

IN THE INCOME TAX APPELLATE TRIBUNAL
MUMBAI BENCH "B", MUMBAI

BEFORE SHRI ANIKESH BANERJEE, JUDICIAL MEMBER AND
SHRI MAKARAND VASANT MAHADEOKAR, ACCOUNTANT MEMBER

ITA No.6082/Mum/2025
(Assessment year: 2017-18)

Better Value Leasing & Finance Limited 801, Mahalaxmi Chambers, 22 Bhulabhai Desai Road Mahalaxmi, Mumbai-400026 PAN: AAACB4410A	vs	Jurisdictional Assessing Officer, Circle 2(1)(1) Area Code Mum, AO Type C, AO Number 1, Range code 921, Aayakar Bhavan, Mumbai-400020
APPELLANT		RESPONDENT

Assessee by : Shri Anil Sathe, CA
Respondent by : Shri Leyaqt Ali Aafaqui (SR DR)

Date of hearing : 28/01/2026
Date of pronouncement : 03/02/2026

ORDER

Per: Anikesh Banerjee (JM):

The instant appeal of the assessee filed against the order of the NFAC, Delhi [for brevity the "Ld. CIT(A)"], order passed under section 250 of the Income tax Act 1961 (for brevity 'the Act') for assessment year 2017-18, date of order 30.07.2025. The impugned order emanated from the order of the Ld. Assistant Commissioner of Income Tax C.C.-2(1)(1), Mumbai (for brevity the "Ld. AO") order passed under section 143(3) of the Act date of order 27.12.2019.

2. Brief facts of the Case are that the assessee, is a company incorporated in India on 05/07/1983 and is a Reserve Bank of India registered Non-Banking Financial Company (NBFC), engaged in the business of hire-purchase and finance. The assessee was primarily involved in providing finance and catering to the business needs of small and medium corporates and service providers. For the relevant assessment year, since the tax payable under the provisions of section 115JB of the Act was higher than the tax payable under the normal provisions of the Act, the assessee filed its return of income under section 115JB of the Act. The total revenue of the assessee during the year consisted of dividend income and long-term capital gains arising from the sale of shares, both of which were exempt under sections 10(34) and 10(38) of the Act, respectively. The assessee contended that no specific expenditure was incurred for earning the exempt income and, accordingly, no disallowance under section 14A of the Act was made in the return of income. The case was selected for scrutiny assessment. The Ld. AO, not being satisfied with the submissions of the appellant, made a disallowance of Rs.2,58,43,923/- under section 14A of the Act, comprising the following:

- a) Professional fees of Rs.2,55,00,000/- paid to Mr. M.P. Doshi, held to be directly attributable to earning exempt income; and
- b) An amount of Rs.3,43,923/- being 1% of the annual average of the monthly averages of the opening and closing balances of investments, computed as per Rule 8D of the Income-tax Rules, 1962.

The aggrieved assessee filed an appeal before the Ld. CIT(A). The Ld. CIT(A) upheld the order of the Ld. AO and confirmed the entire disallowance of

Rs.2,58,43,923/- under section 14A read with Rule 8D of the Rules. Aggrieved by the said order, the assessee is in appeal before us.

3. The Ld. AR submitted that the assessee is primarily engaged in the business of financing and earning interest income. For optimal utilisation and financial management of funds, the assessee availed consultancy services from Mr. M.P. Doshi. It was argued that the consultancy fees were incurred for overall financial management and advisory purposes and were not directly related to earning exempt income such as dividend or long-term capital gains. It was further contended that the exempt income earned during the year amounted to Rs.79,43,082/-, which constituted only about 5.4% of the total revenue. Without prejudice, the Ld. AR submitted that the disallowance under section 14A should be restricted proportionately and, in any case, should not exceed the exempt income.

4. The Ld. AR filed a paper book containing **pages 1 to 25** and submitted a revised computation of disallowance under Rule 8D, wherein proportionate expenditure relating to exempt income was worked out at Rs.14,02,436/- and 1% of the annual average of the monthly averages of investments under Rule 8D(2)(iii) was computed at Rs.3,43,923/-. Thus, the total disallowance was worked out at Rs.17,46,359/-, which the assessee fairly conceded to offer for disallowance under section 14A of the Act. The submission of the Ld. AR in **APB, page-3** is reproduced as below:-

"Computation of Disallowance as per Rule 8D

<i>Particulars</i>	<i>Note No.</i>	<i>Amount</i>
<i>Expenditure relating to earning exempt</i>		<i>14,02,436</i>

<i>income-rule 8D(ii)</i>	<i>WN-1</i>	
<i>1% of the annual average of the monthly averages of opening and closing balances of the value of investment</i>	<i>Working attached</i>	<i>3,43,923</i>
<i>Total disallowance</i>		<i>17,46,359</i>

5. The Ld. DR, on the other hand, relied on the orders of the revenue authorities. It was contended that the assessee failed to furnish satisfactory explanations during the assessment proceedings and that the substantial professional fees paid to Mr. M.P. Doshi were clearly attributable to earning exempt income. Accordingly, the Ld. DR supported the full disallowance of Rs.2,58,43,923/- as made by the Ld. AO under section 14A read with Rule 8D.

6. We have heard the rival submissions and carefully perused the material available on record. It is an admitted fact that the exempt income earned by the assessee during the year amounted to Rs.79,43,082/-. It is a settled legal position that the disallowance under section 14A of the Act cannot exceed the amount of exempt income earned during the relevant assessment year. On perusal of the working furnished by the assessee, we find that the proportionate expenditure relating to exempt income has been computed under Rule 8D(2)(ii) at Rs.14,02,436/- and the disallowance under Rule 8D(2)(iii), being 1% of the annual average of the monthly averages of investments, has been computed at Rs.3,43,923/-. Thus, the total disallowance comes to Rs.17,46,359/-, which has been fairly conceded by the assessee. Considering the factual matrix of the case and the settled legal principles, we are of the considered view that the disallowance under section 14A should be restricted to Rs.17,46,359/-.

Accordingly, we set aside the impugned order of the Ld. CIT(A) and restrict the disallowance under section 14A of the Act to Rs.17,46,359/-. The balance disallowance made by the Ld. AO is hereby deleted.

7. In the result, the appeal of the assessee bearing **ITA No.6082/Mum/2025** is partly allowed.

Order pronounced in the open court on 03rd day of February 2026.

Sd/-

(MAKARAND VASANT MAHADEOKAR)
ACCOUNTANT MEMBER

Mumbai, दिनांक/Dated: 03/02/2026
SAUMYASr.PS

Sd/-

(ANIKESH BANERJEE)
JUDICIAL MEMBER

Copy of the Order forwarded to:

1. अपीलार्थी/The Appellant ,
2. प्रतिवादी/ The Respondent.
3. आयकरआयुक्त CIT
4. विभागीयप्रतिनिधि, आय.अपी.अधि., मुंबई/DR, ITAT,
Mumbai
5. गार्डफाइल/Guard file.

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BY ORDER,

(Asstt. Registrar), ITAT, MUMBAI