

आयकर अपीलीय अधिकरण, 'सी' न्यायपीठ, चेन्नई
IN THE INCOME TAX APPELLATE TRIBUNAL 'C' BENCH, CHENNAI
श्री मनु कुमार गिरि, न्यायिक सदस्य एवं श्री जगदीश, लेखा सदस्य के समक्ष
**BEFORE SHRI MANU KUMAR GIRI, JUDICIAL MEMBER AND
SHRI JAGADISH, ACCOUNTANT MEMBER**

आयकर अपील सं./ITA No.: 1984/CHNY/2025

निर्धारण वर्ष/Assessment Year: 2020-21

**Ms. Lakshminarayanawamy
Swathy,**

No.13, Nethaji Road,
P.N. Palayam,
Coimbatore – 641 037.

The Income Tax Officer,
Corporate Circle 1,
Vs. Coimbatore

PAN: ACAPS 0385G

(अपीलार्थी/Appellant)

(प्रत्यर्थी/Respondent)

अपीलार्थी की ओर से/Appellant by

: Shri S. Ramachandran, CA

प्रत्यर्थी की ओर से/Respondent by

: Ms. R. Anitha, Addl.CIT

सुनवाई की तारीख/Date of Hearing

: 08.10.2025

घोषणा की तारीख/Date of Pronouncement

: 10.11.2025

आदेश / ORDER

PER MANU KUMAR GIRI, JM:

This is an appeal preferred by the assessee against the order of the Learned Commissioner of Income Tax (Appeals), (in short 'the CIT(A), NFAC / Delhi dated 25.06.2024 for the Assessment Year (in short 'AY') 2020-21.

2. The Registry has noted a delay of 318 days in the filing of the appeal. Considering the reasons stated in the condonation petition and the affidavit filed by the assessee, and finding the explanation satisfactory, the delay is condoned. Accordingly, the appeal is admitted for adjudication.



3. The assessee has raised the following grounds of appeal:

1) *The order of the Ld.CIT(A) is unsustainable both on the facts of the case and in law.*

2) *The Ld. CIT(A) failed to appreciate that the Additional Interest of Rs. 1,13,404/- charged by Bank on the Loans for delayed payments is only as per the contract of loan and was not for any infraction of law and hence not penal or punitive in character and is allowable as an expenditure.*

3) *The Ld. CIT(A) ought to have followed the decisions on the subject cited below:*

a) *[2013] 35 taxmann.com 64 (Gujarat)/CIT v. Gujarat State Financial Corporation -Interest to State Government on delayed payment of instalment of loan, said interest not being penal in nature, was to be allowed as deduction under section 37(1)*

b) *[2001] 117 Taxman 702 (Allahabad)/CIT v Laxmi Devi Sugar Mills (P.) Ltd. -interest paid on price due for purchase of sugarcane*

c) *[2013] 40 taxmann.com 216 (Delhi) / CIT v. Enchante Jewellery Ltd - Interest paid by assessee to DGFT on account of its failure to fulfil export obligation under EPCG scheme was not penal in nature and, thus, assessee's claim for deduction in respect of said payment was to be allowed*

d) *[2010] 189 Taxman 94 (Himachal Pradesh)/CIT v. H.P. State Forest Corporation -interest on belated payment of royalty and sales tax not a Penalty but a compensation and hence is an allowable expenditure.*

For these and other grounds that may be adduced at the time of hearing, it is humbly prayed that the disallowance of Rs.1,13,404/-towards additional interest paid to bank may please be deleted.

4. Brief facts of the case are that the assessee, an individual, derives income from interest and had filed her return of income for AY 2020-21 on 15.02.2021, declaring total income of Rs.57,98,090/-. The case was selected for scrutiny under CASS to verify deductions claimed under the head "Income from Other Sources". During the year, the assessee earned interest income of



Rs.1,50,13,468/- and claimed deduction of Rs.1,05,26,353/- under section 57(iii) of the Act. Among these, a sum of Rs.1,13,404/- was claimed as "penal interest" paid to the bank on delayed repayment of loan instalments. The Assessing Officer (AO) disallowed the said amount on the ground that it was "penal in nature" and not incurred wholly and exclusively for earning income under section 57(iii). The Id.CIT(A) confirmed the addition, observing that the expenditure did not have a direct nexus with the earning of income and was not allowable.

Now, the assessee is in further appeal before us.

5. Before us, the Ld. Authorised Representative (AR) submitted that the so-called "penal interest" was not a penalty for any breach of law but merely an additional interest contractually charged by the bank for delayed payment, and therefore compensatory in nature. He further argued that the expenditure was incurred in the course of borrowing funds, which were in turn advanced to group concerns, on which interest income was earned. There was thus a direct nexus between the borrowing and the earning of income. Reliance was placed on following several judicial precedents for the proposition that that interest for delayed payments, even if termed "penal", is compensatory and allowable as a deduction:

- CIT v. Gujarat State Financial Corporation [2013] 35 taxmann.com 64 (Guj.)
- CIT v. Laxmi Devi Sugar Mills (P.) Ltd. [2001] 117 Taxman 702 (All.)
- CIT v. Enchante Jewellery Ltd. [2013] 40 taxmann.com 216 (Del.)
- CIT v. H.P. State Forest Corporation [2010] 189 Taxman 94 (HP)



6. Per contra, the Id. DR for the revenue relied upon the orders of the lower authorities and vehemently supported the same.

7. We have carefully considered the rival submissions and perused the record. It is not disputed that the assessee had borrowed funds from a bank and advanced them to her group concerns, earning interest thereon. The so-called "penal interest" of Rs.1,13,404/- arose because of delay in payment of loan instalments to the bank. The term "penal" used by the bank is merely nomenclature, what is relevant is the character of the payment. The Hon'ble Gujarat High Court in CIT v. Gujarat State Financial Corporation (supra) held that interest paid on delayed payment of instalments is not penal in nature but a compensation for use of money, and hence allowable as deduction. Similar views were expressed in CIT v. H.P. State Forest Corporation (supra) and CIT v. Enchante Jewellery Ltd. (supra).

8. In the present case, there is no finding by the Revenue that the expenditure was incurred for any infraction of law or violation of statutory provisions. The payment is purely contractual and arises from the same borrowing through which interest income has been earned. The direct nexus between the borrowing cost (including additional interest) and the earning of interest income is thus established. Once such nexus is proved, section 57(iii) permits deduction of all expenditure "laid out or expended wholly and exclusively for the purpose of making or earning such income." The disallowance made merely because the word "penal" appears in the bank's statement cannot be sustained. We therefore hold that the additional interest of Rs.1,13,404/- is an allowable deduction under section 57(iii) of the Act.

9. In view of the foregoing discussion and respectfully following the judicial precedents cited, we set aside the order of the Id.CIT(A) and direct the



Assessing Officer (AO) to allow the deduction of Rs.1,13,404/- towards additional interest paid to the bank.

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

Order pronounced in open Court on the 10th day of November, 2025, in Chennai.

Sd/-
(जगदीश)
(JAGADISH)

लेखा सदस्य/**ACCOUNTANT MEMBER**

Sd/-
(मनु कुमार गिरि)
(MANU KUMAR GIRI)

न्यायिक सदस्य/**JUDICIAL MEMBER**

चेन्नई/Chennai, दिनांक/Dated: 10th November, 2025.

RSR, Sr.PS

आदेश की प्रतिलिपि अग्रेषित/**Copy to:**

1. अपीलार्थी/Appellant
2. प्रत्यर्थी/Respondent
3. आयकर आयुक्त/CIT, Chennai /Madurai/Coimbatore/Salem
4. विभागीय प्रतिनिधि/DR
5. गार्ड फाईल/GF