereinafter referred as CIT(A)) erred in confirming the action of the AO in making*



the disallowance u/s 14A of the Income Tax Act, 1961 (Act) r.w. Rule 8D of the Income Tax Rules, 1962 (Rules) without recording his dissatisfaction with respect to books of accounts of the Appellant.

2. *The Appellant submits that it has made suo moto disallowance of Rs. 55,31,724/- under section 14A of the Act; hence, the disallowance in excess of Rs. 55,31,724/- made by the AO shall be deleted.*

3. The above grounds of appeal relate to the disallowance of Rs 1,11,03,922/- under section 14A of the Act r.w. Rule 8D of the Income Tax Rules, 1952 (Rules) as against *suo motu* disallowance of Rs. 55,31,724/- made by the assessee in return of income. During the year under consideration, it earned dividend income of Rs. 45,78,93,9551/- on securities held as stock in trade and Rs. 7,00,000/- on securities held as investment which has been claimed as exempt u/s 10(34) of the Act. During the course of assessment proceeding, it was asked to explain as to why disallowance u/s 14A of the Act shall not be made as per Rule 8D. The assessee submitted that no disallowance as per Rule 8D of the Rules should be made as it had already disallowed u/s 14A of the Act being expenses incurred for earning of exempt income. Besides, stock in trade should not be considered for the purposes of making disallowance as per Rule 8D(2)(ii) of the Rules. However, the AO observed that the assessee itself submitted working of disallowance under Rule 8D which came to Rs. 1,11,03,922/- .Considering the *suo motu* disallowance of



Rs.55,31,724/- made by the assessee, he made net disallowance of Rs. 55,72,1981/-.

4. The assessee filed appeal before the first appellate authority claiming that during the year, it had not incurred any expenditure for earning the exempt income as no fresh investment was made which were capable of generating the exempt income. The dividend on such investment had been directly credited to the bank account of the assessee. However, it had *suo motu* disallowed Rs. 55,31,724/- u/s 14A of the Act which represented the apportionment of expenses on reasonable and scientific basis. It had not incurred any expenditure in excess of such amount in relation to earning exempt income. It was also submitted that application of Rule 8D could not be applied without recording satisfaction. As per provisions contained in section 14A of the Act, the AO shall determine the amount disallowable as per Rule 8D, if he is not satisfied with the correctness of the claim of the assessee in respect of such expenditure in relation to exempt income. It was stated that the AO has nowhere in the body of the assessment order, discussed about his dissatisfaction on the claim made by the assessee. It was also submitted that the AO has recorded generic observation that the assessee has not maintained separate accounts for taxable and exempt income whereas in order to arrive at a valid satisfaction he is required



under section 14A(2) read with rule 8D of the Rules when the AO has not accepted the working of disallowance made by the AO, he is mandatorily required to determine the amount of expenditure incurred in relation to such income which does not form part of the total income and that nor the AO has verified the correctness of such claim made by the assessee which is duly audited under section 44AB. The assessee also relied on decision of hon'ble Supreme Court's judgment in the case of Maxopp Investment Ltd. Vs CIT ([2018] 91 taxmann.com 154 (SC). Thus, the AO has arbitrarily rejected the *suo motu* disallowance made by the assessee, without recording satisfaction as mandated by law, and therefore, on this ground the additional disallowance u/s 14A should be deleted.

5. In respect of the issue of satisfaction, the Id.CIT(A) observed that the assessee had itself submitted the working of the disallowance u/s. 14A of the Act before the AO who had not accepted its contention and computed the disallowance u/s. 14A of the Act. As the assessee had already disallowed Rs. 55,31,724/- u/s. 14A, the AO added the difference amount of Rs. 55,72,198/- to the total income. As such, it could be fairly concluded that the AO was not satisfied with the computation of assessee and this was done only after due consideration. In the instant



case, the AO has not accepted the *suo motu* disallowance for which he has specifically asked the assessee to explain.

6. Before us, the ld.AR has made oral as well as written submission. It is argued that in the absence of any satisfaction, no further disallowance could be made u/s 14A of the Act. He has placed reliance on coordinate bench of ITAT, Mumbai decisions on the issue in its own case in AY s 2018-19 in ITA No.2539/Mum/2024 and AYs 2019-20 and 2020-21 in ITA No.5283/5285/5707/5711/Mum/2024 wherein exactly identical issue of recording of satisfaction has been adjudicated in favour of the assessee and the addition in excess of its own *suo motu* disallowance has been deleted. The ld.DR relied on the orders of authorities below.

7. We have carefully perused the assessment and appellate orders as also cited decisions(supra). From the plain reading of the assessment order, the satisfaction/dissatisfaction of the AO is not discernible at all. He has failed to point out any infirmity in the *suo motu* disallowance made by the assessee itself. It is noticed that the issue of recording of satisfaction is a recurrent one involving identical facts in various assessment years in the case of the assessee's own case. For the sake of



brevity we reproduce the operative parts of the order by the coordinate bench, Mumbai as below:

ITA No.2539/Mum/2024(AY 2018-19) 30.09.2024

"15. We have considered the rival submissions and it is found that identical issue has been decided by the coordinate bench of ITAT, Mumbai in M/s. Edelweiss Financial Services Limited in ITA No. 15/M/2022 where the Hon'ble ITAT has deleted the disallowance made by the Ld. AO where dissatisfaction was not recorded by the Ld. AO by holding as under: -

"Merely noting general observations does not satisfy requirement of section 14A (2) of the Act. Thus, we hold that the learned Assessing Officer has failed to record satisfaction about incorrectness of voluntarily disallowance offered by the assessee on examination of the accounts, that it is incorrect. The learned Assessing Officer does not have authority to invoke the provisions of Rule 8D of the Rules without recording satisfaction. Satisfaction of the Id AO mandated u/s. 14A (2) is the entry gate for invoking computation of disallowance u/s. 8D Such is also the mandate of Hon'ble Supreme Court and Hon'ble Bombay High Court in various decisions quoted above. In assessee's own case similar issue is decided by the coordinate bench in earlier years. Therefore, in absence of any such satisfaction no disallowance under Section 14A of the Act can be made. The learned Assessing Officer is directed to retain the disallowance offered by the assessee of Rs.12,06,096/ under Section 14A of the Act. Accordingly, ground no. 1 (a) of the appeal is allowed. In view of our above decision, ground no. 1 (b) to (d) becomes redundant. In the result, ground no. 1 of the appeal is allowed."

16. Thus, respectfully following the decision of the Coordinate Bench in holding company of the appellant namely M/s. Edelweiss Financial Services Limited (supra.), we also hold that since the Ld. AO has not recorded his satisfaction in this case, the disallowance made by the appellant itself u/s. 14A of the Act r.w.r 8D amounting to Rs.66,86,289/- has to be accepted.

17. In the result, the appeal is allowed."

ITA No.5283,5285, 5707 and 5711 /Mum/2024 (AYs 2018-19 and 2020-21)

"9. Section 14A and AO's Satisfaction:

On the issue of satisfaction under Section 14A, we rely on the decision of the co- ordinate bench of the ITAT, Mumbai, in the assessee's own case and group cases. Upon review, it is evident that the Ld. AO failed to record satisfaction regarding the disallowance under Section 14A. Mere computation based on yearly averages does not suffice; the Ld. AO did not detail the nature of investments made to earn exempt income or record specific satisfaction during the assessment process. In our considered view, the CIT(A)'s decision to uphold the disallowance against the assessee on this issue is unjustified. Consequently, the addition made under Section 14A is deleted."



8. Therefore, in absence of any such satisfaction no disallowance under [section 14A](#) of the Act can be made. Respectfully following the above decisions, the AO is directed to retain the disallowance offered by the assessee of Rs 55,31,724/- under [section 14A](#) of the Act. Accordingly, both the grounds of the appeal are allowed.

10. In the result, appeal of the assessee is **allowed**.

Order pronounced in the open court on **15/09/2025**.

Sd/-

KAVITHA RAJAGOPAL

(न्यायिक सदस्य / JUDICIAL MEMBER)

Sd/-

PRABHASH SHANKAR

(लेखाकार सदस्य/ACCOUNTANT MEMBER)

Place: मुंबई/Mumbai

दिनांक /Date 15.09.2025

Lubhna Shaikh / Steno

आदेश की प्रतिलिपि अग्रेषित/Copy of the Order forwarded to :

1. अपीलार्थी / The Appellant
2. प्रत्यर्थी / The Respondent.
3. आयकर आयुक्त / CIT
4. विभागीय प्रतिनिधि, आयकर अपीलीय अधिकरण DR, ITAT, Mumbai
5. गार्ड फाईल / Guard file.

सत्यापित प्रति //True Copy//

आदेशानुसार/ BY ORDER,

उप/सहायक पंजीकार (Dy./Asstt. Registrar)
आयकर अपीलीय अधिकरण/ ITAT, Bench,
Mumbai.

