

आयकर अपीलिय अधिकरण, 'डी' न्यायपीठ, चेन्नई
**IN THE INCOME TAX APPELLATE TRIBUNAL
'D' BENCH: CHENNAI**

श्री एबी टी. वर्की, न्यायिक सदस्य एवं
श्री अमिताभ शुक्ला, लेखा सदस्य के समक्ष

**BEFORE SHRI ABY T. VARKEY, JUDICIAL MEMBER AND
SHRI AMITABH SHUKLA, ACCOUNTANT MEMBER**

आयकर अपील सं./ITA Nos.2110 & 2111/Chny/2025
निर्धारण वर्ष/Assessment Years: 2013-14 & 2014-15

The DCIT, Central Circle-1(1), Chennai.	v.	Thiruvalluvar Textiles- Pvt. Ltd., No.2-9, Singalandapuram Pirivu Road, Koneripatty Rasipuram, Namakkal District-637 408. [PAN: AACT 9934 H]
(अपीलार्थी/Appellant)		(प्रत्यर्थी/Respondent)
Department by	:	Mr.Y. Sridhar, FCA
Assessee by	:	Mr.Saujanya Ranjan, IRS
सुनवाईकीतारीख/Date of Hearing	:	23.09.2025
घोषणाकीतारीख /Date of Pronouncement	:	24.10.2025

आदेश / ORDER

PER ABY T. VARKEY, JM:

These are Revenue appeals against the order of the Learned Commissioner of Income Tax (Appeals), (hereinafter referred to as "the Ld.CIT(A)"), Chennai-18, dated 26.05.2025 for the Assessment Year (hereinafter referred to as "AY") 2013-14 & 2014-15.

2. The main grievance of the Revenue in both the appeals is against the action of the Ld.CIT(A) allowing the appeal preferred by the assessee/deleting the disallowance made by the AO u/s.14A of the



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Income Tax Act, 1961 (hereinafter referred to as "the Act"). Since, both sides agreed that this is the only issue involved in both the appeals and the facts involved are similar/identical, therefore, decision in one of the appeal would decide the fate of the other. Therefore, we take up the appeal for AY 2013-14 as lead case, the decision of which will be followed for AY 2014-15.

3. The brief facts pertaining to the issue regarding disallowance made by the AO u/s.14A of the Act r.w.r.8D of the Income Tax Rules, 1962 (hereinafter referred to as 'the Rules') are that the AO during the course of assessment proceedings, noted that assessee had invested a sum of ₹29,22,46,913/- in shares as on 31.03.2013 and hadn't claimed any expenses relatable to such expenses u/s.14A of the Act. Therefore, he asked the assessee 'as to why' the provisions of Sec.14A r.w.r.8D shouldn't be invoked. Pursuant thereto, the assessee replied that the assessee company didn't earn any dividend income [exempt income] from the investment made by the assessee company and therefore, it didn't disallow any expenditure on this issue. The AO not being satisfied with the explanation, invoked Rule 8D and disallowed an amount of ₹3,42,77,243/- u/s.14A of the Act for AY 2013-14 & similar action was done for AY 2014-15.



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4. Aggrieved, the assessee preferred appeals before the Ld.CIT(A) who found that the assessee didn't earn any exempt income from the investment made during the relevant assessment years and accordingly, held that no disallowance u/s.14A of the Act was warranted. For such a proposition, he cited the decision of the Hon'ble jurisdictional High Court in the case of MARG Ltd. v. CIT [2020] 120 taxmann.com 84 (Mad). Moreover, the Ld.CIT(A) noted that proportionate interest on the said investment was already disallowed. Hence, according to the Ld.CIT(A), when interest was already disallowed, again making disallowance u/s.14A of the Act would tantamount to double addition [refer Kolkata Tribunal's decision in the case of ITO v. Snowtax Investment Ltd., (2015)64 taxmann.com 157]. The Ld.CIT(A) noted that the facts involved in the Kolkata Tribunal case was that the disallowance was made u/s 36(1)(iii) as against 37(1) in the present case on hand. However, the Ld.CIT(A) noted that the disallowance of interest was the key issue, and therefore, he directed the AO to delete the disallowance of Rs.3,42,77,243/- made u/s 14A read with Rule 8D. Thus, the Ld.CIT(A) is noted to have directed deletion of addition of ₹3,42,77,243/- made u/s.14A r.w.r.8D primarily on the ground that the assessee didn't earn any exempt income [refer the decision of the Hon'ble jurisdictional High Court in the case of MARG Ltd. (supra)]. Similar action was made by Ld CIT(A) for AY 2014-15.



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5. Aggrieved by the aforesaid actions of the Ld.CIT(A), the Revenue is in appeal before this Tribunal.

6. Having heard both the parties and after perusal of the records, we note that the only issue which needs to be considered is whether an addition made of ₹3,42,77,243/- by invoking Sec.14A r.w.r.8D is valid when admittedly, the assessee didn't earn any exempt income. The AO taking note that the assessee has made investment to the tune of ₹29,22,46,913/- in shares of M/s. Narasimha Mills Pvt. Ltd., & M/s. Binny Ltd., [as on 31.03.2013] didn't deduct any expenditure in view of Section 14A of the Act; and asked the assessee 'as to why' the disallowance u/s.14A r.w.r.8D should not be invoked. Pursuant thereto, the assessee is noted to have brought to the notice of the AO that it didn't earn any exempt income [for both the assessment years] and hence, didn't made any disallowance u/s.14A of the Act. However, the AO was of the view that even if no exempt income is earned by the assessee, still disallowance needs to be made u/s.14A r.w.r.8D and for such a view referred to the CBDT circular No.5/2014 dated 11.02.2014. And thereafter, he computed disallowance u/r.8D by computing u/r.8D(2)(ii) i.e. interest disallowance to the tune of ₹3,28,16,009/- and u/r.8D(2)(iii) i.e.0.5% of the investment at ₹14,61,234/-. Thus, total disallowance was computed at ₹3,42,77,243/-. On appeal, the Ld.CIT(A) is noted to have



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deleted the disallowance made for both the assessment years mainly taking note that the assessee didn't earn any exempt income and therefore, no disallowance wasn't warranted and for such a proposition, relied on the decision of the Hon'ble jurisdictional High Court in the case of MARG Ltd. (supra). In this regard, the Ld. CIT(A) also noted that he has already confirmed disallowance of the proportionate interest on the investments made in this case and therefore, according to him, when the interest has already been disallowed, again disallowing the same u/s.14A of the Act tantamounts to double addition. The Revenue being not satisfied has assailed the action of the Ld.CIT(A). However, we find no infirmity in the action of the Ld.CIT(A) deleting the disallowance made by the AO u/s.14A r.w.r.8D since the Revenue has not filed any evidence to contradict the premise on which the Ld.CIT(A) has deleted the disallowance made by the AO u/s.14A. Since the Revenue was unable to show that the assessee has earned any exempt income for invoking disallowance u/s.14A r.w.r.8D, we confirm the impugned action of the Ld.CIT(A). For such a proposition, we rely on the decision of the Hon'ble jurisdictional High Court in the case of CIT v. Chettinad Logistics Pvt. Ltd., reported in [2017] 80 taxmann.com 221 (Madras) wherein the Hon'ble Madras High Court held that when the assessee didn't earn any exempt income, the additions/disallowance made by the AO by relying on the



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Section 14A of the Act was completely contrary to the provisions of the said Section. The Hon'ble High Court in this order is noted to have repelled the assertion made by the Revenue relying on the Circular issued by the CBDT No.5/2024 dated 11.02.2014 as done by the Ld DR in the present case also to justify the disallowance made by the AO. On this issue the Hon'ble jurisdictional High Court in the case of Chettinad Logistics Pvt. Ltd supra has held as under:

4. In order to adjudicate upon the appeal, the following brief facts are required to be noticed:

4.1 The Assessee is engaged in the business of trading, clearing and forwarding.

4.2 Consequently, the Assessee filed its return for the relevant assessment year, i.e, AY 2011-12, on 29.02.2012, whereby, it disclosed an income of Rs. 17,58,71,418/-.

4.3 It appears that the Assessee's case was taken up for scrutiny and as a result thereto, assessment was completed under the provisions of Section 143(3) of the Act, by virtue of the order passed on 10.03.2014, as indicated above.

4.4 The Assessing Officer while passing the said assessment order invoked the provisions of Section 14A of the Act and as alluded to above, disallowed expenditure, equivalent to a sum of Rs. 86,62,748/-, and for this purpose, recourse was also taken to the **provisions of Rule 8 D of the Income Tax Rules, 1962 (Rules)** and the Board's Circular No. 5/2014, dated 11.02.2014 (in short, the Circular).

5. The main plank, on which, the assessment order is based is that, in terms of the aforementioned Circular of the Board and Rule 8D read with Section 14A of the Act, the expenditure incurred by the Assessee had to be disallowed, even when, admittedly, it had not earned income exempt from tax, in the concerned previous year.

5.1 As indicated above, the CIT(A) disagreed with the Assessing Officer and, consequently, reversed the order dated 10.03.2014. Notably in reaching his conclusion the Assessing Officer relied upon the judgment in the matter of: Cheminvest Limited v. Commissioner Of Income Tax-Vi, 121 ITD 318 (Delhi).

6. The Revenue, being aggrieved, approached the Tribunal. The record shows that during the course of arguments before the Tribunal, the Assessee advanced a submission, to the effect, that in cases, where, investments are made in sister concern(s), out of interest free funds, for strategic purposes,



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the provisions of Section 14A of the Act, could not be invoked. In support of this submission, the Assessee relied upon the judgment of the Tribunal in the case of: **Rane Holdings Ltd. v. ACIT**, passed in ITA No. 115.Mds/2015, dated 06.01.2016

7. It is, in this background, that the Tribunal remanded the matter to the Assessing Officer, so as to reach a conclusion as to whether investments had been actually made, in sister concerns of the Assessee, out of interest free funds, albeit, for strategic purposes.

8. According to us, this exercise, in the given facts which emerge from the record, was clearly unnecessary, as the CIT(A) had returned the finding of fact that no dividend had been earned in the relevant assessment year, with which, we are concerned, in the present appeal.

9. In our opinion Section 14A of the Act, can only be triggered, if, the Assessee seeks to square off expenditure against income which does not form part of the total income under the Act.

9.1 The legislature, in order to do away with the pernicious practice adopted by the Assessee's, to claim expenditure, against income exempt from tax, introduced the said provision.

10. In the instant case, there is no dispute that no income i.e, dividend, which did not form part of total income of the Assessee was earned in the relevant assessment year.

10.1 Therefore, to our minds, the addition made by the Assessing Officer by relying upon Section 14A of the Act, was completely contrary to the provisions of the said Section.

10.2 Mr. Senthil Kumar, who appears for the Revenue, submitted that the Revenue could disallow the expenditure even in such a circumstance by taking recourse to Rule 8D.

10.3 According to us, Rule 8D, only provides for a method to determine the amount of expenditure incurred in relation to income, which does not form part of the total income of the Assessee.

10.4 Rule 8 D, in our view, cannot go beyond what is provided in Section 14A of the Act.

11. Furthermore, we may note that a similar argument was sought to be advanced by the Revenue in the matter concerning, Redington (India) Ltd. v. Additional Commissioner Of Income Tax, which was, subject matter of T.C.A No. 520 of 2016.

11.1 A Co-ordinate Bench of this Court, vide judgment dated 23.12.2016, rejected the plea of the Revenue advanced in that behalf.

11.2 As a matter of fact, a perusal of the judgment would show that the Revenue had sought to argue that because exempt income could be earned in future years, therefore, recourse could be taken to the provisions of Section 14A of the Act, to disallow expenditure. In other words the stand taken by the Revenue was irrespective of the fact whether or not income was earned in the concerned assessment year expenditure under Section 14A could be disallowed against anticipated income.



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11.3 Pertinently, the Division Bench in Redington (India) Limited case has repelled this precise argument.

12. The Division Bench, in our view, quiet correctly held that, the computation of total income, in terms of Section 5 of the Act, is made qua real income and not, vis-a-vis, notional income.

12.1 The Division Bench went on to hold that Section 4 of the Act brings to tax, that income, which is relatable to the assessment year in issue. The Division Bench, thus, held that where no exempt income is earned in the previous year, relevant to the assessment year in issue, provisions of Section 14A of the Act, read with Rule 8 D could not be invoked.

12.2 While coming to this conclusion, the Division Bench also took note of the aforementioned Circular, issued by the Board.

12.3 The reasoning of the Division Bench is contained in the following part of the judgment:

"4. The admitted position is that no exempt income has been earned by the assessee in the financial year relevant to the assessment year in issue. The order of assessment records a finding of fact to that effect. The issue to be decided thus lies within the short compass of whether a disallowance in terms of s.14A of the Act read with Rule 8D of the Rules can be contemplated even in a situation where no exempt income has admittedly been earned by the assessee in the relevant financial year.

7. Per contra, Sri. T. Ravikumar appearing on behalf of the revenue drew our attention to the marginal notes of s.14 A pointing out that the provision would apply not only where exempted income is 'included' in the total income, but also where exempt income is 'includable' in total income.

8. He relied upon a Circular issued by the Central Board of Direct taxes in Circular No. 5 of 2014 dated 11.2.2014 to the effect that s.14A was intended to cover even those situations whether there is a possibility of exempt income being earned in future. The Circular, at paragraph 4, states that it is not necessary for exempt income to have been included in the income of a particular year for the disallowance to be triggered. According to the Learned Standing Counsel, the provisions of s.14A are made applicable, in terms of sub section (1) thereof to income 'under the act' and not 'of the year' and a disallowance under **s.14A r.w Rule 8D** can thus be effected even in a situation where a tax payer has not earned any taxable income in a particular year.

9. We are unable to subscribe to the aforesaid view. The provisions of section 14A were inserted as a response to the judgments of the Supreme Court in Commissioner of Income Tax v. Maharashtra Sugar Mills Limited (1971) 82 ITR 452) and **Rajasthan State Ware Housing Corporation v. Commissioner of Income Tax ((2002) 242 ITR 450)** in terms of which, expenditure incurred by an assessee carrying on a composite business giving rise to both taxable as well as non-taxable income, was allowable in entirety without apportionment. It was thus that s.14A was inserted providing that no deduction shall



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be allowable in respect of expenditure incurred in relation to the earning of income exempt from taxation. As observed by the Supreme Court in the judgment in the case of Commissioner of Income Tax v. Walfort Share and Stock Brokers (P) Ltd. (2010) 326 ITR 1

'... The mandate of s.14A is clear. It desires to curb the practice to claim deduction of expenses incurred in relation to exempt income against taxable income and at the same time avail of the tax incentive by way of an exemption of exempt income without making any apportionment of expenses incurred in relation to exempt income.'

10. The provision this is clearly relatable to the earning of actual income and not notional or anticipated income. The submission of the Department to the effect that s.14A would be attracted even to exempt income 'includable' in total income would entail the assessment of notional income, assumed to be exempt in the future, in the present assessment year. The computation of total income in terms of s.5 of the Act is on real income and there is no sanction in law for the assessment of admittedly notional income, particularly in the context of effecting a disallowance in connection therewith.

11. The computation of disallowance in terms of Rule 8D is by way of a determination involving direct as well as indirect attribution. Thus, accepting the submission of the Revenue would result in the imposition of an artificial method of computation on notional and assumed income. We believe this would be carrying the artifice too far. (emphasis is ours)"

13. Mr. Senthil Kumar, seeks to distinguish the judgment in Redington (India) Limited case based on the fact that Rule 8D had not kicked-in by AY 2007-08, which was the AY being considered in the said case.

14. According to us, this was not the argument, put forth, before the Division Bench. As a matter of fact, the Revenue relied heavily on Rule 8D.

14.1 Mr. Ravikumar, who appeared for the Revenue, in that matter and who is present in this Court, informs us that he had in fact argued that the Rule was clarifactory in nature and would apply retrospectively, and that, the Division Bench, therefore, discussed the impact of Rule 8D of the Rules.

15. However, it is, our view, as indicated above, independent of the reasoning given in Redington (India) Limited case that Rule 8D cannot be read in a manner, which takes it beyond the scope and content of the main provision, which is, Section 14A of the Act.

15.1 Therefore, as adverted to above, Rule 8D, cannot come to the rescue of the Revenue.

15.2 In any event, the Tribunal, via, the impugned judgment has remitted the matter to the Assessing Officer.

15.3 Therefore, for the foregoing reasons, we are of the view, that no interference is called for qua the impugned judgment.



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16. To our minds, questions of law, which could have arisen are already covered by the judgment of a Co-ordinate Bench of this Court rendered in Redington (India) Limited case.

17. The appeal is accordingly, dismissed. However, there shall be no order as to costs.

7. Since the facts are similar except the figures of investment and the disallowance made for AY 2014-15, on the same reasoning as that for AY 2013-14, we uphold the action of the Ld.CIT(A) in deleting the disallowance made u/s.14A r.w.r.8D since the assessee didn't earn any exempt income.

8. In the result, appeals filed by the Revenue are dismissed.

Order pronounced on the 24th day of October, 2025, in Chennai.

Sd/-
(अमिताभ शुक्ला)
(AMITABH SHUKLA)
लेखा सदस्य/ACCOUNTANT MEMBER

Sd/-
(एबी टी. वर्की)
(ABY T. VARKEY)
न्यायिक सदस्य/JUDICIAL MEMBER

चेन्नई/Chennai,
दिनांक/Dated: 24th October, 2025.

TLN

आदेश की प्रतिलिपि अग्रेषित /Copy to:

1. अपीलार्थी/Appellant
2. प्रत्यर्थी/Respondent
3. आयकरआयुक्त/CIT, Chennai / Madurai / Salem / Coimbatore.
4. विभागीयप्रतिनिधि/DR
5. गार्डफाईल/GF