

आयकर अपीलीय अधिकरण, चण्डीगढ़ न्यायपीठ, चण्डीगढ़  
IN THE INCOME TAX APPELLATE TRIBUNAL  
DIVISION BENCH, 'A' CHANDIGARH

BEFORE SHRI RAJPAL YADAV, VICE PRESIDENT AND  
SHRI MANOJ KUMAR AGGARWAL, ACCOUNTANT MEMBER

आयकर अपील सं./ ITA No. 1609/CHD/2018

निर्धारण वर्ष / Assessment Year. : 2014-15

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| M/s Knitwell India Pvt. Ltd.,<br>Plot No. 278, Industrial Area,<br>Phase-II, Chandigarh. | Vs | The DCIT,<br>Circle 1(1),<br>Chandigarh. |
| स्थायी लेखा सं./PAN NO: AACCK4673L   |    |  |
| अपीलार्थी/Appellant  |    | प्रत्यर्थी/Respondent                    |

Assessee by : Ms. Shruti Khandelwal, Advocate  
Revenue by : Shri Vivek Vardhan, Addl. CIT Sr.DR

Date of Hearing : 24.11.2025  
Date of Pronouncement : 27.01.2026

**ORDER**

**PHYSICAL HEARING**

**PER RAJ PAL YADAV, VP**

The assessee is in appeal against the order of Id.CIT (Appeals) dated 25.10.2018 passed for assessment year 2014-15.

2. Ground No. 1 is general in nature which does not call for recording of any specific finding.

3. Ground Nos. 2 and 3 are inter-connected with each other, therefore, we take them together. The grievance of the assessee

is that ld.CIT (Appeals) has erred in confirming the addition of Rs.5,38,557/- u/s 14A and addition of Rs.3,43,854/- which was added with the aid of Section 36(1)(iii) of the Income Tax Act.

4. The brief facts of the case are that assessee, at the relevant time was engaged in manufacturing of tractor parts, harvesting combine parts and fork lift parts. It has filed its return of income on 27.09.2014 declaring total taxable income of Rs.4,51,31,690/-. The case of the assessee was selected for scrutiny assessment and necessary notice u/s 143(2) was issued and served upon the assessee. During the course of assessment proceedings, ld. AO had observed that assessee had made an investment of Rs.2,73,96,098/- in Equity Instruments. Similarly, it has given advance of Rs.2,26,69,352/- to various persons for purchase of plot/flats. The AO was of the view that interest expenses relatable to the investments made in equity shares and funds advanced without any business purpose deserve to be calculated and disallowed to the assessee. The AO, thereafter, examined financials of the assessee and observed that average indirect cost during the year deserves to be disallowed to the assessee after working out a disallowance u/s Section

36(1)(iii) of the Act. Such discussion has been made on page No. 5 of the assessment order.

4.1 Similarly, he disallowed the interest expenditure earning for tax free income on equity investment with the aid of Section 14A of the Income Tax Act. The AO also disallowed 0.5% of flat investment in sub-clause (iii) of Rule 8D of the formula. This amount has been worked out at Rs.1,42,842/-.

5. On appeal, the ld.CIT (Appeals) has confirmed the disallowances and ld. First Appellate Authority has followed the order of his predecessor in assessment year 2013-14.

6. With the assistance of ld. Representative, we have gone through the record carefully. The case of the assessee is that it has far more interest free funds than the interest free advances given by it to various persons or investment made in equities. The assessee has returned income of Rs.451.32 lacs. He also made reference to the order of the ITAT passed in assessment year 2013-14 whose copy is placed at page No. 71 of the Paper Book. The Tribunal in assessment year 2013-14 did not concur with the view point of the CIT (Appeals) and held that if assessee has more interest free funds than the investments made in equity

shares or interest free advances given to individuals, then no interest expenditure ought to be disallowed to the assessee. The Tribunal was of the view that when mixed funds are there, then it is to be presumed that such investments have been made from the surplus funds available with the assessee. For harbouring this belief, Tribunal has made reference to the decision of the Hon'ble Supreme Court in the case of Reliance Utilities & Power Ltd. reported in 313 ITR 340. Apart from the above, we are fortified with following decisions :

- a) ACIT Vs Janak Global Resources Pvt. Ltd. 175 ITD 365 (Chd)
- b) Bright Enterprises (P) Ltd Vs CIT 381 ITR 107 (P&H.)
- c) CIT Vs Kapson Associates 381 ITR 204 (P&H.)
- d) CIT Vs Max India Ltd. 398 ITR 209 (Pb.)
- e) CIT Vs Max India Ltd (2016) 388 ITR 81 (P&H)
- f) Gordrej & Boyce Manufacturing Co. Ltd Vs DCIT (2017) 394 ITR 449 (SC)
- g) CIT Vs Reliance Ind Ltd. 410 ITR 466 (SC)
- h) CIT V/s Shapoorji Pallongi & Co 423 ITR 220 (Bom)
- i) Decision of ITAT Chandigarh in ITA No. 184/Chd/2015

These decisions are on the same line, therefore, no disallowance deserves to be upheld except a sum of Rs.1,42,842/- which is an amount representing administrative expenses for taking care of investments made in equities. This amount deserves to be

disallowed to the assessee with the aid of Section 14A read with Rule 8D(iii) of the Act. Accordingly, Ground No. 2 is partly allowed whereas ground No. 3 is allowed.

**Ground No. 4**

7. In this ground of appeal, grievance of the assessee is that ld.CIT (Appeals) has erred in confirming the adhoc disallowance of Rs.8,13,317/-.

8. The brief facts of the case are that assessee has debited an expenditure of Rs.8,13,317/- on account of Directors' foreign traveling. The break-up of this amount has been noted in paragraph No. 2 of the assessment order. The AO was of the view that assessee failed to demonstrate administrative exigency for Directors visiting the foreign countries. The ld.CIT (Appeals) has confirmed the disallowance. The ld. counsel for the assessee pointed out that no specific defects have been pointed out in the books. These expenses were incurred on account of administrative exigencies. On the other hand, ld. DR relied upon the orders of revenue authorities.

9. We have duly considered the rival contentions and gone through the record carefully. The AO ought to have appreciated

the facts and circumstances with the angle of a businessman as to how he would examine these expenses. He failed to appreciate the taxable income of the assessee at Rs.451.31 lacs. It itself suggests that assessee has a huge turnover which has generated taxable income of this magnitude. It would have undertaken necessary visits for technology and participating in various foreign exhibitions or business events. Therefore, we are of the view that AO has miserably failed to appreciate the nature of the expenses looking into the magnitude of the business conducted by the assessee. Accordingly, we allow this ground of appeal and delete the disallowance.

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

Order pronounced on 27.01.2026.

Sd/-

**(MANOJ KUMAR AGGARWAL)**  
**ACCOUNTANT MEMBER**

Sd/-

**(RAJPAL YADAV)**  
**VICE PRESIDENT**

“Poonam”

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 आधिकरण, चण्डीगढ़/ DR, ITAT, CHANDIGARH
5. गार्ड फाईल/ Guard File

Assistant Registrar