

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

**BEFORE SHRI OM PRAKASH KANT (ACCOUNTANT MEMBER)
AND
MS. KAVITHA RAJAGOPAL (JUDICIAL MEMBER)**

**ITA No.2676/MUM/2025
Assessment Year: 2017-18**

Bajaj Consultants Private
Limited,
24-B, Rajabahadur
Compound, Hamam
Street, Fort, Mumbai,
MUMBAI.

Vs. Dy. Commissioner of
Income-tax, Central Circle
– 4(1), 1916, 19th Floor, Air
India Building, Nariman
Point, MUMBAI-400021.

**PAN NO. AAACB 4417 H
Appellant**

Respondent

Assessee by : Ms. Srushti Chawda

Department by : Shri Layaqat Ali Aafaqui, Sr. DR.

Date of Hearing : 17/12/2025

Date of pronouncement : 09/02/2026

ORDER

PER OM PRAKASH KANT, AM

This appeal by the assessee is directed against order, dated 28.03.2025, passed by the Learned Commissioner of Income Tax (Appeals) – 52 Mumbai [in short ‘the Ld. CIT(A)'] for Assessment Year (in short A.Y) 2017 – 18, raising following grounds:



“The following grounds of appeal are without prejudice to one another: -

1. On the facts and the circumstances of the appellant company's case and in law, the Ld. Commissioner of Income Tax (Appeals) - 52, Mumbai has erred in confirming the disallowance of Rs.36,15,769/- made by the Assessing Officer u/s 14A read with Rule 8D without appreciating the fact that the appellant company had made suo moto disallowance of Rs.3,60,748/- which was worked out by taking into account specific expenses incurred for earning exempt income in the form of salary expenses of employees involved in earning exempt income and charges paid for the demat account and accordingly no further disallowance was warranted.

2. On the facts and the circumstances of the appellant company's case and in law, the Ld. Commissioner of Income Tax (Appeals) erred in confirming the disallowance of Rs.36,15,769/- made by the Assessing Officer u/s 14A read with Rule 8D despite the fact that the appellant has made investments yielding exempt income from its own funds and while ignoring the decision of Ld. Commissioner of Income Tax (Appeals), National Faceless Appeal Centre, Delhi and upheld by the co-ordinate Bench of Hon'ble Income Tax Appellate Tribunal, Mumbai, in the appellant's own case for the assessment year 2018-19 and 2020-21 on the identical facts and circumstances of the case and the legal grounds wherein it was held that the provision of Rule 8D cannot be invoked by the Assessing Officer as it is clear from the record of appellant that no borrowed funds were utilized and investment was made by appellant from its own funds to earn tax free income.

3. On the facts and the circumstances of the appellant company's case and in law, the Ld. Commissioner of Income Tax (Appeals) erred in confirming the disallowance of Rs.36,15,769/- made by the Assessing Officer u/s 14A read with Rule 8D while ignoring the fact that the expenditure related to earning exempt income of Rs.3,60,748/- has been debited separately in the Profit & Loss A/c of the appellant company and separate ledger account is maintained for the expenses incurred to earn exempt income and which has been suo moto disallowed by the appellant company.

4. On the facts and the circumstances of the appellant company's case and in law, the Ld. Commissioner of Income Tax (Appeals) erred in confirming the disallowance of Rs.36,15,769/- made by the Assessing Officer u/s 14A read with Rule 8D disregarding the fact that all other expenditure debited to the Profit & Loss A/c of the appellant company are related to the main financial consultancy business of the company and not investment activity.

5. The appellant craves leave to add to, alter, amend, modify and/or delete all or any of the foregoing grounds of appeal.

The appellant prays before the Hon'ble Tribunal to delete the impugned disallowance made by the Assessing Officer and confirmed by the Ld. Commissioner of Income Tax (Appeals) or any other relief as the Hon'ble Tribunal may deem fit.



2. The core controversy in grounds raised pertains to the sustainability of the disallowance under **Section 14A** of the Income Tax Act, 1961 [hereinafter 'the Act'] read with **Rule 8D** of the Income Tax Rules, 1962, amounting to **Rs. 36,15,769/-**.

2.1 Briefly stated, the facts of the case are that the assessee is engaged in the business of financial services, inter-corporate deposits, and investment activities. For the year under consideration, the assessee filed its return of income on 28.10.2017 declaring a total income of ₹19,01,34,770/-. The return was selected for scrutiny and statutory notices under the Act, were duly issued and complied with.

2.2 During the course of scrutiny proceedings, the Assessing Officer noted that the assessee had made investments in shares amounting to ₹40,86,22,630/- as on 31.03.2017, as against investments of ₹7,26,60,081/- as on 31.03.2016. The Assessing Officer further observed that during the year the assessee had earned the following income claimed as exempt (i) dividend income of ₹21,41,195/- under section 10(34) of the Act; (ii) interest income of ₹1,68,72,735/- claimed exempt under section 10(15)(iv)(h) of the Act; and (iii) long-term capital gains of ₹4,73,00,987/- claimed exempt under section 10(38) of the Act.

2.3 The assessee submitted that it had, on its own, made a disallowance under section 14A of the Act in respect of expenditure relatable to exempt income by adding back demat charges of



₹22,838/- and salary expenditure of ₹3,37,910/- incurred for staff handling investment-related activities. It was contended that the total suo motu disallowance of ₹3,60,748/- adequately covered all expenditure incurred in relation to exempt income and that no further disallowance was warranted. The assessee also claimed that investments were made out of its own funds and no borrowed funds were utilised.

2.4 The Assessing Officer, however, did not accept the assessee's claim and recorded dissatisfaction with the correctness of the suo motu disallowance. The Assessing Officer observed that the assessee had not computed the disallowance in accordance with section 14A read with Rule 8D of the Income-tax Rules, 1962 ("the Rules"), and that expenditure relating to office infrastructure, rent, salaries, depreciation, and other administrative costs had not been considered. It was further observed that investments, including those in subsidiary companies, were capable of yielding exempt income and thus attracted the provisions of section 14A. The Assessing Officer however rejected the claim of the assessee of the suo-motu disallowance and he recorded dissatisfaction to the claim of the assessee observing as under:

"4.3 The submission of the assessee is considered but not acceptable.

It is to mention that assessee has itself disallowed certain expenditure amounting to Rs.3,14,000/- in the computation of total income. However, it is to mention here that assessee has not computed the disallowance as per provisions of section 14A r.w Rule 8D of IT Rules, 1962. Further, the assessee failed to disallow such inadmissible deduction in its computation of income which shows the wilful



intention of the assessee for such non disallowance. As far as investment by the assessee company in its subsidiary company is concerned, that investments will also earn dividend income for the assessee which is not chargeable to tax and will attract the provision of section 14A of the IT Act.

Further, perusal of the balance sheet and profit & loss account submitted reveals that the assessee has been maintaining office premises, staff, etc. Assessee is also debiting expenditure in the nature of office, rents, salary and depreciation against such infrastructure which cannot be said to be used exclusively for the purpose of its business. Therefore, keeping in view, the amount of investments made by the assessee and expenditure claimed against utilizing such infrastructure, it will be valid to say that assessee has utilized his infrastructure in making such investments earning exempt Income. Therefore, provisions of section 14A r.w. Rule 8D are clearly attracted in this case.

4.4 In view of the above discussion, I am fully satisfied that though the assessee has not claimed actual expenditure directly attributable to the exempt income, it has, nevertheless, incurred expenditure which are otherwise claimed against taxable income and are relatable to the business infrastructure maintained by the assessee and used in its business as well as making investment in share. It is pertinent to note that the assessee has claimed to have incurred merger any expenditure in relation to investments from which exempt income is earned, the assessee could not have invested or earned any exempt income from such investments without maintaining such infrastructure, expenses of which are claimed in the profit and loss account. Before making disallowance u/s. 144 r.w. Rule 8D, it would be relevant to quote section 14A and Rule BD at this juncture.

Section 14A read as under:

Expenditure incurred in relation to income not includible in total income 14A

- 1. For the purpose of computing the total income under this Chapter, no deduction shall be allowed in respect of expenditure incurred by the assessee in relation to income which does not form part of the total income under this Act.*
- 2. The Assessing Officer shall determine the amount of expenditure incurred in relation to such income which does not form part of the total income under this Act, in accordance with such method as may be prescribed, if the Assessing Officer, having regard to the accounts of the assessee is not satisfied with the correctness of the claim of the assessee in respect of such expenditure in relation to income which does not form part of the total income under this Act.*
- 3. The provisions of sub section (2) shall also apply in relation to a case where an assessee claims that no expenditure has been incurred by him/his in relation to income which does not form part of the total income under this Act.*



Thus, limb 2 of the above section automatically comes into play if the assessee contends that no or very less expenditure if the expenditure disallowed by the assessee is not as per the working of under section 14A r.w.r 8D expenditure has been incurred by the assessee to earn the exempt income. Further, the assessee has taken plea that investment cannot be considered for the disallowance u/s 14A of the IT Act. This argument of the assessee is not acceptable because no documentary evidence in this regard has been submitted by the assessee and in the assessment of earlier year also, such investments were considered for the disallowance u/s 14A. Even otherwise, the groupism of investment can only be done in the same kind of investments only. Thus, the fact remains undisputed that the disallowance is to be worked out mandatorily as per Rule 8D of Income-tax Rule. In this regard, reliance is placed on the following judgments:-

4.5.1 The Hon'ble Bombay High Court in the case of **Godrej & Boyce applied to work Manufacturing Co. Ltd. [328 ITR 81]** has held that Rule 8D has to out the disallowance u/s 14A with effect from 2008-09 onwards where the assessing officer is not satisfied with the correctness of the claim of the assessee. In the instant case, the undersigned is not satisfied with the claim of the assessee, hence the disallowance u/s 14A has to be calculated within the provision of Rule 8D of Income-tax Rule.

4.5.2 In the case of **Daga Capital Management (P) Ltd. (2009) 117 ITD 169**, the Hon'ble ITAT (Special Bench. Mumbai) held that Sec. 14A of the IT Act has an overriding effect and applies to all expenditure in relation to exempted income, even though such expenditure would have been allowable under other provisions such as Sec. 36(1)(ii) It was further held that u/s 14A, not only direct expenditure, but also the indirect expenditure can be considered. It was also held that onus in this regard is upon the assessee to prove that a particular does not come under the ambit of Sec. 14A. The ratio of this judgment is squarely applicable to the facts of the instant case.

4.5.3 Further, CBDT, vide circular No. 5 of 2014 dated 11/02/2014 has clarified that the disallowance u/s 14A is to be made even if no exempted income had been earned by the assessee during the year under consideration. It has been further clarified that even if the assessee claims that no expenditure in respect of exempted income are made, such disallowance has to be made.

In view of the above judicial pronouncements as well as the circular of CBDT. the contention of the assessee, if so raised, is not acceptable. Thus, I am of the opinion that the fact remains undisputed that the disallowance is to be worked out mandatorily as per the norms prescribed under Rule 8D of the Income-tax Rule. The case of the assessee is covered under Rule 8D of Income-tax Rule wherein the method of working of disallowance of expenditure u/s.14A of the IT Act is laid.

2.4 Being dissatisfied with the assessee's claim, the Assessing Officer invoked Rule 8D and computed disallowance under Rule



8D(2)(iii) at 1% of the monthly average value of investments, amounting to ₹36,38,067/-. After reducing the suo motu disallowance, the net disallowance was determined at ₹36,15,769/-.

3. On appeal, the Ld. CIT(A) rejected the assessee's contention that no valid satisfaction had been recorded by the Assessing Officer. The Ld. CIT(A) held that the Assessing Officer had given cogent reasons for rejecting the assessee's claim, including failure to account for infrastructure and managerial costs. The Ld. CIT(A) observed that it was unrealistic to assume that no part of directors' time, office space, or administrative resources was devoted to investment activities. The relevant finding of Ld. CIT(A) is reproduced as under:

"8.5. The first issue raised by the appellant is that the AO had not recorded adequate satisfaction. In this regard, I find that the AO had indeed discussed the issue in para 4.3 and subsequent paragraphs of the assessment order and given reasons as to why the claim of the appellant is not acceptable. He has brought out that the appellant had failed to consider the associated cost in the nature of office, rent, depreciation against such infrastructure which cannot be stated to be used exclusively for the purpose of business. In the case of Devarsons Industries P Ltd vs ACIT. Gujarat HC, 84 taxmann.com 244, dt.25.07.2017, the Hon'ble HC has held that where AO gave detailed reasons for making disallowance u/s.14A, mere fact that AO did not arrive at a satisfaction in a particular manner would not destroy the mandate of Section 14A. It was held that "As long as there is sufficient material to enable the Assessing Officer to arrive at such a satisfaction and which is also recorded by him in the order of assessment, the requirements of the statute would be satisfied." It was further held that the time taken by Board and Senior Management needs to be considered. In the present case, it is obvious that the appellant has not considered such expenditure. A perusal of the P&L A/c of the appellant shows that the total expenditure is Rs.10,75,95,657/-. This includes Director's remuneration of Rs.2,98,00,000/- It would be preposterous to hold that no part of Director's functions or time was spent on the investments. Similarly, the appellant has spent Rs.21,96,433/- on office repairs and maintenance. The appellant has only disallowed staff salary of Rs.3,37,910/- and no rental charges whatever has been disallowed. This holds true for other related expenditure such as electricity expenditure, computer, stationary etc. The space and other associated



cost used by such staff in the office has not been taken into account. Thus, in my view, the AO's action in rejecting the claim of the appellant and drawing his satisfaction is valid in the eyes of law. This part of the contention of the appellant is rejected.

3.1 Further, the Ld. CIT(A) rejected the claim of the assessee of linkage of the net own fund for interest expenditure as no such disallowance was made by the assessing officer. After considering the decision of the Income Tax Appellate Tribunal in the assessee's one case the Ld. CIT (A) upheld the invocation of section 14A read with Rule 8D, while directing the Assessing Officer to recompute the disallowance strictly in accordance with the monthly average of investments furnished by the assessee as under:

8.8. The appellant has relied on the decisions of Hon'ble ITAT in its own case the Hon'ble ITAT has observed in vide ITA No.2853/Mum/2023 for AY 2018-19 & 2854/Mum/2023 for AY 2020-21 dt.27.03.2024.

8.9. Having carefully perused the order of the Hon'ble ITAT, it is seen that the Department had challenged the alternative finding of the CIT(A) and not the finding related to section 14A disallowance. This is evident from the para 8 of the order of the Hon'ble Tribunal, wherein the Hon'ble Tribunal stated as under-

"...Thereafter, in paragraph 7.6 of the order impugned, the CIT(A) has accepted the alternative submission of the Assessee that even if provisions contained in Rule 8D of the IT Rules were to be applied, only the investments yielding exempt income during the relevant previous year were to be taken into consideration. On perusal of the grounds raised by the Revenue, we find that the grievance raised by the Revenue in the present appeal is restricted to the order of CIT(A) allowing the without prejudice contention raised by the Assessee....."

8.10. Thus, the ambit of the decisions of the Hon'ble ITAT is related to the disallowance of 14A on the investments which actually yielded exempt income during the year. Therefore, this decision of the Hon'ble Tribunal does not help the appellant in any manner as the issue addressed was different.

8.11. In view of the above discussion, I am of the view that the AO has rightly drawn the satisfaction and proceeded to make a disallowance in accordance with Rule 8D. However, it is noticed that the appellant has indeed filed the working of



monthly average of investments vide letter dt.19.12.2019. A perusal of the same shows that the average investments in at least the initial few months is lower than what has been computed by the AO. In any case, since Rule 8D warrants adoption of monthly average of investments and the appellant has provided the same, the AO is bound to compute the disallowance in accordance with such balances. To this extent, the arguments of the appellant are agreed with and the AO is directed to rework the disallowance in accordance with Rule 8D. The disallowance u/s 14A stands sustained on the basis of such reworking (after excluding the suo moto disallowance of Rs.3,60,748/- made by the appellant).

4. We have heard rival submissions of the parties and perused the relevant material on record, including the factual paper book containing pages 1-115 and case law compilation. The sole issue before us relates to the disallowance of ₹36,15,769/- under section 14A of the Act. The Assessee challenges the disallowance on three primary points:

- (i) **Objective Satisfaction:** That the AO failed to record a legally tenable "dissatisfaction" with the Assessee's *suo motu* computation as required by Section 14A(2).
- (ii) **Sufficiency of Disallowance:** That the *suo motu* disallowance adequately covered the specific salary and demat charges attributable to the exempt income.
- (iii) **Judicial Consistency:** That for subsequent years (AY 2018-19 and 2020-21), coordinate benches have accepted that Rule 8D cannot be invoked when investments are made from interest-free own funds.



4.1 It is undisputed that the assessee earned exempt income during the year and that it made a *suo-motu* disallowance of ₹3,60,748/- towards administrative expenditure.

4.2 At this juncture, it is apposite to recapitulate the settled legal position governing the recording of satisfaction under section 14A(2) of the Act. The Hon'ble Supreme Court in **Maxopp Investment Ltd. v. CIT (402 ITR 640)** has held that *the Assessing Officer must, having regard to the accounts of the assessee, record a clear and reasoned dissatisfaction with the correctness of the assessee's claim that no or only a particular amount of expenditure was incurred in relation to exempt income. The Hon'ble Court clarified that the formation of such satisfaction is a condition precedent for invoking the prescribed method under Rule 8D, but the statute does not mandate any particular form or ritualistic language—what is required is a discernible nexus between the accounts examined and the conclusion drawn.*

4.3 The Hon'ble Supreme Court further affirmed the ratio of the Bombay High Court in **Godrej & Boyce Mfg. Co. Ltd. v. DCIT (394 ITR 449)**, wherein it is held that *once the Assessing Officer, upon examination of the accounts, records reasons for rejecting the assessee's computation, the statutory machinery under Rule 8D is triggered.*



4.4 Tested on the anvil of the aforesaid binding precedents, we find that in the present case the Assessing Officer has duly discharged the statutory obligation under section 14A(2) of Act. The Assessing Officer examined the accounts and specifically noted that while the assessee had disallowed certain demat charges and a portion of salary, it failed to apportion indirect infrastructure costs—such as rent, electricity, and senior management time—necessarily utilized in managing a portfolio of over Rs. 40 Crores. We find that the AO’s satisfaction was sufficiently grounded in the fact that the Assessee’s infrastructure supports both taxable and exempt streams, yet the *suo-motu* disallowance remained silent on the common overheads. The reasons recorded are not vague or mechanical; rather, they are rooted in the financial statements and the nature of the assessee’s operations.

4.5 The dissatisfaction recorded is thus factual, reasoned, and founded on the accounts, satisfying the statutory requirement as explained by the Hon’ble Supreme Court in *Maxopp Investment Ltd. (supra)*. The Assessing Officer thereafter restricted the disallowance to administrative expenditure under Rule 8D(2)(iii) alone, without making any disallowance in respect of interest expenditure—an approach that further evidences application of mind and proportionality.

4.6 In light of the authoritative pronouncements of the Hon’ble Supreme Court in *Maxopp Investment Ltd.(supra)* and *Godrej & Boyce*



(supra), we hold that the satisfaction recorded by the Assessing Officer in the present case meets the legal threshold mandated under section 14A(2), and the consequent invocation of Rule 8D cannot be faulted.

4.7 Once dissatisfaction is validly recorded, the Assessing Officer is statutorily mandated to compute the disallowance in accordance with Rule 8D. The Assessee's reliance on having "interest-free own funds" is misplaced in the context of the present disallowance. The AO has not made any disallowance on account of interest expenditure under Rule 8D(2)(i). The current disallowance is confined to administrative and indirect expenses under Rule 8D(2)(ii) (as amended w.e.f. 02.06.2016). Therefore, the question of borrowed funds vs. own funds is rendered purely academic and does not advance its case. The Ld. CIT(A) has also ensured that the computation is aligned with the monthly average of investments as required by law.

4.8 We have perused the orders for AY 2018-19 and 2020-21 cited by the Assessee. We find those orders factually distinguishable, as they primarily dealt with the Revenue's challenge to the *quantum* of investment to be considered (yielding vs. non-yielding). They do not grant a blanket immunity from Rule 8D where the AO has identified a clear failure to apportion indirect costs.

4.9 We find that the Ld. CIT(A) has correctly identified that the Assessee's infrastructure, senior management, and utilities were



utilized for the investment activity. In the absence of a convincing alternative apportionment by the Assessee that includes these overheads, the statutory formula provided under Rule 8D becomes the mandatory guide.

4.10 However, we note that the Ld. CIT(A) has already directed the AO to rework the disallowance based on the actual monthly average of investments rather than a simple opening/closing average. This direction ensures that the disallowance remains proportionate to the period of investment.

4.11 Finding no infirmity in the principle of the disallowance sustained by the Ld. CIT(A), we uphold the impugned order. The AO is directed to complete the reworking as per the Ld. CIT(A)'s instructions.

4.12 All the grounds of the appeal of the assessee are accordingly dismissed.

5. In the result the appeal of the assessee is dismissed.

Order pronounced in the open Court on 09/02/2026.

Sd/-
(KAVITHA RAJAGOPAL)
JUDICIAL MEMBER

Sd/-
(OM PRAKASH KANT)
ACCOUNTANT MEMBER

Mumbai;
Dated: 09/02/2026
M. Ranganath Vittal , Sr. P.S.



Copy of the Order forwarded to :

1. The Appellant
2. The Respondent.
3. CIT
4. DR, ITAT, Mumbai
5. Guard file.

//True Copy//

BY ORDER,

(Assistant Registrar)
ITAT, Mumbai