IN THE INCOME TAX APPELLATE TRIBUNAL
"B" BENCH: BANGALORE

BEFORE SHRI PRASHANT MAHARISHI, VICE PRESIDENT AND SHRI SOUNDARARAJAN K., JUDICIAL MEMBER

ITA No.2010/Bang/2025
Assessment Year: 2018-19

M/s. Manipal Education and Medical Group India Pvt. Ltd., No.24/1, 15th Floor, JW Marriott, Vittal Mallya Road, Bengaluru – 560 001. **PAN: AADCM 8103 A**	Vs.	The Assistant Commissioner of Income Tax, Central Circle – 1(2), Bengaluru.
APPELLANT		**RESPONDENT**

ITA No.2148/Bang/2025
Assessment Year: 2018-19

The Deputy Commissioner of Income Tax, Central Circle – 1(2), Bengaluru.	Vs.	M/s. Manipal Education and Medical Group India Pvt. Ltd., No.24/1, 15th Floor, JW Marriott, Vittal Mallya Road, Bengaluru – 560 001. **PAN: AADCM 8103 A**
APPELLANT		**RESPONDENT**

Appellant by	:	Shri. S. K. Tulsiyan, Advocate
Respondent by	:	Shri. Subramanian, JCIT(DR)(ITAT), Bengaluru.

Date of hearing	:	03.02.2026
Date of Pronouncement	:	26.02.2026

O R D E R

Per Prashant Maharishi, Vice President

1. Cross appeals are filed in case of M/s. Manipal Education and Medical Group India Pvt. Ltd., (the assessee/appellant) against the order passed by the learned Commissioner of Income Tax-15, Bangalore [learned CIT(A)] on 24.07.2025 wherein the Assessment Order passed by the National Faceless Appeal Centre, Delhi under section 143(3) r.w.s. 144B of the Income Tax Act, 1961 (the Act) on 27.05.2021 determining the total income of the assessee at Rs.31,86,21,050/- making the disallowance under section 14A of the Act of Rs.75,84,440/- and addition of Rs 4,44,80,000/- on the basis of Form No 26 QB in slump sale was made, on challenge the disallowance u/s 14A was confirmed and addition of Rs 4,44,80,000 was deleted .

2. Coming to the appeal of the assessee, The ground of appeal raised by the assessee is that the disallowance made to the extent of the above sum under section 14A r.w.r. 8D of Income Tax Rules, 1962 (the Rules), as expenditure relating to exempt income is made without any valid satisfaction for the disallowance and such satisfaction is *sine qua non* for invoking the applicability of section 14A of the Act.

3. Briefly stated the facts of the case shows that assessee is a company engaged in the business of consultancy, property management services for hostel and educational institutions under the brand YOHO. The

assessee filed its return of income at Rs. Nil on 08.12.2018. The return was picked up for scrutiny.

4. During the course of assessment proceedings, the learned AO noted that assessee has an investment of Rs.365,00,00,000/- in equity shares shows as a non-current asset and further investment of Rs.16.59 Crores in mutual funds. The assessee has received dividend of Rs.1,12,66,387/-. The assessee has not made any disallowance under section 14A of the Act and therefore a show cause notice was issued.

5. In response to that, the assessee submitted that “during the year under review, the company had made investment out of surplus cash in liquid mutual funds and the company had not incurred any expenditure to earn this exempted income. Therefore, no disallowance should be made”.

6. The learned AO, after considering the above reply vide paragraph Nos.4.2 to 4.5, has computed the disallowance under Rule 8D of the Rules of Rs.1,97,60,523/- but restricted it to exempt income of Rs.75,84,440/- which is claimed as exempt income under section 10(35) of the Act, as under:

4.2. In view of this, the assessee's accounts were examined. It is seen that the accounts are not maintained in a manner to compute the income relating to income not includible in the total income. It is seen that the assessee company deploys manpower and resources which attract costs in the form of salaries, rent, audit fees, communication cost, professional charges amongst other expenditure. Besides, sec. 14A does not envisage disallowance of direct expenses alone. The methodology of computing the disallowance is provided in rule 8D of the Income Tax Rules. Perusal of the same shows that the disallowance contemplated here is of both direct expenses as well as indirect expenses. Therefore, the assessee's contention that since it has not incurred any expenditure, no disallowance can be made u/s 14A is not acceptable. Further, it is seen from the earlier years that the assessing officer is not satisfied regarding the correctness of the claim of the assessee in respect of expenditure related to exempt income. Management of old investment and current investment requires application of mind and the company must have employed manpower, either its own employee or any outside consultant. It is also to note that the investments flow from a common pool of funds viz. the current or cash credit accounts. The business receipts and payments as well as investments are made from these accounts. Considering the commonality of the expenses, this is a fit case for invoking the provisions of sec. 14A(2) r.w. Rule 8D.

4.3 In this context it is important to refer to provision of sec. 14A of the Act. Sec. 14A makes following provision with respect to expenditure incurred in relation to income.

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

"(1) For the purposes 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 in relation to income which does not form part of the total income under this Act:"**

Provided that nothing contained in this section shall empower the Assessing officer either reassess u/s 147 or pass an order enhancing the assessment or reducing a refund already made or otherwise increasing the liability of the assessee u/s 154, for any assessment year beginning on or before the 1st day of April 2001.

4.4. As the assessee has not provided actual monthly investments, after taking into account of non-current and current investment, disallowance u/s 14A r.w.rule 8D of the Act is calculated using values from the balance sheet. The disallowance u/s 14A is calculated as under:

	Opening Balance as on 01.04.2017	Closing Balance as on 31.03.2018	Total	Average Value
Non-current Investment, the income from which is not chargeable to tax	388,51,48,487	365,89,28,698	754,40,77,185	377,20,38,592
Current investment, the income from which is not chargeable to tax	19,42,12,656	16,59,19,713	36,01,32,369	18,00,66,184
Total Investments	407,93,61,143	382,48,48,411	790,42,09,554	395,21,04,776
0.5% of the average annual investment				**1,97,60,523/-**

7. Based on that, the Assessment Order was passed on 27.05.2021 making the above disallowance. Restricted to the extent of exempt income u/s 10(35) of the Act of Rs 75,84,880 .

8. The assessee preferred appeal before the learned CIT(A) wherein the learned AO in paragraph No.6.3 held that assessee has not maintained segment wise books of accounts and total disallowance is restricted to the exempt income. He confirmed the same. He did not deal with the objection of the assessee that no satisfaction is recorded by the AO with respect to the books of accounts of the assessee and there is no satisfaction about the claim of the assessee that it has not incurred any expenditure.

9. Assessee, aggrieved with same, is in appeal before us. The only contention raised by the assessee is that if the AO fails to record a satisfaction about the correctness of the claim of the assessee which is not of incurring any expenditure for earning exempt income and such satisfaction is not with respect to books of accounts of the assessee, no disallowance can be made. The learned Authorized Representative categorically stated that satisfaction of the learned AO with regard to the correctness of the claim and on examination of the books of accounts, is a mandatory condition according to section 14A (2) of the Act. He further referred to the decision of the Hon’ble Delhi High Court in case of Vedanta Limited 102 taxmann.com 95 and further decision of Hon’ble Punjab and Haryana High Court in case of Hero Cycles Ltd., 189 Taxman 50. Therefore, its claim is that as there is no

satisfaction recorded by the learned AO, the disallowance under section 14A of the Act is not sustainable.

10. The learned AR has stated that identical issues also arose in the case of the sister concern of the assessee wherein ITAT has passed an order holding that satisfaction is *sine qua non* for disallowance.

11. The learned Departmental Representative (learned DR) Shri. Subramanian, JCIT, categorically supported the orders of the learned lower authorities. He specifically referred to paragraph No.4.2 of the order of the learned AO where the assesses accounts were examined. Thus, he submitted that there is no infirmity in the order of the learned lower authorities.

12. We have carefully considered the rival contention and perused the orders of the learned lower authorities. The facts precisely to be stated are that the assessee company has received a dividend of Rs.1,12,66,387/-. Out of that, only a dividend to the extent of Rs.75,84,440/- is claimed as exempt under section 10(35) of the Act for the reason that dividend received from liquid mutual fund is not exempt. Thus, the exempt income earned by the assessee is only Rs.75,84,440/-. When the assessee was questioned to provide note on applicability of section 14A of the Act along with computation of disallowance under section 14A r.w.r. 8D of the Rules, the assessee categorically stated that investment is made out of surplus cash in liquid mutual fund and further the assessee has not incurred any expenditure to earn this exempted income. The learned AO, after

examining the explanation of the assessee, has held that the accounts of the assessee are not maintained in a manner to compute the income relating to income not includable in the total income. He further stated that the explanation of the assessee that it has not incurred any expenditure, then no disallowance can be made is not correct. He computed 0.5% of the average annual investment amounting to Rs.1,97,60,523/- but restricted disallowance to the extent of Rs.75,84,440/-.

13. The learned AR has stated that identical issue also arose in the case of the sister concern of the assessee wherein ITAT has passed an order holding that satisfaction is *sine qua non* for the disallowance. We are not influenced by the above decision for the reason that it is enshrined in the Act itself. The provisions of section 14A(2) of the Act gives the AO a power to make a disallowance as per the method prescribed under Rule 8D of the Rules. However, such power is circumscribed by a condition that before computing the disallowance, the AO should look into the accounts of the assessee and then he must be dissatisfied with the claim of the assessee that assessee has not incurred any expenditure in relation to the exempt income. Thus, it can be in the manner that the ld. AO points out certain expenditure claimed by the assessee as deduction are for earning exempt only and not incurred for earning of taxable income. Thus, there has to be pointed identification of such expenditure to reject the claim of the assessee. This is the mandate of section 14A (2) of The Act.

14. Hon'ble Supreme Court in the case of Maxopp Investment Ltd. v. CIT (2018) 402 ITR 640 (SC) in paragraph No.41 has categorically held that the AO is duty bound to record its satisfaction by considering the facts as recorded in the books of accounts. The Hon'ble Supreme Court in the case of Walford Share and Stockbrokers Ltd., also has categorically held that there must be a proximate cause between the expenditure and earning of exempt income. The Hon'ble Karnataka High Court in the case of Hindustan Aeronautics Ltd., 278 Taxman 266 has also held so. Further, the Hon'ble Bombay High Court in PCIT Vs. Tata Capital Ltd., 475 ITR 599 is also the same view. Accordingly, the general observation made by the AO that the company deploys manpower and resources and therefore the claim of the assessee is not correct, cannot be said to be proper satisfaction in terms of the provisions of section 14A (2) of the Act.

15. In view of the above facts, it is clear that the claim of the assessee is that it has not incurred any expenditure and has not been refuted by the learned AO despite having the complete Income & Expenditure statement and Annual Accounts available before him. He has not pointed out single expenditure which is incurred by the assessee not for earning the taxable income but for earning exempt.

16. In view of this, the disallowance made by the AO is not correct.

17. Further The learned CIT(A) was specifically shown the above arguments with the decisions of the Hon'ble High Court but the learned CIT(A) despite recording the same, did not consider and decide that

issue. On perusal of the Assessment Order, it is apparent that the provisions of section 14A (2) of the Act are not correctly followed by the AO. When the decisions of the Hon'ble High Court are shown to the learned CIT(A), he is duly bound to follow the same and should have decided the issue.

18. In view of the above facts, the disallowance made by the learned AO amounting to Rs.75,84,440/- is not sustainable. The learned AO is directed to delete the same. Accordingly, ground Nos.1 and 2 of the appeal are allowed.

19. In the result, the appeal of the assessee is allowed.

20. Coming to the appeal of the ld. AO against deleting addition of Rs 4,44,80,000/- facts shows that as per form No. 26 QB the assessee has shown value of the immovable property under a slump sale of ₹ 1,031,780,000/- however the sale consideration reported by the assessee is only ₹ 987,300,000 in the return of income filed for the impugned assessment year. Therefore the differential amount of ₹ 44,480,000 was sought for clarification.

21. Assessee submitted that slump sale consideration ids Rs 98.73 Crores. Slump sale also included immovable property to be registered in the name of buyer. The Stamp Duty value of such property was taken at Rs 103.78 cr. So there is difference of the above sum. Such sum is not paid by the buyer nor received by the assessee. Form No 3cEA was also

submitted for computing the capital gain arising under slump sale agreement.

22. The assessee also stated that there was a project cost for completing the pending STP work was also paid as advance to Manipal education and medical group India private limited as the assessee company had understanding with the vendor to the completing the STP work.

23. Inadvertently this amount of ₹ 44,480,000 was included in form No. 26QB as the sale consideration and tax was deducted on the same. It was submitted that the net consideration is only ₹ 98.73 crores and Rs. 4 .44 crores is merely an advance made to Manipal education and medical group India private limited and is not part of sale consideration.

24. The learned assessing officer held that assessee company is not able to produce any written agreement for the above transaction and assessee has also not provided any proof or having received the above sum as advance from Woodstock ambience private limited. Therefore the learned assessing officer held that the sum of the transaction is Rs. 103,17,80,000 instead of ₹ 987,380,000 shown by the assessee and as the assessee company has shown a difference of ₹ 44,480,000 were not returned to the buyer Woodstock ambience private limited, he considered the sale consideration at Rs.103,17,80,000 instead of ₹ 987,380,000 shown by the assessee and made a consequent addition of ₹ 44,480,000.

25. Against this addition, the assessee preferred an appeal before the learned CIT – A as per paragraph No. 5.3 of his decision wherein he held that since the slump sale involved the transfer of building and land, the same are registered in the name of the buyer and the value of these properties were valued at Rs 103.78 Cr for stamp duty purposes and accordingly the tax deduction at source was deducted on this value. The Ld. AO incorrectly assumed ' value for the purpose of the stamp duty' as the 'slump sale consideration' instead of the actual sale consideration of ₹ 987,300,000 for which the slump sale agreement was produced. Thus the learned CIT – A categorically held that a sum of ₹ 103.17 crores was assumed by the sub registrar office for the stamp duty purposes only as there was immovable property also in the slump sale. Such consideration was neither received by the assessee or paid by the buyer. Further the STP work made to the vendor was also in addition to the above sale consideration of ₹ 98.73 crores which was not found to be correct. Though the assessing officer noted in the assessment order that he issued a letter under section 133 (6) of the act to the buyer Woodstock ambience private limited for which no reply was received but in fact the assessee submitted that reply vide letter dated 26/4/2021 to the assessing officer wherein the buyer confirmed that it has made the payment of ₹ 98.73 crores to the assessee and subsequently the assessee has returned ₹ 32,667,945/– to the buyer. Accordingly the net consideration paid is only ₹ 954,632,055. Thus, It can be seen that the learned CIT – A has categorically held that the total slump sale consideration was ₹ 987,300,000 received by the

assessee from Buyer Woodstock ambience private limited and therefore he deleted the addition to the extent of ₹ 44,480,000/–.

26. The learned AO aggrieved with the above deletion of addition is in appeal before us. The learned CIT DR submitted that in form No. 26 QB the value of the property sold under the slump sale were shown for a total consideration of Rs. 103,17,80,000. The assessee has reported the sale consideration only of ₹ 98.73 crores and therefore the addition of ₹ 44,480,000 was made. He relied upon the assessment order.

27. The learned authorized representative referred to form No. 3CEA being a report of an accountant furnished in accordance with the provisions of section 50 B (3) of the act. He submitted that the date of slump sale was 30 September 2017 and the sale consideration shown in the audited accounts is ₹ 98.73 crores. It was submitted that the learned assessing officer has accepted the net worth of the undertaking as certified by the auditor. He further submitted that the slump sale agreement also speaks about the consideration of ₹ 98.73 crores. Merely because the assets transferred included land and building, the immovable properties had to be registered as per the transfer of property act in favor of the buyer. For this purpose, the transfer of the immovable properties was registered by adopting the government value of the properties at ₹ 1,031,780,000. Neither the assessee has received such consideration over and above ₹ 987,300,000 nor the buyer has paid any such consideration. The buyer has also confirmed the same. Merely for the purpose of the collection of the tax in form No. 26 QB,

the above sum was mentioned as the above sum included registered value of the immovable property transferred. He further referred to the provisions of section 50 B of the act and stated that the actual sale consideration received was ₹ 98.73 crores and therefore the addition made by the learned assessing officer of ₹ 44,480,000 is devoid of any merit which the learned CIT – A has correctly deleted.

28. On the specific query by bench about applicability of Provisions of section 50B (2) (ii) of The Act, it was submitted that such provisions are inserted with effect from 1/4/2021 and impugned AY is 2018-19. Therefore that amendment does not have any impact on this appeal.

29. We have carefully considered the rival contention and perused the orders of the learned lower authorities. The fact shows that assessee has transferred the hostel building along with the Hostel services business in a slump sale to Woodstock ambience private limited for a consideration of ₹ 98.73 crores which has resulted into a profit of ₹ 88.68 crores. The book profit on slump sale was shown at ₹ 88.68 crores. The fixed assets transferred included the land and building along with the furniture and equipment and other business assets covered in slump sale, the slump sale consideration was determined at ₹ 98.73 crores. According to the slump sale agreement it is evident that a sum of ₹ 4,629,400,000 was found to be the total value of the assets transferred along with the liabilities of ₹ 4,529,000,000 thus the net worth of the business was ₹ 100,400,000 which was sold for ₹ 98.73 crores. The difference between actual consideration of Rs. 98.73

crores and stamp duty value of properties at Rs. 103.17 crores is on account of the stamp duty value of the immovable property being sold in slump sale transaction along with the other assets. As difference is neither received by the assessee that no such consideration is paid by the buyer, same could not have been added in the hands of the assessee. These facts were also submitted before the assessing officer however being the difference in form No. 26 QB, the addition was made. The learned CIT – A after examining the facts has deleted the addition. It is apparent that assessee has recorded the complete sale of ₹ 98.73 crores for which the consideration is received by the assessee. The balance consideration which is added by the learned assessing officer under the mistaken belief based on form No. 26 QB was neither received by the assessee nor paid by the buyer and therefore we do not find any infirmity in the order of the learned CIT – A.

30. In the result the solitary ground raised by the learned assessing officer is dismissed.

31. The appeal filed by the learned AO is dismissed.

Pronounced in the open court on the date mentioned on the caption page.

Sd/-	Sd/-
(SOUNDARARAJAN K)	**(PRASHANT MAHARISHI)**
Judicial Member	**Vice President**

Bangalore,
Dated: 27.02.2026.
/NS/*

Copy to:

1.	Appellants	2.	Respondent
3.	DRP	4.	CIT
5.	CIT(A)	6.	DR, ITAT, Bangalore.
7.	Guard file		

By order

Assistant Registrar,
ITAT, Bangalore.