

**IN THE INCOME TAX APPELLATE TRIBUNAL  
"D" BENCH, MUMBAI**

**SHRI RAHUL CHAUDHARY, JUDICIAL MEMBER  
SHRI MAKARAND VASANT MAHADEOKAR, ACCOUNTANT MEMBER**

**ITA No.6124/MUM/2025  
(Assessment Year:2020-2021)**

**Dentsu Aegis Network India Private Limited**

2<sup>nd</sup> Floor, Devchand House, Dr. A. B. Road,  
Shiv Sagar Estate, Worli S.O., Mumbai - 400018.  
Maharashtra.

[PAN: AAHCA3058N]

..... **Appellant**  
Vs

**Deputy Commissioner of Income Tax  
Central Circle 1(1), Mumbai**

Room No.903, 9<sup>th</sup> Floor, Pratistha Bhavan,  
Old CGO Building, M. K. Road,  
Mumbai - 400020. Maharashtra.

..... **Respondent**

**Appearance**

For the Appellant/Assessee : Shri Ketan Ved &  
Shri Abdul Kadir Jawadwala  
For the Respondent/Department : Shri Annavarani Kosuri

**Date**

Conclusion of hearing : 02.02.2026  
Pronouncement of order : 20.02.2026

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**ORDER**

**Per Rahul Chaudhary, Judicial Member:**

1. The present appeal preferred by the Assessee is directed against the order, dated 11/07/2025, passed by the Commissioner of Income Tax (Appeals) - 47, Mumbai [hereinafter referred to as 'the **CIT(A)**'] whereby the Ld. CIT(A) had partly allowed the appeal against the Assessment Order, dated 27/09/2023, passed under Section 143(3) of the Income Tax Act, 1961 [hereinafter referred to as 'the **Act**'] for the Assessment Year 2020-2021.
2. The Assessee has raised following grounds of appeal :

*"Each of the following grounds of appeal are alternative and without prejudice to each other"*

**1. Disallowance under section 14A of the Act - Rs. 3,00,62,303/-:**

- 1.1 *On the facts and in the circumstances of the case and in law, the Ld. CIT(A) has erred in upholding the disallowance made by the Ld. Assessing Officer ("Ld. AO") amounting to Rs. 3,00,62,303/- under section 14A of the Act read with Rule 8D of the Income Tax Rules, 1962.*
- 1.2 *On the facts and circumstance of the case and in law, the Ld. CIT(A) has erred in not appreciating the scientific method of computation of suo-moto disallowance by the Appellant and hence the same ought to be set aside.*
- 1.3 *On the facts and circumstances of the case and in law, the Ld. CIT(A) has erred in affirming the mechanical and formulaic computation method adopted by the Ld. AO under Section 14A, without giving due consideration to the detailed and substantive submissions made by the Appellant during both the assessment and appellate proceedings.*

**2. Rental expenses were considered as rental income - Rs. 41,00,000/-:**

- 2.1 *On the facts and in the circumstances of the case and in law, the Ld. CIT(A) has erred in upholding the addition of rental income of Rs. 41,00,000/- under the head income from house property.*
- 2.2 *On the facts and in the circumstances of the case and in law, the Ld. CIT(A) erred in not considering the submission of the Appellant that the Appellant has not earned any rent income during the FY 2020-21 and the same could be duly verified from the audited financial statements submitted during the course of assessment proceedings.*
- 2.3 *On the facts and in the circumstances of the case and in law, the Ld. CIT(A) erred in not appreciating the fact that the Appellant does not own any immovable property and hence could not earn rent income in respect of house property.*

**3. Interest under section 234B of the Act**

- 3.1 *On the facts and in the circumstances of the case and in law, the Ld. CIT(A) has erred in not appreciating the fact that the interest levied by the Ld. AO under section 234B of the Act is*

*consequential in nature.*

3.2 *On the facts and in the circumstances of the case and in law, the Ld. CIT(A) has erred in holding that levy of interest u/s 2348 of the Act is mandatory and compensatory in nature.*

**4. Interest under section 234C of the Act:**

4.1 *On the facts and in the circumstances of the case and in law, the Ld. CIT(A) has erred in not appreciating the fact that the interest levied by the Ld. AO under section 234C of the Act is consequential in nature.*

4.2 *On the facts and in the circumstances of the case and in law, the Ld. CIT(A) has erred in holding that levy of interest u/s 234C of the Act is mandatory and compensatory in nature.*

**5. Initiation of penalty proceedings:**

5.1 *On the facts and in the circumstances of the case, and in law, the Ld. CIT(A) erred in dismissing the appellant's ground relating to the initiation of penalty proceedings under Section 270A of the Act by stating that the ground is premature in nature.*

*The Appellant craves to add, alter, amend, substitute and/or modify in any manner whatsoever modify all or any of the foregoing grounds of appeal at or before the hearing of the appeal.*

3. The Assessee is engaged in the business of providing advertising, media related services and advisory services. The Company is 100% held by Aegis Media Pacific Limited – Company incorporated in the UK. The Assessee filed its original return of income on 31/03/2021 declaring total income of INR.6,80,51,040/- under normal provisions and 'Nil' income under Section 115JB of the Act. The original return of income was filed based on management accounts. The return of income was processed under Section 143(1) determining total income at INR.6,80,51,040/-. Subsequently, the Assessee's case was selected for scrutiny under Computer Assisted Scrutiny Selection (CASS). The statutory audit of the Assessee was concluded during the course of assessment proceedings and accordingly, the Assessee submitted the

audit financial statements along with a revised computation of income and a tax payment challan (including payment of applicable interest) on 30/05/2023. In relation to the international transactions entered into by the Assessee a reference was made to the Transfer Pricing Officer (TPO) under Section 92CA(1) of the Act. The TPO examined the international transactions and accepted the price at which such transactions have been affected to be at arm's length, and no adjustment has been proposed vide order dated 14/07/2023. The Assessing Officer passed the Assessment Order under Section 143(3) of the Act dated 27/09/2023, after making, inter alia, the following additions/disallowances:

- (a) Disallowance of INR.3,00,62,303/- under Section 14A of the Act
- (b) Rental expenses of INR.41,00,000/- considered as rental income

The Assessing Officer also levied interest under Section 234C of the Act and initiated penalty proceedings.

- 4. Being aggrieved, the Assessee has preferred appeal before the Learned CIT(A) which was dismissed vide Order dated 11/07/2025.
- 5. Being aggrieved, the Assessee has preferred the present appeal before the Tribunal on the grounds reproduced at Paragraph 2 above.

**Ground No. 1.1 to 1.3.**

- 6. Ground No.1.1 to 1.3 raised by the Assessee pertain to disallowance of INR.3,00,62,303/- made under Section 14A of the Act.
- 7. The facts relevant for adjudicating this ground are that the Assessee-Company had made investments in its domestic subsidiary companies which are in the same line of business. The said investments were made by the Assessee out of its own funds. The Assessee did not

have any loan funds apart from Bank Overdraft/Cash Credit facility from bank, which is used only for working capital requirements of the Assessee-Company. It is the case of the Assessee that no interest was paid on the funds utilized for the purpose of making investments.

8. During Assessment Year 2020-2021, the Assessee has received dividend income of INR.20,29,42,368/- which is exempt under Section 10(34) of the Act. The Assessee suo-motu offered a disallowance of INR.8,05,611/- under Section 14A of the Act amounting in its original return of income prepared on the basis management accounts. Further, during the assessment proceedings the Assessee submitted the revised computation of income wherein the disallowance under Section 14A of the Act was recomputed at INR.13,53,002/- on the basis the audited financial statements. The increase in amount of disallowance offered under Section 14A of the Act from INR.8,05,611/- to INR.13,53,002/- was made on account of correction of the employee and the overhead costs in the audited financial statements as compared to the management accounts. The Assessing Officer was of the view that the Assessee has picked and chosen expenses. The Assessing Officer invoked the provisions contained in Rule 8D of the Income Tax Rules, 1961 (in short 'IT Rules') and made additional disallowance of INR.3,00,62,303/- under Section 14A read with Rule 8D of IT Rules. In appeal, the ground raised by the Assessee challenging the aforesaid addition was dismissed by the Learned CIT(A) observing that the disallowance made by the Assessing Officer was less than the exempt income and therefore, justified. As a result, the Assessee is now in appeal on this issue before the Tribunal.
9. We have heard rival submission and have perused the material on record.
10. The primary contention advanced on behalf of the Assessee that the

Assessing Officer had failed to record proper satisfaction regarding the incorrectness of the claim of the Assessee before invoking provisions contained in Rule 8D of the IT Rules under Section 14A of the Act. We note that the Assessing Officer deal with the issue of disallowance under Section 14A of the Act in paragraphs 6.1 to 6.14 of the Assessment Order. On perusal of the same we find merit in the above contention advanced on behalf of the Assessee. After recording the facts and submission in relation to this issue, the Assessing Officer has returned the following findings:

"6.8. *The submission of the Assessee has been considered but the same is not found to be acceptable. The undersigned is not satisfied with the correctness of the claim of the assessee with regard to the expenditure which has been incurred in relation to income which does not form part of the total income. From the submission, it is seen that the assessee company has received dividend income to the tune of INR.20,29,42,368/- from its subsidiary companies; Milestone Brandcom Pvt. Ltd. & Sokrati Technologies Pvt. Ltd. The assessee has claimed the dividend income exempt u/s.10(34) of the Act. This shows that the assessee company has agreed to the applicability of Section 14A of the Income Tax Act, 1961.*

6.9. *It is further found that the assessee company has picked and chosen expenses during the relevant previous year for calculation of disallowance u/s.14 of the Income Tax Act, 1961. The assessee, in its submission dated 03/02/2022 has made suo moto calculation of the disallowance u/s.14A, which it claimed to be a scientific method as under:*

Particulars	Amount
Employee 1 – CTC	26,65,895/-
Employee 2 – CTC	9,29,552/-
Total CTC	35,95,447/-
Add: Other cost allocations of employee	4,32,607/-
Total Cost	40,28,054/-
14A Disallowance @ 20%	8,05,611

*Whereas, in its submission dated 20/09/2023, the assessee had made calculation of the disallowance u/s.14A, which it again claimed to be a scientific method as under:*

Particulars	Amount
Employee 1 – CTC	24,18,960/-
Employee 2 – CTC	9,63,544/-
Total CTC	33,82,504/-
Add: Other cost allocations of employee	33,82,504/-
Total Cost	67,65,008/-
14A Disallowance @ 20%	13,53,002/-

It is thus evident from above the method that the assessee adopted and which it claims to be scientific is not as per the provision of Rule 8D and hence is found not to be accepted. The working of disallowance under the provision of Rule 8D is required to be followed. The assessee cannot pick and choose costs of calculation of disallowance as per Rule 8D of the Income Tax Rules, 1962

6.10 xx xx

6.11. Analysis of CBDT Circular No.05/2014 dated 11-02-2014: The legislative intent of Section 14A is to allow only that expenditure which is relatable to earning of taxable income. It therefore follows that the expenses relatable to earning of exempt income have to be considered for disallowance, irrespective of whether any such income has been earned during the financial year or not.

- Also, the usage of the term "includible" in the heading of section 14A of the Income Tax Act, 1961 as well as the heading of Rule 8D of the Income Tax Rules, 1962 indicates that it is not necessary that exempt income should have been "included" in a particular year's income for disallowance to be triggered.
- Section 14A does not use the word 'income of the year' but uses 'income under the Act' indicating that to invoke disallowance of section 14A, it is not material that the assessee should have earned such exempt income during the financial year.
- Even the wording of Rule 8D suggests that section 14A would be triggered in respect of future exempt income.
- In light of the above, the CBDT has clarified that Rule 8D read with section 14A of the Income Tax Act, 1961 provides for disallowance of expenditure even when a taxpayer has not earned any exempt income in a particular

year.

*The investment whether or not, strategic or long term, might always fetch exempt income by way of divided/share of profit. Hence, disallowance u/s 14A is called for as per the provisions of the Act. As far as expenses are concerned, the assessee has incurred various expenses which are of mixed nature and cannot be said that the same are entirely towards business and no expenses are related to investments. Therefore, considering such situation and various other factors, Rule 8D is prescribed whereby 1% of average value of investments is considered as expenditure attributable to Investments and accordingly Rule 8D is applicable in this case." (Emphasis Supplied)*

11. We are of the view that the findings returned by the Assessing Officer are general in nature and do not make reference to any specific expenses incurred by the Assessee debited to the Profit & Loss Account which can be attributed to earning of exempt dividend income. The computation of the suo moto disallowance under Section 14A of the Act offered by the Assessee, which was based upon the specific expenses identified by the Assessee as attributable to earning of exempt income, was rejected by the Assessing Officer by alleging that the Assessee was not permitted to pick and chose any expenditure. Without referring to either any expenses (in addition to those selected by the Assessee) or the accounts for the relevant previous year, the Assessing Officer proceeded to invoke provisions contained in Rule 8D of the IT Rules. In our view, the aforesaid approach adopted by the Assessing Officer cannot be countenanced being contrary to judgment of the Hon'ble Bombay High Court in the **Godrej & Boyce Mfg. Co. Ltd. v. Deputy Commission of Income Tax : 328 ITR 81**. The Hon'ble Bombay High Court had, while rejecting the challenge to the validity of Section 14A of the Act, held as under:

"57. Now in dealing with the challenge it is necessary to advert to the position that Sub-section (2) of Section 14A prescribes a uniform method for determining the amount of expenditure incurred in

*relation to income which does not form part of the total income only in a situation where 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. It therefore merits emphasis that Sub-section (2) of Section 14A does not authorize or empower the Assessing Officer to apply the prescribed method irrespective of the nature of the claim made by the assessee. The Assessing Officer has to first consider the correctness of the claim of the assessee having regard to the accounts of the assessee. **The satisfaction of the Assessing Officer has to be objectively arrived at on the basis of those accounts** and after considering all the relevant facts and circumstances. The application of the prescribed method arises in a situation where the claim made by the assessee in respect of expenditure which is relatable to the earning of income which does not form part of the total income under the Act is found to be incorrect. In such a situation a method had to be devised for apportioning the expenditure incurred by the assessee between what is incurred in relation to the earning of taxable income and that which is incurred in relation to the earning of non-taxable income. As a matter of fact, the memorandum explaining the provisions of the Finance Bill 2006 and the CBDT circular dated 28 December 2006 state that since the existing provisions of Section 14A did not provide a method of computing the expenditure incurred in relation to income which did not form part of the total income, there was a considerable dispute between tax payers and the department on the method of determining such expenditure. It was in this background that Sub-section (2) was inserted so as to provide a uniform method applicable where the Assessing Officer is not satisfied with the correctness of the claim of the assessee. Sub-section (3) clarifies that the application of the method would be attracted even to a situation where the assessee has claimed that no expenditure at all was incurred in relation to the earning of non-taxable income.*

58. Parliament has provided an adequate safeguard to the invocation of the power to determine the expenditure incurred in relation to the earning of non-taxable income by adoption of the prescribed method. **The invocation of the power is made conditional on the objective satisfaction of the Assessing Officer in regard to the correctness of the claim of the assessee, having regard to the accounts of the assessee.** When a statute postulates the satisfaction of the Assessing Officer "Courts will not readily defer to the conclusiveness of an executive authority's opinion as to the existence of a matter of law or fact upon which the validity of the exercise of the power is predicated".- M.A. Rasheed v. The State of Kerala AIR 1974 SC 2249 (at para 7 page 2252). A decision by the Assessing Officer has to be arrived at in good faith on relevant considerations. The Assessing Officer must furnish to the assessee a reasonable opportunity to show cause on the correctness of the claim made by him. **In the event that the Assessing Officer is not satisfied with the correctness of the claim made by the assessee, he must record reasons for his conclusion.** These safeguards which are implicit in the requirements of fairness and fair procedure under Article 14 must be observed by the Assessing Officer when he arrives at his satisfaction under Sub-section (2) of Section 14A. As we shall note shortly hereafter, Sub-rule (1) of Rule 8D has also incorporated the essential requirements of Sub-section (2) of Section 14A before the Assessing Officer proceeds to apply the method prescribed under Sub-rule (2)."(emphasis supplied)
12. On perusal of the above it becomes clear that the Hon'ble Bombay High Court upheld the validity of Section 14A of the Act observing that the recording of satisfaction by the Assessing Officer to the effect that the claim of the Assessee was not correct is the safeguard built into Section 14A of the Act to meet the requirements of fairness and fair procedure contained in Article 14 of the Constitution. The Hon'ble High Court held that the invocation of the power under Section 14A of the Act read with Rule 8D of the IT Rules was conditional upon the

recording of objective satisfaction by the Assessing Officer with regard to the correctness of the claim of the Assessee having regard to the accounts of the Assessee. In the present case, the Assessing Officer has rejected the correctness of claim without making reference to accounts of the Assessee by making general observations. The computation of the Assessee which was based upon specific expenses identified by the Assessee was rejected alleging cherry picking. While doing so reliance was placed by the Assessing Officer on Circular No. 5 of 2014 issued by the Central Board of Direct Taxed. The said circular deals with applicability of Section 14A of the Act in a case where no exempt income has been earned by the Assessee during the relevant previous year. In the present case, the Assessee has earned exempt income during the year and has also offered disallowance under Section 14A of the Act. Therefore, Circular No. 5 of 2014 has no application to the facts of the present case.

13. In view of the above, we hold that the additional disallowance of INR INR.3,00,62,303/- made by the Assessing Officer under Section 14A of the Act read with Rule 8D of the IT Rules cannot be sustained and is, therefore, deleted. Ground No. 1 to 1.3 raised by the Assessee are allowed.

**Ground No. 2.1 to 2.3.**

14. By way of Ground No.2.1 to 2.3, the Assessee has challenged the order of the Learned CIT(A) confirming the addition of INR.41,00,000/- made by the Assessing Officer holding the same to be rental income.
15. On hearing both the sides it emerges that he Assessee had filed return of income based on management accounts. Later, based upon the audited financial statements which subsequently became available, the Assessee filed a revised computation of income during the assessment proceedings and claimed deduction for rental expense

of INR.2.07 Crores. The Assessee also furnished party-wise details of the rental expenses incurred during the relevant previous year along with submissions, dated 20/09/2023. However, while completing the Assessment the Assessing Officer brought to tax INR.41,00,000/- as rental income.

16. In appeal before the Learned CIT(A), it was contended that the Assessee did not have any rental income and placed reliance upon the audited financial. However, the CIT(A) confirmed the addition observing that the Assessee had no disclosed the rental income to its auditors.
17. In appeal before us it was contended that the Assessee does not own any residential house property. It was also contended that the Assessing Officer had accepted and concluded assessment proceedings based on the audited financials and revised computations submitted during assessment proceedings and therefore, addition of INR.41,00,000/- allegedly based on the basis of ITR filed on the basis of management accounts could not be sustained.
18. Per Contra, the Learned Departmental Representative relied upon the findings of the Assessing Officer and the Learned CIT(A).
19. Having considered the rival submissions and on perusal of record, we are of the view that it would be appropriate and in the interest of justice to remand this issue back to the file of the Assessing Officer with the directions to adjudicate the issue afresh after granting the Assessee a reasonable opportunity of being heard. The Assessee is directed to file before the Assessing Officer affidavit placing on record the correct facts giving details of land or building held by the Assessee during the relevant previous year income and rental income, if any, received from the same. The Assessing Officer is directed to take the same into consideration and confront the Assessee with the additional

details of rental income, in any, available with the Assessing Officer and consider the response received from the Assessee while adjudicating the issue afresh. In terms of the aforesaid, Ground No. 2.1 to 2.3 raised by the Assessee are allowed for statistical purposes.

**Ground No. 3.1 to 4.2.**

20. Ground No.3.1 to 4.2 raised by the Assessee pertains to levy of interest under Section 234B/C of the Act and the same are dismissed as being consequential in nature.

**Ground No. 5.1**

21. Ground No. 5.1 raised by the Assessee pertains to initiation of penalty proceedings under Section 270A of the Act. Penalty proceedings are separate and distinct from the assessment proceedings. Therefore, Ground No. 5.1 raised by the Assessee is dismissed as being premature.
22. In terms of above, the present appeal preferred by the Assessee is partly allowed.

Order pronounced on 20.02.2026.

*Sd/-*  
**(Makarand Vasant Mahadeokar)**  
**Accountant Member**

*Sd/-*  
**(Rahul Chaudhary)**  
**Judicial Member**

मुंबई Mumbai; दिनांक Dated : 20.02.2026  
*Milan, LDC*

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

1. अपीलार्थी / The Appellant
2. प्रत्यर्थी / The Respondent.
3. आयकर आयुक्त/ The CIT
4. प्रधान आयकर आयुक्त / Pr.CIT
5. विभागीय प्रतिनिधि , आयकर अपीलीय अधिकरण , मुंबई / DR,  
ITAT, Mumbai
6. गार्ड फाईल / Guard file.

आदेशानुसार/ BY ORDER,

सत्यापित प्रति //True Copy//

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