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

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

ITA No.7865/Mum/2025
(**Assessment Year :2005-06**)

Dy. Commissioner of Income Tax Mumbai	Vs.	Hitesh Shantilal Mehta Madhuli, Dr. Annie Besant Road, Worli Mumbai-400 018
PAN/GIR No.ABAPM4491J		
(Appellant)	..	**(Respondent)**

CO No.400/Mum/2025
(Arising out of ITA No.7865/Mum/2025)
(**Assessment Year :2005-06**)

Hitesh Shantilal Mehta Madhuli, Dr. Annie Besant Road, Worli Mumbai-400 018	Vs.	Dy. Commissioner of Income Tax Mumbai
PAN/GIR No.ABAPM4491J		
(Appellant)	..	**(Respondent)**

Assessee by	Ms. Mitali Parekh
Revenue by	Dr. P. Daniel (Special Counsel) (virtually appeared)
Date of Hearing	**09/02/2026**
Date of Pronouncement	**09/02/2026**

आदेश / O R D E R

PER AMIT SHUKLA (J.M):

The present appeal filed by the Revenue and the cross-objection filed by the assessee arise out of the order dated 26.09.2025 passed by the learned Commissioner of Income-tax (Appeals) for Assessment Year 2005-06. The appeal is numbered as ITA No. 7865/Mum/2025 and the corresponding cross-objection as CO No. 400/Mum/2025. The assessment for the year under consideration was completed under section 143(3) of the Income-tax Act, 1961. Since the appeal and the cross-objection emanate from the same appellate order and involve interconnected issues, they were heard together and are being disposed of by this consolidated order.

2. The principal controversy in the present proceedings relates to the allowability of interest expenditure claimed by the assessee under section 57 of the Act, amounting to Rs. 11,24,99,052/-. While the Assessing Officer disallowed the said claim, the learned Commissioner (Appeals), in the impugned order, granted partial relief by restricting the deduction to the extent of interest income earned during the year. The Revenue has challenged the relief so granted, whereas the assessee, by way of cross-objection, has assailed the restriction imposed on the allowability of interest expenditure.

3. Before adverting to the merits, it is necessary to record that Ground No. 1 raised in the cross-objection was expressly stated to be not pressed by the learned counsel for the assessee at the time of hearing. Accordingly, Ground No. 1 of the cross-objection is dismissed as not pressed. The adjudication hereinafter is, therefore, confined exclusively to Ground No. 2 of the cross-objection, which pertains to the allowability of interest expenditure under section 57 of the Act.

4. Briefly stated, the assessment proceedings for the year under consideration were concluded by the Assessing Officer vide order dated 26.11.2007 passed under section 143(3) of the Act, determining the total income of the assessee at Rs. 11,37,69,050/-. Against the said order, the assessee preferred an appeal before the learned Commissioner (Appeals), who disposed of the same vide order dated 31.08.2010. Being aggrieved, both the assessee and the Department carried the matter in appeal before the Tribunal in ITA Nos. 7726 and 7498/Mum/2010. The Tribunal, vide its order dated 26.04.2013, partly allowed the appeals and restored, inter alia, the issue relating to the allowability of interest expenditure to the file of the learned Commissioner (Appeals) for fresh adjudication. It is also pertinent to record that before us both the parties were ad idem that the issues raised by the Revenue as well as by the assessee in the cross-objection stand squarely covered by the decisions of the Tribunal in the assessee's own case and in other group

concerns, wherein this issue has been examined in detail and finally decided in favour of the assessee.

5. Pursuant to the directions of the Tribunal, the learned Commissioner (Appeals), in the impugned order dated 26.09.2025, granted partial relief by restricting the deduction of interest expenditure to the extent of interest income, placing reliance on the decision of the Tribunal in the case of Cascade Holdings Pvt. Ltd. v. DCIT. It is this restriction which forms the subject matter of Ground No. 2 of the cross-objection.

6. Before us, the learned counsel for the assessee submitted that the issue is no longer res integra and stands conclusively covered by a series of decisions of 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 held 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 during the year is lower.

7. Strong reliance was placed on the decision of the Tribunal in the assessee's own case in ITA No. 4430/Mum/2017 for Assessment Year 2012-13, vide order dated 27.12.2017, wherein the Tribunal, after examining the nature of borrowing and its

nexus with the income assessable under the head "Income from other sources", allowed the entire interest expenditure claimed under section 57 of the Act without restricting the same to the interest income. The relevant extract of the said decision is 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."

8. Reliance was also placed on the decision of the Tribunal in the case of Pratima Hitesh Mehta v. DCIT [ITA No. 416/Mum/2023] dated 26.10.2023, wherein, after an elaborate analysis of section 57 and the binding precedents of the Hon'ble Supreme Court and the jurisdictional High Court, it was 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 statutory requirement. The relevant extract relied upon is reproduced below:

"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."

9. It was further pointed out that similar view has consistently been taken by the Tribunal in other group cases, including DCIT v. Pratima Hitesh Mehta and Pratima H. Mehta v. DCIT, thereby lending complete judicial finality to the issue under consideration.

10. The learned Departmental Representative, on the other hand, relied upon the impugned order and submitted that the restriction imposed by the learned Commissioner (Appeals) is justified in view of the decision of the Tribunal in Cascade Holdings Pvt. Ltd.

11. We have carefully considered the rival submissions and perused the material available on record. The legal position

governing section 57 of the Act is now well settled. The section does not require 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". The Hon'ble Supreme Court as well as the jurisdictional High Court have consistently held that even an indirect or incidental connection between the expenditure and the earning of income is sufficient to satisfy the statutory requirement.

12. We find that in the assessee's own case as well as in the cases of other family members, the Tribunal has, on identical facts, examined the nature of borrowings, the manner of deployment of funds and the resultant income, and has categorically held that the interest expenditure has the requisite nexus with the income assessable under the head "Income from other sources". Once such a finding has been recorded, there is no legal basis to artificially restrict the deduction of interest expenditure to the quantum of interest 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. In that case, the restriction of interest expenditure was founded on the peculiar facts of that assessee, where the assessee itself had voluntarily restricted the

claim. The said decision does not lay down any general proposition of law warranting automatic restriction of interest expenditure in all cases.

14. More importantly, judicial discipline demands that where an issue stands conclusively decided by the Tribunal in the assessee's own case for earlier years and has been consistently followed in group cases, the same view must be adopted in subsequent years in the absence of any distinguishing feature. No such distinguishing feature has been pointed out by the Revenue in the present year.

15. In view of the foregoing discussion, and respectfully following the binding decisions of the coordinate Benches in the assessee's own case as well as in the cases of other group concerns, we hold that the assessee is entitled to deduction of the entire interest expenditure claimed under section 57 of the Act for Assessment Year 2005-06. The restriction imposed by the learned Commissioner (Appeals) is, therefore, unsustainable in law.

16. Accordingly, the Assessing Officer is directed to allow the full deduction of interest expenditure as claimed by the assessee.

17. In the result, the appeal filed by the Revenue is dismissed. The cross-objection filed by the assessee is partly dismissed in so far as Ground No. 1 is concerned as not pressed, and allowed in respect of Ground No. 2.

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

(GIRISH AGRAWAL)	**(AMIT SHUKLA)**
ACCOUNTANT MEMBER	**JUDICIAL MEMBER**

Mumbai; Dated /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