IN THE INCOME TAX APPELLATE TRIBUNAL, 'E' BENCH MUMBAI

BEFORE: SHRI AMIT SHUKLA, JUDICIAL MEMBER
&
SHRI GIRISH AGRAWAL, ACCOUNTANT MEMBER

ITA No.7796/Mum/2025 to 7798/Mum/2025
(**Assessment Year :2000-01, 2004-05 & 2018-19**)

Dy. Commissioner of Income Tax Mumbai- 400 051	Vs.	Shri Hitesh Shantilal Mehta Madhuli, Dr. Annie Besant Road, Worli Mumbai
PAN/GIR No.ABAPM4491J		
(Appellant)	..	**(Respondent)**

CO No.397/Mum/2025 to 399/Mum/2025
(Arising out of ITA No.7796/Mum/2025 to 7798/Mum/2025
(**Assessment Year :2000-01, 2004-05 & 2018-19**)

Shri Hitesh Shantilal Mehta Madhuli, Dr. Annie Besant Road, Worli Mumbai	Vs.	Dy. Commissioner of Income Tax Mumbai- 400 051
PAN/GIR No.ABAPM4491J		
(Appellant)	..	**(Respondent)**

Assessee by	Shri Dharmesh Shah a/w. Ms. Mitali Parekh
Revenue by	Dr. P. Daniel
Date of Hearing	**05/02/2026**
Date of Pronouncement	**09/02/2026**

आदेश / O R D E R

PER AMIT SHUKLA (J.M):

These appeals preferred by the Revenue for Assessment Years 2000-01, 2004-05 and 2018-19, along with the corresponding cross-objections filed by the assessee, arise out of a consolidated order dated 26.09.2025 passed by the learned National Faceless Appeal Centre. The impugned order emanates from proceedings framed under section 147 read with section 144, section 144 simpliciter and section 143(3) of the Income-tax Act, 1961. Since the appeals involve common parties, overlapping facts and identical issues, they were heard together and are being disposed of by this consolidated order.

2. At the very threshold of hearing, it was fairly admitted by the learned Departmental Representative that the tax effect involved in the disputed issues arising in the present appeals is much below the revised monetary threshold of rupees sixty lakhs prescribed for filing departmental appeals before the Tribunal, as stipulated under CBDT Circular No.09/2024 dated 17.09.2024. It was also not the case of the Revenue that the present appeals fall within any of the exceptions carved out in the said Circular. In view of this admitted position and having regard to the binding nature of the Circular, which expressly applies even to pending appeals, the maintainability of the Revenue's appeals stands squarely governed by the said Circular.

3. The Circular issued by the Central Board of Direct Taxes under section 268A of the Act embodies a clear and deliberate policy decision to regulate departmental litigation and to ensure that appeals involving insignificant tax effect do not occupy the time of appellate fora. Such Circulars are binding on the Revenue authorities and, once the conditions stipulated therein are satisfied, the Tribunal is obliged to give effect to the same.

4. Once it is admitted that the tax effect involved in the present appeals is below the prescribed monetary threshold and that the case does not fall within any of the recognised exceptions, the Tribunal is not required to enter into the merits of the additions or disallowances challenged by the Revenue. In such circumstances, the appeals are liable to be dismissed at the threshold itself as not maintainable.

5. Accordingly, applying the binding CBDT Circular No.09/2024 dated 17.09.2024 to the admitted facts on record, the appeals filed by the Revenue are dismissed as not maintainable on account of low tax effect.

6. We now proceed to adjudicate the cross-objections filed by the assessee. The substantive issue raised therein, common to all the assessment years, relates to the allowability of interest expenditure claimed by the assessee under section 57 of the Act, amounting to Rs.79,53,894/- for Assessment Year 2000-01, Rs.33,57,772/- for Assessment Year 2004-05 and Rs.1,41,72,830/- for Assessment Year 2018-19. The grievance of the assessee is directed against the action of the learned

Commissioner (Appeals) in restricting the deduction of interest expenditure only to the extent of interest income.

7. At the outset, the learned counsel for the assessee submitted that the issue is no longer res integra, as it has repeatedly come up for consideration before the Tribunal in the assessee's own case as well as in the cases of other family members. It was submitted that on identical facts, the Tribunal has consistently taken the view that once a nexus is established between the borrowing and the income assessable under the head "Income from other sources", the entire interest expenditure is allowable under section 57 of the Act, and there is no warrant in law to restrict such deduction merely because the interest income earned in a particular year is lower.

8. In so far as Assessment Year 2000-01 is concerned, it was pointed out that the assessment was completed under section 144 read with section 147 on 31.03.2005 determining the total income at Rs.1,92,91,060/-. The assessee carried the matter in appeal before the learned Commissioner (Appeals), and thereafter before the Tribunal. By order dated 29.11.2013, the Tribunal partly allowed the appeals and restored various issues for fresh adjudication. Subsequently, pursuant to a miscellaneous application filed by the assessee, even the issue relating to interest expenditure was restored to the file of the learned Commissioner (Appeals), culminating in the impugned appellate order dated 26.09.2025.

9. In the impugned order, the learned Commissioner (Appeals) granted only partial relief to the assessee by restricting the deduction of interest expenditure to the extent of interest income, placing reliance on the decision of the Tribunal in Cascade Holdings Pvt. Ltd. v. DCIT. It is this restriction which has been assailed by the assessee in the present cross-objections.

10. The learned counsel for the assessee drew our attention to the decision of the Tribunal in the assessee's own case for Assessment Year 2012-13 in ITA No.4430/Mum/2017, wherein, after examining the nature of borrowing and its nexus with the income assessable under the head "Income from other sources", the Tribunal categorically allowed the entire interest expenditure claimed under section 57 of the Act. The relevant findings of the Tribunal are reproduced below:

"23. Ground No. 2 is similar to the ground No. 1 in the case of Shri Sudhir S. Mehta in ITA No. 5799/Mum/2015. As agreed by both the parties that whatever view may be taken in the case of Sudhir S. Mehta in ITA No. 5799/Mum/2015, the same view may be taken in the case of the assessee We, therefore, respectfully following our finding given while disposing of ground No. 1 in the case of Sudhir S. Mehta in ITA No. 5799/Mum/2015 set aside the order of the CIT(A) and direct the AO to allow deduction to the under Section 57 in respect of interest accrued @12% amounting to 1,10,86,8343/- out of the interest earned on term deposit after verifying the calculation of the interest quantification."

11. Reliance was also placed on the decision of the Tribunal in the case of Pratima Hitesh Mehta v. DCIT, wherein the Tribunal, after an elaborate analysis of section 57 and the binding

precedents of the Hon'ble Supreme Court and the jurisdictional High Court, held that the connection between the expenditure and the earning of income need not be direct, and that even an indirect or incidental nexus is sufficient to satisfy the requirement of section 57.

"28. The brief facts of the case pertaining to this issue, as emanating from the record, are: During the assessment proceedings, the assessee submitted that the transactions in the capital market have been made through three broking firms belonging to the family members of the assessee. As per the details submitted by the assessee, it was submitted that the amount of interest of Rs. 2,46,33,261 are shown as payable to family run broking firms such as M/s HSM, M/s ASM and M/s JHM. The AO vide order passed under section 144 read with section 254 of the Act did not agree with the submissions of the assessee and disallowed the deduction of interest claimed for the following reasons:-

(i) The liabilities were not crystallise during the year

(ii) The interest payable is tentative and provisional

(iii) There is no basis as per which the assessee has a right to pay and the creditors has are right to receive.

(iv) There is no basis of computation of interest payable which has been provided by the assessee

(v) The provisions made on account of interest payable is a contingent liability and therefore, cannot be allowed as a business expenditure

(vi) It is also seen that these broking firms have not charged any interest on the amount receivable from the companies of this group with the books of accounts have been produced before the Assessing Officer.

29. The AO following the approach adopted in earlier round of litigation rejected the assessee's claim of deduction on account of interest and disallowed interest payment of Rs. 2,46,33,261. The learned CIT(A), vide impugned order, partly allowed the ground raised by the assessee on this issue and held that the main purpose of incurring the interest expenditure was not earning income from dividends and unless the interest expenditure was incurred solely for the purposes of making or earning dividend income, no deduction is possible under section 57 of the Act. The learned CIT(A) further held that in the acquisition of shares for capital gains, the dividend income is incidental and not a major factor, and it is thus clear that the sole purpose of borrowing by the assessee @12% per annum cannot be for the purpose of earning dividend income. Accordingly, the interest expenditure was held to be not allowable against dividend income. The learned CIT(A), however, allowed the interest expenditure only to the tune of Rs.15,73,548 which is the share trading profit. Being aggrieved, both assessee and Revenue are in appeal before us.
30. We have considered the submissions of both sides and perused the material available on record. From the perusal of the computation of total income, forming part of the paper book on pages 464-466, we find that the assessee claimed interest on bank loans of Rs. 2,46,33,261 against the income under the head "income from other sources". It is evident from the record that the learned CIT(A) placed reliance upon the decision of the Hon'ble jurisdictional High Court in CIT v/s Jagmohandas J. Kapadia, [1966] 61 ITR 663 (Bom.), in order to support the conclusion that unless the interest expenditure was incurred solely for the purposes of making or earning dividend income, no deduction as possible under section 57 of the Act. The relevant findings of the Hon'ble jurisdictional High Court in the aforesaid decision, as relied upon in the impugned order, are as under:-

> *"It would be noticed that what is allowable as expenditure under the said sub-section is only the expenditure incurred solely for the purpose of making or earning dividend income. Emphasis thus appears to be on the object or purpose of incurring of the expenditure. The exclusive object of incurring the expenditure has to be the making or earning of the dividend income. The mere fact that income by way of dividend Awe accrued and that the expenditure incurred is in some manner or*

other related to the accrual of the dividend income is not sufficient.

31. We find that the Hon'ble Supreme Court in Seth R. Dalmia v/s CFT, (1977) 110 ITR 644 (SC) agreed with the view taken by the Hon'ble jurisdictional High Court in CIT v/s H.H. Maharani Vijaykuverba Saheb of Morvi (1975) 100 ITR 67 (Bom), wherein it was held that the connection between the expenditure and the earning of income need not be direct, and even an indirect connection could prove the nexus between the expenditure incurred and the income. We further find that in CIT u/s Smt. Sushila Devi Khadaria, [2009] 319 ITR 413 (Bom.), in a similar factual matrix, Le wherein the AO denied the deduction claimed under section 57(iii) of the Act on the basis that the expenditure was not incurred wholly for the purpose of earning income as the taxpayer was engaged in selling shares in the stock market and the dividend income had accrued as a by-product, the Hon'ble jurisdictional High Court by placing reliance upon the aforesaid decision of the Hon'ble Supreme Court in Seth R. Dalmia (supra), upheld the allowance of finance expenditure as deduction under section 57(iii) of the Act against the income by way of dividends, finance charges and interest which were shown as income from other sources by the taxpayer. Therefore, respectfully following the aforesaid decision of the Hon'ble Supreme Court in Seth R. Dalmia (supra), we are of the considered view that the assessee is entitled to claim a deduction of interest expenditure under section 57 of the Act since receipt of dividend is merely due to the shareholding of the assessee and the interest expenditure has nexus with the income under the head "income from other sources including dividend income even though not direct. Accordingly, the AO is directed to allow the interest expenditure claimed by the assessee under section 57 of the Act. As a result, ground. No. 3 raised in assessee's appeal is allowed, while ground No. 2 and 3 raised in Revenue's appeal is dismissed."

12. We have carefully considered the rival submissions and perused the material on record. The legal position emerging from the binding precedents is that section 57 does not mandate that the expenditure must be incurred solely or exclusively for

earning a particular item of income. What is required is a real and proximate nexus between the expenditure incurred and the income assessable under the head “Income from other sources”. Once such nexus is established, the allowability of the expenditure cannot be made dependent upon the quantum of income earned in a particular year.

13. The reliance placed by the learned Commissioner (Appeals) on the decision in Cascade Holdings Pvt. Ltd. is, in our considered view, misplaced. The restriction of interest expenditure in that case was founded on its own peculiar facts, where the assessee itself had restricted the claim. The said decision does not lay down any general proposition of law that interest expenditure allowable under section 57 must invariably be capped at the amount of interest income earned. More importantly, the issue stands conclusively covered by the decisions of the Tribunal in the assessee’s own case as well as in the cases of other family members on identical facts. Judicial discipline demands that, in the absence of any distinguishing feature or contrary binding precedent, the same view be followed.

14. Having regard to the totality of facts and the settled legal position, we hold that the assessee is entitled to deduction of the entire interest expenditure claimed under section 57 of the Act for all the assessment years under consideration. The restriction imposed by the learned Commissioner (Appeals) is, therefore, unsustainable in law.

15. Accordingly, the Assessing Officer is directed to allow the full deduction of interest expenditure claimed by the assessee under section 57 of the Act for Assessment Years 2000-01, 2004-05 and 2018-19.

16. In the result, the cross-objections filed by the assessee are allowed.

17. To sum up, the appeals filed by the Revenue are dismissed as not maintainable on account of low tax effect, and the cross-objections filed by the assessee are allowed.

Order pronounced in the open court on 9th February, 2026.

Sd/-	**Sd/-**
(GIRISH AGRAWAL)	**(AMIT SHUKLA)**
ACCOUNTANT MEMBER	**JUDICIAL MEMBER**

Mumbai; Dated 09/02/2026
KARUNA, *sr.ps*

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,

(Asstt. Registrar)
ITAT, Mumbai