

**IN THE INCOME TAX APPELLATE TRIBUNAL
“E” BENCH MUMBAI**

**BEFORE SHRI ANIKESH BANERJEE, JUDICIAL MEMBER &
SHRI MAKARAND VASANT MAHADEOKAR, ACCOUNTANT MEMBER**

**ITA No. 5244/Mum/2025
(Assessment Year: 2018-19)**

&

**ITA No. 5245/Mum/2025
(Assessment Year: 2020-21)**

DCIT 552, 5 th Floor, Aayakar Bhavan, M. K. Road, Mumbai-400 020	Vs.	Trent Limited, G-Block, Plot No. C 60 Trent House, Beside City Bank Bandra K Complex, Bandra (E), Mumbai-400 051
PAN/GIR No. AAACL1838J		
(Applicant)		(Respondent)

Revenue by	Shri Ritesh Misra, Ld. DR
Assessee by	Shri Nikhil Tiwari, Ld. AR

Date of Hearing	28.01.2026
Date of Pronouncement	05.02.2026

आदेश / ORDER

PER BENCH:

These are two appeals preferred by the Revenue for Assessment Years 2018–19 and 2020–21, arising out of separate orders passed by the Commissioner of Income-tax (Appeals),

National Faceless Appeal Centre, Delhi [hereinafter referred to as "CIT(A)"]. Since the issues involved in both the appeals are identical and arise out of similar factual matrix, they were heard together and are being disposed of by this consolidated order for the sake of convenience.

Facts of the Case

2. The assessee is a company engaged in the business of retailing of readymade garments, accessories and household items. For both the assessment years under consideration, the assessee had made investments which yielded exempt income in the form of dividend. In the respective returns of income, the assessee had suo motu made disallowance under section 14A of the Income-tax Act, 1961 [hereinafter referred to as "the Act"] on account of expenditure allegedly attributable to earning of exempt income.

3. The cases were selected for scrutiny and assessments were framed under section 143(3) read with section 144B of the Act. During the course of assessment proceedings, the Assessing Officer observed that the assessee had earned exempt income and that administrative and managerial resources were necessarily deployed for making and monitoring investments. The Assessing Officer was of the view that the suo motu disallowance made by the assessee was not scientific and that the provisions of section 14A read with Rule 8D of the Income-tax Rules, 1962 were applicable. Accordingly, the Assessing Officer computed

disallowance by applying 1 percent of the annual average of monthly investments and made additions over and above the amount already disallowed by the assessee in the return of income. Year-wise factual particulars of both the years are as follows:

Particulars	A.Y. 2018-19	A.Y. 2020-21
Date of return of income	30.11.2018	30.01.2021
Returned total income	Rs. 1,75,56,47,040/-	Rs. 2,29,81,74,180/-
Assessment order	Order dated 09.08.2021 passed under section 143(3) read with section 144B	Order dated 23.09.2022 passed under section 143(3) read with section 144B
Exempt income	Rs. 1,00,73,900/-	Rs. 14,65,60,351/-
Suo motu disallowance under section 14A by assessee	Rs. 4,75,774/-	Rs. 35,32,482/-
Disallowance computed by AO under section 14A	Rs. 11,46,63,480/-	Rs. 9,51,09,170/-
Addition made by AO over and above assessee's disallowance	Rs. 11,41,87,706/-	Rs. 9,15,76,688/-
CIT(A) order	Order dated 30.06.2025 passed under section 250	Order dated 30.07.2025 passed under section 250

4. Aggrieved by the assessment orders, the assessee carried the matter in appeal before the CIT(A). Before the first appellate

authority, the assessee submitted that identical issue had arisen in its own case in earlier years and the Tribunal had accepted the method adopted by the assessee for computing disallowance under section 14A and had deleted the disallowance made by the Assessing Officer by applying Rule 8D. It was contended that the facts in the years under consideration were identical and, therefore, the disallowance made by the Assessing Officer was liable to be deleted.

5. The CIT(A), after considering the submissions of the assessee and the judicial precedents in assessee's own case for earlier years, accepted the contention of the assessee and directed the Assessing Officer to restrict the disallowance under section 14A to the amount suo motu disallowed by the assessee and to delete the balance addition.

6. Aggrieved by the orders of CIT(A), the Revenue is in appeal before us against the said relief granted. The Common grounds of appeal for both the assessment years are:

1. *Whether on the facts and circumstances of the case and in the law the Hon'ble ITAT was justified in ignoring CBDT Circular No. 25/ 2014 dated- 11.02.2014 and CBDT Circular No. 23/ 2022 dated. 03.11.2022 which provided for disallowance of the expenditure u/s 14A even when tax payer has not earned any exempt income in a particular year?*
2. *Whether on the facts and circumstances of the case and in the law the Hon'ble ITAT was justified in upholding the decision of the Ld. CIT(A) in view of the Explanation to section 14A inserted vide Finance Act, 2022 wherein it has been clarified that section 14A shall apply and deemed to have always applied in cases where exempt income has not earned, accrued or received during the previous year relevant to assessment year?*

3. *The appellant craves the leave to add, amend, alter and/ or delete any of the grounds of appeal as above.*

7. Since the issue involved and the grounds raised by the Revenue in both the appeals are identical in nature and differ only in the quantum of disallowance, we, for the sake of convenience and brevity, treat Assessment Year 2018–19 as the lead year and proceed to adjudicate the issue on the basis of facts obtaining in that year. The decision rendered for Assessment Year 2018–19 shall, mutatis mutandis, apply to Assessment Year 2020–21 as well.

8. During the course of hearing before us, the learned Authorised Representative of the assessee reiterated the facts and submitted that the assessee had, in the return of income, made a suo motu disallowance under section 14A of the Act on a scientific and reasonable basis by identifying and allocating only such administrative expenditure as was attributable to earning of exempt income. It was contended that no borrowed funds were utilised for making investments and that the assessee's own funds were far in excess of the value of investments, and therefore, no interest expenditure was liable to be disallowed. It was further submitted that the methodology adopted by the assessee for computing disallowance under section 14A had been consistently followed in earlier years and had been accepted by the Co-ordinate Bench in assessee's own case.

9. It was pointed out that the Assessing Officer, without recording any objective dissatisfaction with reference to the

accounts of the assessee, mechanically invoked Rule 8D and computed disallowance at one per cent of the average value of investments. It was contended that such action was contrary to the statutory requirement of section 14A(2) and the settled legal position that Rule 8D can be applied only after recording proper satisfaction as to the incorrectness of the assessee's claim.

10. The Learned Departmental Representative, on the other hand, relied on the order of lower authorities.

11. We have carefully considered the rival submissions and perused the material placed on record, including the assessment order, the impugned order of the CIT(A), and the judicial precedents relied upon. The issue arising for adjudication in the present appeals is whether the CIT(A) was justified in deleting the disallowance made by the Assessing Officer under section 14A of the Act by applying Rule 8D and in directing the Assessing Officer to accept the suo motu disallowance made by the assessee.

12. On perusal of the assessment order for the lead year, it is evident that the assessee had earned exempt income and had, in the return of income, made a suo motu disallowance under section 14A on a scientific and reasoned basis by identifying and allocating specific administrative expenditure relatable to earning of such exempt income. The details of which for the A.Y. 2018-19 are placed at page No. 466 of the paper book for the said year which amounts to Rs. 4,75,774/- and Rs.35,32,482/- for A.Y. 2020-21 (paper book page No. 36).For this purpose,

proportionate salary of investment personnel, part of remuneration of the Managing Director and Chief Financial Officer, commission and fees paid to directors, sitting fees of the Investment Committee and other administrative expenses were allocated, aggregating to Rs. 8,531,966/- as expenditure relatable to investment activity. The assessee then determined the ratio of exempt investment income to total investment income. Exempt income amounted to Rs. 10,073,900/-, while total investment income, including taxable capital gains, was Rs. 180,653,416/-. Applying this ratio to the total expenditure attributable to investment activity, the assessee worked out the proportionate disallowance under section 14A at Rs. 475,774/-. No direct expenditure was identified as having been incurred exclusively for earning exempt income. Accordingly, for A.Y. 2018-19, the assessee disallowed a sum of Rs. 475,774/- under section 14A in the return of income. Same basis is used consistently by the assessee in A.Y. 2020-21 and all earlier years.

13. The Assessing Officer, however, did not record any objective dissatisfaction with reference to the accounts of the assessee as to the correctness of the disallowance so made. The Assessing Officer proceeded on general presumptions that investment activity necessarily involves managerial and administrative effort and, without dealing with the working furnished by the assessee, invoked Rule 8D and computed disallowance at a fixed percentage of average investments.

14. From a plain reading of section 14A(2) of the Act, it is manifest that the Assessing Officer can determine the amount of expenditure incurred in relation to exempt income in accordance with the prescribed method only if he, having regard to the accounts of the assessee, is not satisfied with the correctness of the claim of the assessee. The statutory condition precedent is thus the recording of dissatisfaction on objective examination of the assessee's accounts and working. In the present case, the assessment order does not disclose any such satisfaction based on examination of the accounts. The Assessing Officer has neither pointed out any defect in the methodology adopted by the assessee nor demonstrated how the disallowance computed by the assessee was incorrect or inadequate.

15. The CIT(A) has recorded a finding that identical issue had arisen in the assessee's own case in earlier assessment years and the co-ordinate Benches had accepted the method adopted by the assessee for computing disallowance under section 14A and had directed the Assessing Officer to restrict the disallowance to the amount suo motu offered by the assessee. The CIT(A) has, respectfully following those decisions, granted relief to the assessee.

16. We find that in the case of the assessee itself, the co-ordinate Bench, while dealing with Assessment Year 2008-09 (ITA No. 5775/MUM/2011) and connected years, has held as under:

81. We also further noticed from the Assessment Order that, the assessee has made elaborate submissions and a detailed computation of the expenditure attributable for earning exempt income which is said to be consistent method of computation on a scientific basis made from the A.Y. 2006-07. We further find that even though the Assessing Officer extracted the elaborate submissions and the computation of disallowance made by the assessee, there is no satisfaction recorded by the Assessing Officer as to why the suomoto computation of disallowance of expenses made by the assessee is not satisfactory having regard to the Books of Accounts of the assessee and the correctness of the claim of expenditure made by the assessee. The Ld. CIT(A) while disposing off the appeal for the A.Y. 2007-08 has examined the issue elaborately and accepted that the computation of disallowance made by the assessee (suomoto disallowance) is on a scientific basis. While dealing with the appeal for the A.Y. 2007-08 we have accepted the computation of the assessee since it is more scientific than the adhoc disallowance made by the Assessing Officer. Even though the provisions of Rule 8D are applicable for the year under consideration i.e. A.Y. 2008-09 in the absence of any satisfaction recorded by the Assessing Officer as to why the suomoto disallowance made by the assessee is not acceptable having regard to the Books of Accounts of the assessee and the correctness of the claim of expenditure made by the assessee, we accept the suomoto disallowance made by the assessee as the computation of disallowance made by the assessee is on a scientific basis and is in consistent with the same method as adopted consistently from the A.Y. 2006-07 onwards. In the circumstances, we sustain the order of the Ld.CIT(A) and direct the Assessing Officer to adopt the suomoto disallowance made by the assessee for computing the disallowance u/s 14A of the Act. Grounds raised by the revenue are dismissed.

17. Similarly, in another order of the Co-ordinate Bench for A.Y. 2017-18 (ITA No. 4074/MUM/2024) in the assessee's own case, the Bench has decided in favour of the assessee. In paragraphs 8 to 8.8, the Co-ordinate Bench examined the legality of disallowance under section 14A read with Rule 8D. The Co-ordinate Bench first reproduced and analysed the statutory scheme of section 14A(2) and Rule 8D(1) and held that invocation

of Rule 8D is conditional upon the Assessing Officer recording objective dissatisfaction, having regard to the accounts of the assessee, with the correctness of the disallowance made by the assessee. It was observed that such dissatisfaction must be based on examination of the assessee's accounts and methodology and cannot rest on mere disagreement or general presumptions. The Co-ordinate Bench noted that in the assessee's case, a detailed and scientific working of suo motu disallowance had been furnished. However, the Assessing Officer had not examined this working nor pointed out any defect therein and had invoked Rule 8D merely on presumptions about involvement of administrative effort in managing investments. The Tribunal held that such approach did not satisfy the statutory requirement of section 14A(2).

18. The Co-ordinate Bench further fortified its conclusion by referring to binding judicial precedents, namely:

- (i) **Maxopp Investment Ltd. v. CIT (402 ITR 640) (SC)**, wherein the Supreme Court held that before applying Rule 8D, the Assessing Officer must record satisfaction that the assessee's suo motu disallowance is incorrect, having regard to the accounts;
- (ii) **Godrej & Boyce Manufacturing Co. Ltd. v. DCIT (394 ITR 449) (SC)**, wherein it was held that the condition precedent for applying Rule 8D is recording of dissatisfaction based on the assessee's accounts; and
- (iii) **CIT v. Asian Paints Ltd. (Bom HC, ITA No. 1564 of 2016)**, wherein it was held that in the absence of such recorded dissatisfaction, invocation of Rule 8D is impermissible.

19. On the basis of the above statutory analysis and judicial precedents, it was concluded that since no proper satisfaction had been recorded by the Assessing Officer in terms of section 14A(2), the disallowance made under section 14A read with Rule 8D was unsustainable. Accordingly, it directed deletion of the disallowance and allowed the grounds raised by the assessee on this issue.

20. The ratio decidendi of the above-mentioned decisions is that where the assessee has made a disallowance under section 14A on a scientific basis and has furnished a detailed working, the Assessing Officer cannot mechanically invoke Rule 8D without recording dissatisfaction, having regard to the accounts of the assessee, about the correctness of such claim.

21. Applying the aforesaid judicial principle to the facts of the present case, we find that the factual matrix before us is identical. The assessee has consistently followed the same method for computing disallowance under section 14A, which has been accepted in earlier years. The Assessing Officer has not demonstrated any change in facts or any infirmity in the working of the assessee. The invocation of Rule 8D is based merely on presumptions and not on an examination of the accounts.

22. In our considered view, the CIT(A) has correctly appreciated the facts and has applied the law in consonance with the binding decisions of the co-ordinate Benches in the assessee's own case. There is no material on record to show that the method adopted

by the assessee is arbitrary or unscientific. On the contrary, the disallowance has been computed on identification and apportionment of specific administrative expenses, which satisfies the requirement of reasonableness under section 14A.

23. Thus, respectfully following the aforesaid decisions of the co-ordinate Benches and for the reasons discussed above, we hold that the CIT(A) was justified in directing the Assessing Officer to accept the suo motu disallowance made by the assessee and in deleting the disallowance computed by applying Rule 8D. We find no infirmity in the impugned order on this issue. Accordingly, the grounds raised by the Revenue are dismissed.

24. In the combined result, both the appeals of the Revenue are dismissed.

Order pronounced in the open court on 05.02.2026.

Sd/-
(ANIKESH BANERJEE)
JUDICIAL MEMBER

Sd/-
(MAKARAND VASANT MAHADEOKAR)
ACCOUNTANT MEMBER

Mumbai, Dated 05/02/2026
Dhananjay, Sr.PS

आदेश की प्रतिलिपि अग्रेषित / Copy of the Order forwarded to :

1. अपीलार्थी / The Appellant
2. प्रत्यर्थी / The Respondent.
3. संबंधित आयकर आयुक्त / The CIT(A)
4. आयकर आयुक्त (अपील) / Concerned CIT
5. विभागीय प्रतिनिधि, आयकर अपीलीय अधिकरण, मुंबई / DR, ITAT, Mumbai
6. गार्ड फाईल / Guard file.

आदेशानुसार/ BY ORDER,

सत्यापित प्रति //True Copy//

1.

उप/सहायक पंजीकार (Asst. Registrar)
आयकर अपीलीय अधिकरण, मुंबई/ ITAT, Mumbai

Sr. No.	Particulars	Date	Remarks
1.	Draft dictated on		
2.	Draft placed before author		
3.	Draft proposed & placed before the second member		
4.	Draft discussed/approved by Second Member.		
5.	Approved Draft comes to the Sr.PS/PS		
6.	Kept for pronouncement on		
7.	File sent to the Bench Clerk		
8.	Date on which file goes to the AR		
9.	Date on which file goes to the Head Clerk		
10.	Date of dispatch of Order.		
11.	Dictation Pad is enclosed		