

IN THE INCOME-TAX APPELLATE TRIBUNAL "D" BENCH,
MUMBAI

BEFORE SHRI ANIKESH BANERJEE, JUDICIAL MEMBER
&
SHRI PRABHASH SHANKAR, ACCOUNTANT MEMBER

ITA No.5945/MUM/2025
(A.Y. 2020-21)

Datamatics Global Services Ltd., Plot No. 58, Knowledge Centre, Street No. 17, MIDC, Andheri (East), Mumbai - 400093, Maharashtra	v/s. बनाम	Deputy Commissioner of Income Tax- 1(3)(1), Aaykar Bhavan, Mumbai - 400 020, Maharashtra
स्थायी लेखा सं./जीआइआर सं./PAN/GIR No: AAACD4471B		
Appellant/अपीलार्थी	..	Respondent/प्रतिवादी

Appellant by :	Ms. Pallavi Talavlikar,AR
Respondent by :	Shri Umashankar Prasad, (CIT DR)

Date of Hearing	03.12.2025
Date of Pronouncement	19.01.2026

आदेश / ORDER

PER PRABHASH SHANKAR [A.M.] :-

The present appeal arising from the appellate order dated 01.08.2025 is filed by the assessee against the order passed by the Learned Commissioner of Income-tax (Appeals)/National Faceless Appeal Centre, Delhi [hereinafter referred to as "CIT(A)"] pertaining to assessment order passed u/s. 143(3) of the Income-tax Act, 1961 [hereinafter referred to as "Act"] dated 27.09.2022 for the Assessment Year [A.Y.] 2020-21.



2. The grounds of appeal are as under:

Ground No. 1: Erroneous consideration of expenses attributable towards earning exempt Income

- 1.1 The Learned CIT(A) has erred in considering the entire administrative and interest expenditure (direct and indirect expenses) as attributable to the earning of exempt income.
- 1.2 While concluding as above, the Learned CIT(A) has completely disregarded the fact that there were no direct expenses incurred by the appellant as the investments in question were made entirely out of the Appellant's own funds, internal accruals and surplus reserves and not from any borrowed funds
- 1.3 While arriving at the above conclusion, the Learned CIT(A) has failed to demonstrate any nexus between such expenses and the earning of exempt income, since, as explained in point 1.2 above, there were no such expenses incurred by the appellant in the absence of borrowed funds
- 1.4 However, the appellant has, in compliance with section 14A r.w.r 8D, added back an amount of INR 5,91,103 as a disallowance.
- 1.5 The Appellant submits that in the absence of any direct or proximate nexus, attributing administrative or interest expenses to the earning of exempt income is wholly unjustified and contrary to settled law.

Ground No. 2: Non quantification of expenses attributable to the earning of exempt income

- 2.1 Without prejudice to the above ground of appeal, the Learned CIT(A) has erred in maintaining disallowance under Section 14A of the Act by holding that the administrative and interest expenses debited to the Profit & Loss Account are directly attributable to the earning of exempt income, without quantifying such expenses.
- 2.2 The Appellant submits that the observations of the Learned CIT(A) are based on mere assumptions, without any verification of the Appellant's books of account or the actual nature of expenses and are therefore unsustainable in law.



2.3 The Appellant prays to your Honours that the Learned CIT(A) be directed to consider INR 5,91,103 as calculated by the appellant as the appropriate disallowance under section 14A of the Act, inspite of the absence of any borrowings by the appellant

Ground No. 3: Adverse observation without providing an opportunity of being heard, violating principle of natural justice

3.1 Without prejudice to the above grounds of appeal, the Learned CIT(A) has erred in making adverse observations on administrative and interest expenditure without raising any specific questions with respect to the same during the course of the appellate proceedings.

3.2 The Appellant submits that no opportunity was provided to rebut or clarify these observations, thereby denying the Appellant its right to be heard

3.3 The action of the Learned CIT(A) is in gross violation of the principles of natural justice and is therefore liable to be set aside.

Ground No. 4: Erroneous consideration of exempt Income as INR 5,91,10,299

4.1 Without prejudice to the above grounds, the Hon'ble CIT(A) has erred in upholding the Learned AO's contention of considering the annual average of the monthly average investments amounting to INR 5,91,10,200 as exempt income for calculating the 14A disallowance. The same appears to be inadvertent in nature.

4.2 The Appellant submits that exempt income earned during the year is INR 1,39,84,207 which is duly disclosed in Schedule BP of its returns.

4.3 The Appellant prays to your Honours that the Learned CIT(A) be directed to rectify the order to reflect the correct and appropriate amount of INR 1,39,84,207 as exempt income.

3.All the above stated grounds of appeal pertain to the disallowance made by the AO u/s 14A of the Act. As such, a of them are being considered together. Brief facts of the case are that the AO while completing the assessment u/s 143(3) of the Act made a disallowance of Rs 38,12,211/- under section 14A of the Act which was agitated before



the ld.CIT(A).It was contended before him that the NeAC/AO has inadvertently calculated disallowance of Rs 38,12,211/- as against the correct amount of Rs 5,91,103/-worked out by the assessee. It was submitted that section 14A of the Act r.w.r. 8D of the Income-tax Rules, 1962provides for the method of calculation of disallowance. Rule 8D of the rules states that the expenditure directly related to earning exempt income and investments yielding exempt income are to be considered for calculating the disallowance under section 14A of the Act. The relevant extract of Rule 8D of the Rules is reproduced below:

8D (2) “The expenditure in relation to income which does not form part of the total income shall be the aggregate of following amounts, namely -

- i. the amount of expenditure directly relating to income which does not form part of total income; and
- ii. an amount equal to one per cent of the annual average of the monthly average of the opening and closing balances of the value of investment, income from which does not or shall not form part of total income:

Provided that the amount referred to in clause (i) and clause (ii) shall not exceed the total expenditure claimed by assessee”

3.1 It was further stated that on Perusal of Rule 8D (2) (ii), it is abundantly clear that only investment income which does not or shall not form part of total income needs to be considered while calculating disallowance under Section 14A of the Act.It was submitted that the AO has inadvertently considered the entire investment amount as appearing in the financials whereas, under Rule 8D while computing disallowance



under Section 14A of the Act, only investments which earn exempt income needs to be considered. It was submitted that the appellant had correctly calculated disallowance under Rule 8D of the Rules. In compliance with Rule 8D of the Rules, it had accordingly considered the monthly average of opening and closing balances of equity investments to compute disallowance under Section 14A of the Act. The said amount of disallowance had been certified in the tax audit report of the Company for AY 2020-21 at clause 21(h) of Tax audit report.

4. The Id.CIT(A) observed that the AO had computed the disallowance expenses of Rs. 38,12,211/- u/s 14A of the Act. The contention of appellant was that the NeAC had inadvertently considered the entire investment amount as appearing in the financials whereas, under Rule 8D of the Income-tax Rules, while computing disallowance under Section 14A of the Act, only investments which earn exempt income needed to be considered. The assessee further placed reliance on the judicial precedents to support its contentions that only investments yielding exempt income ought to be considered for calculating disallowance under Section 14A of the Act. Further, the AO observed that assessee had shown Investment in Mutual funds of Rs. 11,14,89,794/- and other investments shown in ITR of Rs. 32,88,41,623/-. It was further noted that in the P & L account, the



assessee had debited huge amount of administrative expenses including interest to the P & L A/c. The provisions of Sec. 14A of the Act read with newly substituted Sub-rule (2) to Rule 8D of the I.T. Rules, 1962, w.e.f. 02.06.2016 were clearly applicable in assessee's case. In view of the provisions of Section 14A read with Rule 8D(2) substituted by the IT (Fourteenth Amdt.) Rules 2016 w.e.f. 02.06.2016, inadmissible expenditure to be disallowed would be aggregate of the amount of expenditure directly relating to income which does not form part of total income and an amount equal to one per cent of the annual average of the monthly averages of the opening and closing balances of the value of investment, income from which does not or shall not form part of total income. As per the details filed, disallowance @ 1% on such average investment would work out to Rs. 44,03,314/-. However as per reply of the assessee the exempt income is 5,91,10,299/- and added back 1% of average income of Rs. 5,91,103/- in its income, *suo-moto* but as discussed above the total disallowance should be 1% of average investment. Therefore, the addition was made of Rs. 38,12,211/- to the Income of the assessee and added back to the income.

4.1 The Id.CIT(A) further stated that contention of the assessee was correct that under Rule 8D, the amount of disallowance of expenditure would be an amount equal to one per cent of the annual



average of the monthly averages of the opening and closing balances of the value of investment, income from which does not or shall not form part of total income. Thus, the AO was directed to recalculate the total disallowance u/s 14A read with rule 8D by taking 1% of the annual average of the monthly averages of the opening and closing balances of the value of investment, income from which does not or shall not form part of total income rather than taking whole value of investment. If this correct value comes less than the addition made by the AO, then give the relief up to that amount.

5. The Id.AR in this regard submitted that in respect of the disallowance under section 14A of the Act, the Id. CIT(A) held as under:

- a) Directed the Assessing Officer to recompute the disallowance by considering only those investments which gave rise to exempt income and further directed that if such re-computation resulted in a lower disallowance, appropriate relief be granted.
- b) Simultaneously recorded a finding that the interest expenditure debited to the Profit and Loss Account during the year under consideration was directly attributable to the earning exempt income.

5.1 Before us, it is stated the Id. CIT(A) has presumed that the interest expenditure debited to the profit and loss account of the year under consideration, pertained to investments generating exempt income. This finding is stated to be incorrect, unsubstantiated and arbitrary as no amount is specified by him as the amount related to the



exempt income earned. Nature of interest/administrative expenses requires factual reverification. It is further stated that the **entire interest cost debited to the Profit and Loss Account** aggregating Rs 2,19,50,087/- comprised of the following components:

GL Code	Description	Amount (INR)
40401000	Interest On Working Capital	14,69,047
40401005	Interest on term-borrowing	1,63,53,989
40402021	Bank Guarantee Charges	31,71,343
40402024	Cash Discount to Customer	70,709
40402023	Other finance charges	8,85,000
Total		2,19,50,087

5.2 As can be noted from the above, all expenditure pertains to routine business related activities and is incurred to fund operations and working capital requirements. Therefore, it is clear that there is no nexus between the aforesaid expenditure and the earning of any exempt income, as has been rightly claimed by the appellant during the year. Further, the assessee has made a suo-moto disallowance under section 14A of the Act amounting to Rs 5,91,103/-, applying the defined methodology as per Rule 8D. This demonstrates that the appellant has voluntarily and in good faith discharged its obligation under section 14A of the Act. Given this, any incremental disallowance is unwarranted and contrary to the settled law that disallowance cannot be made mechanically or without establishing proximate nexus.



5.3 In light of the above and the magnitude of jurisprudence available in support of the appellant's contention aligned to the facts in the present case, it is prayed for reverification and recalculation of disallowance under section 14A of the Act by the Jurisdictional Assessing Officer and for the necessary relief to be granted to the appellant.

6. The ld.DR on the other hand placed reliance on the orders of the authorities below.

7. We have carefully considered the facts of the case. It is evident that the issue of disallowance u/s 14A r.w Rule 8D has already been set aside before the AO by the ld.CIT(A) giving specific directions. The AO is accordingly required to reexamine the claim of the assessee. Since the matter is already before the AO, we do not find any reason for giving any separate direction. The AO would allow the assessee to make necessary compliance in the matter and would rework the disallowance in terms of Rule 8D of the Act. Thus, the grounds of appeal are allowed for statistical purposes.



8. In the result, **the appeal is allowed for statistical purposes.**

Order pronounced in the open court on 19/01/2026.

Sd/-

ANIKESH BANERJEE

(न्यायिक सदस्य / JUDICIAL MEMBER)

Sd/-

PRABHASH SHANKAR

(लेखाकारसदस्य/ACCOUNTANT MEMBER)

Place: मुंबई/Mumbai
दिनांक /Date 19.01.2026
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.

