IN THE INCOME TAX APPELLATE TRIBUNAL
"SMC" BENCH MUMBAI

BEFORE SHRI PAWAN SINGH, JUDICIAL MEMBER &
SHRI MAKARAND VASANT MAHADEOKAR, ACCOUNTANT MEMBER

ITA No. 6104/Mum/2025
(Assessment Year: 2012-13)

Regus South Mumbai Business Centre Private Limited, Level 4, Dynasty Business Park, Andheri Kurla Road, J. B. Nagar S.O, Mumbai – 400 059	Vs.	**DCIT - 14(1)(2), Mumbai** Aayakar Bhavan, M. K. Road, New Marine Lines. Mumbai-400 020
PAN/GIR No. AADCR6068H		
(Applicant)		(Respondent)

Assessee by	Shri Ketan Ved, Ld. AR
Revenue by	Smt. Usha Gaikwad, Ld. DR

Date of Hearing	16.03.2026
Date of Pronouncement	26.03.2026

आदेश / ORDER

PER MAKARAND VASANT MAHADEOKAR, AM:

This appeal is filed by the assessee against the order passed by the learned Commissioner of Income Tax (Appeals) – ADDL/JCIT (A)-7, Kolkata [hereinafter referred to as "CIT(A)"], dated 01.07.2025, for Assessment Year 2012–13, arising out of the assessment order passed by the Assessing Officer under

section 143(3) of the Income-tax Act, 1961[hereinafter referred to as "the Act"] on 31.03.2015.

Facts of the Case

2. The assessee is a private limited company engaged in the business of providing workplace solutions, including executive suites, meeting rooms, conference facilities and other related services. The assessee filed its return of income for the year under consideration on 01.11.2012 declaring total income at Rs. 2,18,000/-. The case was selected for scrutiny under CASS and statutory notices under sections 143(2) and 142(1) of the Act were issued. In response, the authorised representative of the assessee appeared and furnished details from time to time.

3. During the course of assessment proceedings, the Assessing Officer examined the profit and loss account and observed that the assessee had claimed an amount of Rs. 21,06,749/- under the head “cost allocated from group company”. The assessee was called upon to explain the nature and basis of such expenditure. In response, the assessee submitted that the said amount represented cost allocation charges paid to its group entity, namely Regus Business Centre Pvt. Ltd., towards centralized services such as HR, finance, taxation, marketing and IT support. It was explained that such costs were incurred centrally and allocated to various group entities, including the assessee, on a reasonable basis such as number of workstations and without

any markup. The assessee also furnished inter-company agreement and working of allocation.

4. The Assessing Officer, however, was not satisfied with the explanation furnished by the assessee. According to the Assessing Officer, the impugned expenditure was not directly incurred by the assessee and was merely allocated on a group basis without establishing a clear nexus with the assessee's business. The Assessing Officer held that such allocation on estimated or proportionate basis does not satisfy the requirement that the expenditure should be incurred wholly and exclusively for the purpose of business. It was further observed that certain components of such expenses were not verifiable and it was not established that the same were incurred for the benefit of the assessee. Accordingly, the Assessing Officer disallowed the entire amount of Rs. 21,06,749/-.

5. The Assessing Officer further observed that the assessee had debited management fees amounting to Rs. 21,78,430/- which included prior period expenses of Rs. 1,70,952/-. Since no satisfactory explanation was furnished for such prior period expenses, the same was disallowed and added to the income. Consequently, the Assessing Officer computed the total income at Rs. 24,95,700/- as against the returned income of Rs.2,18,000/-.

6. Aggrieved by the assessment order, the assessee preferred an appeal before the learned CIT(A).Before the learned CIT(A), the assessee reiterated that the cost allocation was based on actual

services rendered by the group entity and was supported by documentary evidences, inter-company agreement and reasonable allocation keys. It was contended that the expenditure was incurred wholly and exclusively for the purpose of business and the benefit thereof had accrued to the assessee. The assessee also submitted that the allocation mechanism was rational and consistently followed. The learned CIT(A), however, upheld the action of the Assessing Officer in disallowing the cost allocation expenses. It was observed that the assessee had failed to establish a direct nexus of such expenses with its business operations and the allocation of common expenses across group entities without precise identification does not justify allowability. The learned CIT(A) also endorsed the view that such expenses cannot be allowed merely on proportionate basis without clear evidence of actual incurrence for the assessee's business. In respect of prior period expenses, the learned CIT(A) also confirmed the disallowance made by the Assessing Officer.

7. Aggrieved by the order of the learned CIT(A), the assessee is in appeal before the Tribunal and has raised the following grounds:

> ***1. Ground No. 1***
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> *That on the facts and in the circumstances of the case and in law, the Ld. CIT(A) has erred in partly allowing the appeal of the Appellant and in sustaining the disallowance of cost allocation expenses amounting to Rs. 21,06,749 incurred/payable to the group company.*

2. Ground No. 2 – Disallowance of cost allocated from group company of Rs. 21,06,749

2.1. *On the facts and in the circumstances of the case and in law, the Ld. CIT(A) has erred in confirming the action of the learned assessing officer ('Ld. AO') of disallowing the expenses of Rs. 21,06,749, being cost allocated by a group company of the Appellant.*

2.2. *On the facts and in the circumstances of the case and in law, the Ld. CIT(A) / Ld. AO has erred in disallowing cost allocation expenses despite the Appellant furnishing detailed justification of services rendered by the group entity and the basis of cost allocation charged to the Appellant, which were incurred wholly and exclusively for business purposes.*

2.3. *On the facts and in the circumstances of the case and in law, the Ld. CIT(A) / Ld. AO erred in not appreciating the fact that the benefit of cost allocation expenses endured to the Appellant and also failed to consider the documentary evidence and explanation provided vide various submissions during the course of appellate/assessment proceedings substantiating the business expediency of incurring such expenses.*

2.4. *On the facts and in the circumstances of the case and in law, the Ld. CIT(A) / Ld. AO has erred in holding that common cost allocation was not debited to the Profit and Loss account and is further observed that such cost can only be allocated among divisions of the same entity and not across group companies.*

2.5. *Without prejudice to the above, the Ld. CIT(A) / Ld. AO, having accepted that common costs are to be allocated on the basis of turnover and administrative expenses on the basis of area/average business done, erred in disallowing the entire expense instead of allowing the allocation as per the mechanism suggested by the Ld. AO.*

Each one of the above grounds is without prejudice to the other.

The Appellant reserves the right to add, alter or amend each one of the above grounds of appeal.

8. During the course of hearing, the learned Authorised Representative (AR) reiterated and further elaborated the submissions made before the lower authorities. The learned Authorised Representative submitted that the assessee is part of the Regus group and is engaged in the business of providing workplace solutions including executive suites, meeting rooms, conference rooms, video conference facilities and training rooms. It was submitted that another group entity, namely Regus Business Centre Pvt. Ltd., acts as a centralized service provider for various group entities in India and incurs common expenses in respect of services such as country head functions, finance, taxation, human resources, marketing and IT support, which are utilized by all group entities including the assessee.

9. It was submitted that such common costs incurred by the said group entity are cross charged to the beneficiary entities, including the assessee, on a reasonable and scientific basis. The assessee, being one of the beneficiaries of such centralized services, has been allocated an amount of Rs. 21,06,749/- which has been duly debited to its profit and loss account. The allocation, as submitted, has been carried out on the basis of number of workstations utilized by each entity, which constitutes an appropriate and rational allocation key.

10. The learned AR further submitted that the assessee has entered into a formal inter-company agreement with Regus Business Centre Pvt. Ltd. for availing such common services and

the same has been placed on record. It was contended that the expenditure has been incurred wholly and exclusively for the purpose of business and the benefit thereof has directly accrued to the assessee.

11. Referring to the objections raised by the Assessing Officer, the learned Authorised Representative submitted that the observation of the Assessing Officer that such expenses were not debited to the profit and loss account is factually incorrect, as the same have been duly accounted for and disclosed in the notes to accounts under the head “other expenses” and “related party transactions”. It was further submitted that similar disclosures have also been made in the financial statements of the group entity incurring such expenditure.

12. With regard to the observation that the expenses were incurred by another entity, it was submitted that the centralized service model adopted by the group is a standard business practice, wherein one entity incurs common costs and allocates the same to other beneficiary entities based on an agreed mechanism. It was contended that such cross charging of expenses is backed by inter-company agreement and consistent group policy.

13. On the issue of allocation basis, the learned Authorised Representative submitted that allocation based on number of workstations is more appropriate as compared to turnover or administrative expenses, as it directly correlates with the usage of

services by each entity. It was further submitted that the group has adopted a uniform and harmonized allocation methodology and detailed workings in support thereof have been furnished.

14. The learned AR also rebutted the observation of the Assessing Officer that allocation of common cost across group entities distorts profitability. It was submitted that, on the contrary, non-allocation of such costs would lead to distorted financial results of the entity incurring such expenses. It was emphasized that the allocation ensures proper matching of income and expenditure and reflects the true and correct profit of each entity. Further, it was submitted that the common costs have been appropriately linked with the revenue generating activities of the assessee, inasmuch as the income of the assessee is derived from utilization of workstations, which also forms the basis of allocation of such costs.

15. The learned AR also brought to notice that similar expenditure has been allowed as a deduction under section 37(1) of the Act in subsequent assessment years i.e. A.Y. 2013–14 and 2014–15, and copies of the assessment orders for those years were placed on record. It was contended that there is no justification for disallowing the same in the year under consideration.

16. On the basis of the aforesaid submissions, the learned AR prayed that the disallowance made by the Assessing Officer and sustained by the learned CIT(A) be deleted.

17. Per contra, the learned Departmental Representative (DR) strongly relied upon the findings recorded by the Assessing Officer as well as those affirmed by the learned CIT(A). It was submitted that the assessee had failed to establish that the impugned expenditure of Rs. 21,06,749/- was incurred wholly and exclusively for the purpose of its business. The learned DR invited our attention to the relevant paragraphs of the assessment order, wherein the Assessing Officer has elaborately discussed the reasons for disallowance. It was contended that the expenditure in question was not directly incurred by the assessee but was merely allocated by a group entity without demonstrating a clear and direct nexus with the assessee's business activities. It was further submitted that the allocation of common expenses across group entities on an estimated or proportionate basis, without precise identification and supporting evidence of actual services rendered to the assessee, does not satisfy the requirement of section 37(1) of the Act. The learned DR emphasised that the assessee has not discharged its onus of substantiating the nature of services, their necessity, and the basis of quantification of such allocation.

18. In rejoinder to the submissions of the learned AR, the learned DR submitted that the reliance placed by the assessee on the assessment orders for A.Ys. 2013–14 and 2014–15 is misplaced. It was contended that in those years, the cases were selected for scrutiny under CASS for limited issues and there is no discussion in the assessment orders with regard to the

allowability of cost allocation expenses. The learned DR submitted that mere acceptance of a claim in earlier or subsequent years, without any examination or adjudication on merits, does not constitute a binding precedent.

19. We have heard the rival submissions and perused the material available on record. The solitary surviving grievance of the assessee in substance relates to disallowance of Rs. 21,06,749/- claimed under the head "cost allocated from group company".

20. From the facts borne out from the assessment order, the appellate order and the written submissions placed before us, it emerges that the assessee is part of the Regus group and is engaged in the business of providing workplace solutions including executive suites, meeting rooms, conference rooms, video conference studios and training rooms. It is the consistent case of the assessee that Regus Business Centre Pvt. Ltd., another group concern, functioned as a centralized service centre for various group entities and incurred common expenditure in relation to country head functions, finance, taxation, HR, marketing, IT support and functional divisions. The assessee's case is that, being a beneficiary of such centralized services, its share of common costs amounting to Rs. 21,06,749/- was charged to it on the basis of workstations and was debited in its profit and loss account in terms of the inter-company arrangement.

21. The Assessing Officer disallowed the claim primarily on the reasoning that the expenditure was not directly incurred by the assessee, that the same was only allocated on a group basis, that the nexus with the assessee's business was not established, and that some items of expenditure were not verifiable. The learned CIT(A) has substantially affirmed the same line of reasoning by holding that the allocation of common expenditure, without precise identification, does not justify allowability under section 37(1) of the Act.

22. Having given our thoughtful consideration to the matter, we are unable to persuade ourselves to concur with the approach adopted by the lower authorities.

23. At the outset, it is to be noted that the disallowance has been made on broad and generalized observations, without bringing any positive material on record to demonstrate that the assessee did not in fact receive the services, or that the expenditure was sham, fictitious, inflated, capital in nature, personal in nature, or hit by any specific statutory prohibition. There is also no finding that the payment was not genuine or that the underlying arrangement was a make-believe device. Once the existence of the group service arrangement and the allocation of common expenditure thereunder is not doubted as a matter of fact, the deductibility of the assessee's share of expenditure has to be examined on ordinary commercial principles under section 37(1) of the Act.

24. The assessee has specifically placed on record that the common cost allocation was not merely a notional journal adjustment dehors the books, but was actually debited to its statement of profit and loss and appropriately disclosed in the notes to the financial statements under “other expenses” and “transactions with related parties”. The financial statements filed before us further states that corresponding disclosure has also been made in the books of the service entity, namely Regus Business Centre Pvt. Ltd. Thus, the very first premise adopted by the Assessing Officer that the expenditure was neither incurred nor debited in the profit and loss account stands effectively rebutted by the material placed on record. The authorities below have not dealt with this rebuttal in any cogent manner.

25. Further, the assessee has also placed reliance upon the inter-company agreement governing rendition of common services and allocation of costs. The appellate order itself records the existence of such agreement and reproduces the relevant clauses, which show that the provider and recipient were both group entities, that the provider was to render services in specified areas to the recipient, and that the costs were to be allocated to the recipient directly where possible and, in other circumstances, on the basis of available workstations. Thus, the assessee’s case that the allocation was contractual, pre-agreed and founded on an ascertainable allocation key stand borne out from the record itself. Once this is so, the mere circumstance that the expenditure was first incurred by a centralized service entity and

thereafter cross-charged to the beneficiary entities cannot, by itself, be a reason to disallow the claim. In modern business structures, centralized support functions are a matter of business organization and commercial expediency. The tax authorities cannot insist that every legal entity must duplicate the same finance, HR, marketing and IT infrastructure separately in order to claim deduction of its share of common support cost.

26. In our considered view, the lower authorities have approached the issue from an unduly narrow and unrealistic perspective. If a centralised service centre incurs common expenditure for the benefit of several group entities and thereafter allocates such expenditure on a rational basis to the beneficiaries, the real question is whether the assessee derived business benefit therefrom and whether the allocation basis is reasonable. The revenue cannot sit in the armchair of the businessman and dictate how business support services should be internally organised. So long as the expenditure is incurred on grounds of commercial expediency and has nexus with the business of the assessee, deduction under section 37(1) cannot be denied merely because the expenditure was first incurred by another group concern and later apportioned.

27. We also find merit in the specific rebuttal of the assessee that the **allocation key based on workstations** is a rational and business-oriented method in the peculiar line of business carried on by the assessee and the group. The assessee is engaged in

providing workplace solutions. Its receipts are functionally linked with the number and utilization of workstations and related facilities. Therefore, allocation of common support costs with reference to workstations cannot be said to be irrational or arbitrary. On the contrary, it bears a direct business nexus with the very manner in which the assessee carries on its operations. The Assessing Officer has stated that, where precise allocation is not possible, expenditure may be allocated with reference to turnover and administrative expenses on the basis of area or average business done. Once the Assessing Officer himself accepts, in principle, that common expenditure can be allocated on a reasonable basis, then disallowance of the entire expenditure merely because he was of the view that another allocation key may have been preferable is self-contradictory. At the highest, if the adopted basis was found to be demonstrably unreasonable, some focused examination or reworking could perhaps have been contemplated. But a complete disallowance of the entire amount, without disproving the business nexus of the services or the factum of benefit, is clearly unsustainable.

28. The written submissions of the assessee further contain point-wise rebuttal to the observations of the Assessing Officer (in para no. 4.6 (a) to (g) at page 3 of the order). The assessee has explained that the common expenditure was in fact debited in its accounts, that the same was cross-charged because Regus Business Centre Pvt. Ltd. was incurring such costs on behalf of all group entities in line with group policy and inter-company

agreement, that workstation-based allocation was more appropriate in the facts of its business than a turnover-based key, and that uniform and harmonised allocation of common costs is necessary to present the true financial results of each beneficiary entity. These rebuttals go to the very root of the matter. Significantly, neither the Assessing Officer nor the learned CIT(A) has recorded any specific finding dislodging these explanations by reference to contrary material. The disallowance has thus remained founded on suspicion and generalized notions rather than on a concrete factual rebuttal of the assessee's evidence.

29. The reasoning of the learned CIT(A) that the agreement was subjective and did not clearly spell out what services were rendered to which entity, by how many employees, for how many days and through what exact infrastructure, also does not, in our opinion, justify total disallowance in the present facts. In cases of centralised shared services, one cannot expect a watertight one-to-one co-relation of every rupee of common expenditure to every individual entity on a daily basis. Shared services, by their very nature, operate at a pool level and benefit multiple entities collectively. The law does not require impossible standards of proof. What is required is demonstration of business nexus and a reasonable method of allocation. The assessee has done so by placing on record the service arrangement, the nature of centralised functions, the basis of cross-charge, and the accounting disclosure. In absence of any finding that the

arrangement is sham or that the allocation is patently absurd, the claim could not have been rejected in toto.

30. The observation that the expenditure, if related to a particular receipt, alone would be deductible and that expenditure not related to any activity of the assessee is not allowable, is unexceptionable as a principle. However, on facts, the assessee has sufficiently shown that the support services in question were integrally connected with its business operations. Finance, taxation, HR, marketing and IT support are not alien or extraneous functions. They are normal incidentals of business administration and undeniably facilitate the carrying on of the assessee's core business. Therefore, the conclusion of the lower authorities that the expenditure had no nexus with the assessee's business does not follow from the material on record.

31. We may also deal with the contention of the learned DR that the assessment orders for A.Ys. 2013-14 and 2014-15 do not discuss this issue in detail because those years were selected under CASS and, therefore, no reliance can be placed thereon. In our considered view, the learned DR is right to the limited extent that mere absence of disallowance in subsequent years, without detailed discussion, cannot by itself conclude the controversy nor can it operate as res judicata. However, that does not advance the Revenue's case materially because our conclusion in favour of the assessee is not being rested solely on such subsequent assessments. We are allowing the claim on an independent

appraisal of the facts and material available for the year under consideration. The subsequent years only lend some support to the assessee's plea of consistency in the business model and accounting treatment, but the core basis of our conclusion is the intrinsic merit of the assessee's explanation and the failure of the Revenue to disprove the same.

32. We also note that there is no allegation that the impugned expenditure is excessive or unreasonable having regard to fair market value, nor has any disallowance been made under any specific anti-abuse provision. There is likewise no case made out that the payment represents capital outlay or gives rise to any enduring asset. The dispute is thus confined to the allowability of a revenue expenditure under section 37(1). On the facts before us, we are satisfied that the assessee has discharged the initial onus by explaining the nature of services, the business purpose, the contractual framework and the basis of allocation. The Revenue, instead of examining the claim in a focused and evidence-based manner, has proceeded to reject the same on sweeping considerations. Such approach cannot be countenanced.

33. In light of the aforesaid discussion, we hold that the disallowance of Rs. 21,06,749/- on account of cost allocated from group company is not sustainable in law or on facts. We accordingly direct the Assessing Officer to delete the same.

Ground No. 2 of the assessee is allowed. Ground No. 1 being general and consequential in nature stands allowed accordingly.

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

Order pronounced in the open court on 26.03.2026.

Sd/-	**Sd/-**
(PAWAN SINGH)	**(MAKARAND VASANT MAHADEOKAR)**
JUDICIAL MEMBER	**ACCOUNTANT MEMBER**

Mumbai, Dated 26/03/2026
Dhananjay, Sr.PS

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

1. अपीलार्थी / The Appellant
2. प्रत्यर्थी / The Respondent.
3. संबंधित आयकर आयुक्त / The CIT(A)
4. आयकर आयुक्त (अपील) / Concerned CIT
5. विभागीय प्रतिनिधि, आयकर अपीलीय अधिकरण, मुम्बई / DR, ITAT, Mumbai
6. गार्ड फाईल / Guard file.

आदेशानुसार/ BY ORDER,

सत्यापित प्रति //True Copy//

1.

उप/सहायक पंजीकार (Asst. Registrar)
आयकर अपीलीय अधिकरण, मुम्बई / ITAT, Mumbai