

आयकर अपीलीय अधिकरण, हैदराबाद पीठ
IN THE INCOME TAX APPELLATE TRIBUNAL
Hyderabad ‘ DB-A ‘ Bench, Hyderabad

श्री रविश सूद, न्यायिक सदस्य एवं श्री मधुसूदन सावड़िया लेखा सदस्य समक्ष।
Before Shri Ravish Sood, Judicial Member
A N D
Shri Madhusudan Sawdia, Accountant Member

आ.अपी.सं / **ITA No.102/Hyd/2022**
(निर्धारण वर्ष / Assessment Year: 2015-16)

M/s Matrix Sea Foods India Limited, Hyderabad PAN:AAECM4113H (Appellant)	Vs.	ACIT (OSD) Ward 16(4) Hyderabad (Respondent)
निर्धारिती द्वारा / Assessee by:	Shri Mohd. Afzal, Advocate	
राजस्व द्वारा / Revenue by:	Shri Gurpreet Singh, Sr.DR	
सुनवाई की तारीख / Date of hearing:	30/10/2025	
घोषणा की तारीख / Pronouncement:	07/11/2025	

आदेश/ORDER

Per Madhusudan Sawdia, A.M.:

This appeal is filed by Matrix Sea Foods India Ltd, Hyderabad (“the assessee”), feeling aggrieved by the order passed by the Learned Commissioner of Income Tax (Appeals)-4, Hyderabad (“Ld. CIT(A)”) dated 16.07.2019 for the A.Y. 2015-16.

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

“1. The order of the learned CIT (A) is against the law, weight of evidence and probabilities of case.

2. The learned CIT (A) erred in confirming the order of the Assessing Officer wherein total income is determined at Rs.91,78,984/- as against the income returned Rs.34,81,410/-.

3. The learned CIT (A) erred in confirming the addition of Rs.22,34,673/- incurred towards business promotion i.e., spent for distribution of gold coins to the dealers.

4. The learned CIT (A) erred in confirming the addition of Rs.34,52,901/- incurred towards business promotion i.e., spent for pleasure trips abroad on dealers or their nominees.

5. The appellant craves leave to add to, amend, or modify the above grounds of appeal either before or at the time of hearing of the appeal if it is considered necessary”.

3. This appeal, being the second round of proceedings before this Tribunal, arises out of the order passed by the Ld. CIT(A) dated 16.07.2019. In the 1st round of the appeal, the assessee had preferred an appeal before the Ld. CIT(A) against the assessment framed by the Learned Assessing Officer (“Ld. AO”) under section 143(3) of the Income Tax Act, 1961 (“the Act”) for the assessment year 2015–16, dated 14.12.2017. However, as the assessee could not respond to the notices issued during the appellate proceedings, the Ld. CIT(A) dismissed the appeal ex parte vide his order dated 16.07.2019. Aggrieved with the order of the Ld. CIT (A), the assessee had filed an appeal before this Tribunal. This Tribunal, vide its order dated 23.02.2023, dismissed the appeal of the assessee on the ground of limitation,

as there was a delay of 930 days in filing the appeal. The assessee thereafter preferred an appeal before the Hon'ble Telangana High Court in ITTA No.105 of 2023. The execution portion of the order of the Hon'ble High Court is contained at para no.9 of the order, which is to the following effect:

“9. Given the said facts and circumstances of the case and also taking into consideration o the fact that, in the event, if the appellant claim is not considered in a more pragmatic manner, the appellant would be left remediless to challenge the impugned order. For the said reason, we are inclined to allow the appeal subject to payment of cost for the lapse on his part. As a consequence, the appeal stands allowed, the impugned order dated 23.02.2023 is set aside. The condone delay petition filed before the Tribunal deserves to be and is accordingly allowed upon payment of cost of Rs.25,000/- to the Telangana State Legal Services Authority to be deposited within a period of thirty days from the date of receipt of copy of this order. That upon furnishing the receipt of the deposit of cost, the Tribunal shall restore the appeal and decide the same in accordance with law on its own merits.

As a sequel, miscellaneous applications pending, if any, shall stand closed. No order as to costs.”

3.1 On perusal of the above, we find that the Hon'ble High Court, vide its order dated 05.02.2025, condoned the delay in filing the appeal before this Tribunal and restored the matter to the file of the Tribunal for adjudication on merits, subject to payment of cost of Rs.25,000/- to the Telangana State Legal Services Authority within a period of 30 days from the date of receipt of the copy of the order. In this regard, the Learned Authorized Representative (“Ld. AR”) drew our attention to the receipt issued by the Telangana State Legal Services Authority

bearing No.738 dated 27.02.2025, placed at page No.9 of the paper book, which is to the following effect:

9

TELANGANA STATE LEGAL SERVICES AUTHORITY
Nyaya Seva Sadan, II Floor, City Civil Court Compound,
Purani Haveli, Hyderabad - 500 002.

RECEIPT No. 738

Received a Demand Draft bearing No. 004485 Dated 27/2/25
for Rs. 25,000/- (Rupees Twenty five thousand only only)
drawn in favour of the Member Secretary, Telangana State Legal Services Authority
from Sri/Smt. Mannabhan Dandu
Advocate towards costs awarded by the Hon'ble High Court in ITIA No 105/2023
on 05/02/2025

9

[Signature]

3.2 On perusal of the above we find that the assessee has made payment of Rs.25,000/- to the Telangana State Legal Services Authority on 27.02.2025 in compliance with the directions of the Hon'ble High Court, which is within the stipulated time period as specified by the Hon'ble High Court. Therefore, we are satisfied that the assessee has duly complied with the condition imposed by the Hon'ble High Court. Accordingly, as per the directions of the Hon'ble High Court, we proceed to adjudicate the appeal on merits.

4. At the outset, the Ld. AR submitted that only two issues are involved in the present appeal i.e. (a) addition of Rs.22,52,673/- made by the Ld. AO on account of “Gold Scheme Expenses and (b) Addition of Rs.34,52,901/- made by the Ld. AO on account of “Foreign and Domestic Tour Expenses”. As regards the disallowance of Rs.22,52,673/- on account of the Gold Scheme, the Ld. AR submitted that the assessee had launched a promotional scheme to enhance sales of its newly introduced product “Vira Safe” and to increase the market share of its existing products. Under the said scheme, dealers who achieved the specified sales targets were rewarded with gold coins purchased by the assessee. It was contended that this was a regular trade practice in the line of business of the assessee, wherein incentives such as gold coins or other gifts are given to dealers to promote sales and encourage brand loyalty. The Ld. AR further submitted that the assessee had furnished complete details of the dealers and the purchases of gold coins made from authorized jewellers before the Ld. AO. The Ld. AO, however, disallowed the expenditure merely on the ground that the assessee failed to furnish acknowledgments from the ultimate customers who received the gold coins through the dealers. The Ld. AR invited our attention to the list of persons to whom the gold coins has been given which is placed at page no.108 of the paper book, the working of points obtained and gold coupons owned by the dealers on the basis of their performance (page no.109 to 114 of the paper book) and submitted that all the details with regard to

the gold coin scheme were produced before the Ld. AO. The Ld. AR argued that the assessee had no direct dealings with the end customers, as the incentive scheme operated only between the assessee and its dealers. The Ld. AR also drew our attention to the fact that the Ld. AO had not doubted the genuineness of the purchases of gold coins nor disputed that the sales targets were achieved. Further, with regard to the observation of the Ld. AO towards sum of Rs.6,01,275/-, which was paid by one of the assessee's employees (a relative of the director) to the jeweller on behalf of the assessee, the Ld. AR submitted that the said amount was subsequently reimbursed to the employee through banking channels. Therefore, there was no violation of section 40A(3) of the Act, as the payment was effectively made by account payee cheque from the account of the assessee. Accordingly, the Ld. AR prayed before the Bench that the addition of Rs.22,52,673/- made by the Ld. AO on account of gold scheme expenses should be deleted.

5. Per contra, the Learned Departmental Representative ("Ld. DR") relied upon the findings of the Ld. AO and submitted that the assessee failed to produce adequate documentary evidence to substantiate that the gold coins were actually distributed under the claimed scheme. In the absence of acknowledgements from the beneficiaries or confirmations from the customers, the Ld. AO rightly disallowed the expenditure as unverifiable. In the alternate submission, the Ld. DR also contended that in respect of the purchase of gold through an employee, the transaction attracted disallowance under section

40A(3) of the Act since the initial payment was made in cash exceeding the prescribed limit.

6. We have carefully considered the rival submissions and perused the material placed on record. We observed that the primary basis for disallowance by the Ld. AO was the absence of acknowledgements from the end customers who allegedly received the gold coins from the dealers. In this regard, we have gone through the list of persons to whom the gold coins has been given, which is placed at page no.108 of the paper book, the working of points obtained and gold coupons owned by the dealers on the basis of their performance (page no.109 to 114 of the paper book). On perusal of the documents, we find that the assessee has maintained detailed records of the gold coins purchased, the dealers to whom they were distributed, and the working of points obtained and gold coupons owned by the dealers on the basis of their performance. The Ld. AO has not disputed the genuineness of the purchase of gold coins nor has he questioned the achievement of sales targets by the dealers. It is also a matter of commercial prudence that in industries with strong competition, incentive schemes such as gold coins or gift vouchers are standard promotional tools. The assessee's action of providing such incentives to its dealers cannot, therefore, be said to be without business purpose.

6.1 However, insofar as the transaction of Rs.6,01,275/- is concerned, we find that the payment was initially made in cash by

an employee who happens to be related to one of the directors, though the amount was subsequently reimbursed by the assessee through banking channels. In the absence of direct payment from the assessee's account to the jeweller at the time of purchase, the said transaction attracts the rigor of section 40A(3) of the Act. Therefore, the disallowance to the extent of Rs.6,01,275/- is upheld. Accordingly, we direct the Ld. AO to allow the claim of Gold Scheme Expenses to the extent of Rs.16,51,398/- (Rs.22,52,673/- – Rs.6,01,275/-) and sustain the balance disallowance of Rs.6,01,275/-.

7. As regards the disallowance of Rs.34,52,901/- out of total Tour and Travel expenditure of Rs.44,85,187/-, the Ld. AR submitted that the assessee had incurred these expenses through recognized travel agencies, and the genuineness of the expenditure incurred has not been doubted by the Ld. AO. It was explained that the assessee, being engaged in a competitive business environment, had introduced incentive schemes for its dealers based on achievement of sales targets. Under the said schemes, dealers achieving higher sales were rewarded with both domestic and foreign tours as a measure of business promotion. The Ld. AR submitted that this is a regular business practice prevalent in the industry to motivate dealers and improve sales volume. It was further submitted that, as per trade custom, it is usually left to the discretion of the dealer to either utilize the travel coupon personally or to nominate any other person—such as an employee, relative, or valued customer—for the said trip.

The assessee's obligation ended once the dealer achieved the prescribed sales target and earned the entitlement to a travel coupon. The Ld. AR emphasized that the assessee had no direct control over the ultimate beneficiaries of the travel coupons, and that the business connection of the actual travelers was irrelevant to the allowability of the expenditure since the incentive was granted purely based on the dealer's performance. The Ld. AR invited our attention to the brochures and the itinerary of the tours allowed to the dealers (page no.93 to 103 of the paper book) and the list of persons availed the benefit of tours (page no.104 to 108 of the paper book) and submitted that all the details related to the tours & travels were placed by the assessee before the Ld. AO. The Ld. AR pointed out that the Ld. AO had not disputed either the total sales figures or the targets achieved by the dealers. The disallowance was made solely on the ground that some of the individuals who actually availed the travel benefit were not directly connected with the business of the assessee or the dealers. The Ld. AR therefore contended that such partial disallowance was unjustified and contrary to settled business principles, since the expenditure was wholly and exclusively incurred for the purpose of business promotion.

8. Per contra, the Ld. DR relied on the findings of the Ld. AO and submitted that the assessee failed to establish that the entire expenditure was incurred for business purposes. It was contended that the Ld. AO, after verifying the list of persons who actually availed the trips, found that certain beneficiaries were

unrelated to the assessee's business, and therefore, the proportionate disallowance made by the Ld. AO was justified.

9. We have carefully considered the rival submissions and perused the material placed on record. The core issue before us is whether the partial disallowance of Rs.34,52,901/- out of total tour and travel expenditure of Rs.44,85,187/- is sustainable. On perusal of the assessment records and the paper book, we note that the Ld. AO has not doubted the genuineness of the expenditure incurred through recognized travel agencies. Further, there is no dispute that the scheme was introduced as a business incentive for dealers based on sales performance. The Ld. AO has also not disputed the sales targets achieved and the incentive policy formed by the assessee as regular business promotion activity. The disallowance was made only on the ground that some of the persons who availed the trips did not have a direct business connection with the assessee or its dealers. In our considered view, this reasoning cannot be sustained. Once the entitlement for a foreign or domestic tour arises upon achievement of sales targets by the dealers, the manner in which such entitlement is utilized is of no consequence for determining the allowability of the expenditure. The business purpose of the expenditure is established at the point where the incentive is granted to the dealer as a reward for higher sales, and the subsequent utilization by the nominee or transferee of the dealer does not change the character of the expenditure. It is a well-accepted commercial practice that dealers are given flexibility to transfer their incentive

trips to others, including family members or key customers. Such discretion cannot be treated as diversion of funds for non-business purposes. The primary test under section 37(1) of the Act is whether the expenditure was incurred wholly and exclusively for the purpose of business, and in this case, that test stands satisfied. Accordingly, we hold that the proportionate disallowance made by the Ld. AO is unsustainable. The entire expenditure on account of foreign and domestic tours was incurred in the ordinary course of business and is allowable under section 37(1) of the Act. We, therefore, direct the Ld. AO to delete the disallowance of Rs.34,52,901/- made on account of Tour and Travel Expenses.

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

Order pronounced in the Open Court on 7th November, 2025.

Sd/-

Sd/-

(RAVISH SOOD) JUDICIAL MEMBER	(MADHUSUDAN SAWDIA) ACCOUNTANT MEMBER
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Hyderabad, dated 7th November, 2025

Vinodan/sps

Copy to:

S.No	Addresses
1	M/s. Matrix Sea Foods India Ltd, C/o Mohd. Afzal, Advocate, No.402, Sherson's Residency, 11-5-465, Criminal Court Road, Red Hills, Hyderabad 500004
2	Asstt.CIT (OSD) Ward 16(4) IT Towers, Hyderabad
3	Pr. CIT-4, Hyderabad
4	DR, ITAT Hyderabad Benches
5	Guard File

By Order