
(2014) 03 GUJ CK 0110
In the Gujarat High Court
Case No : Tax Appeal No. 239 of 2014

Commissioner of Income Tax-I	Vs	APPELLANT
Corrtech Energy (P.) Ltd.		RESPONDENT

Date of Decision : 24-03-2014

Acts Referred:

Income Tax Act, 1961 — Section 14A, 36(1)(iii)

Citation : (2014) 272 CTR 262 : (2015) 372 ITR 97 : (2014) 223 TAXMAN 130

Hon'ble Judges : Sonia Gokani, J; Akil Abdul Hamid Kureshi, J

Bench : Division Bench

Advocate : Mauna M. Bhatt, Advocate for the Appellant

Judgement

Akil Abdul Hamid Kureshi, J.—Revenue has challenged the judgment of the Income Tax Appellate Tribunal dated 21.10.2013 raising following questions for our consideration :

(A) Whether the Appellate Tribunal has substantially erred in deleting the addition of Rs. 12.33 lakhs made u/s. 14A despite the fact that the assessee had made investment of Rs. 2.75 crores and had also claimed interest expenses of Rs. 72.08 lakhs. The AO had only disallowed proportionate expenses under rule 8D(2)(ii)(iii)?

(B) Whether the Appellate Tribunal has substantially erred in deleting the disallowance of interest of Rs. 3.94 lakhs despite the fact that the assessee had claimed interest expenses of Rs. 72.08 lakhs and had given interest free advances of Rs. 32.91 lakhs to related parties. Interest expenses to that extent were therefore not deductible u/s. 36(1)(iii)?

Counsel for the Revenue submitted that question No. 2 is not pressed in this appeal since it does not arise out of the impugned judgment of the tribunal.

2. That leaves us only with one question which pertain to disallowance of expenditure of Rs. 12.33 lakhs made by the Assessing Officer u/s 14A of the

income tax Act, 1961 ("the Act" for short). Such disallowance was confirmed by CIT(Appeals). The tribunal in further appeal by the assessee however, reversed the same making the following observations:

13. We have heard the rival contentions, perused the material on record and gone through the orders of the authorities below. We find that the Id. CIT(A) has decided this issue as under :

3.2 As regards interest, appellant had borrowed funds on which interest was paid. While making investments, both borrowed funds as well as own funds were used hence one cannot say that borrowed funds were used only for business purpose and owned capital was only used for investment. Admittedly no separate accounts are maintained for business and investment activities therefore appellant's claim is not justified that borrowed funds were not used in making investment. In view of this, I do not agree with my predecessor that since appellant had sufficient interest free funds, no part of borrowed funds can be attributed to investments. Further, appellant's argument that it did not earn any exempt income during the year and therefore no disallowance of section 14A can be made is without any basis. Since appellant made investment in shares which will result only in dividends which are exempt from tax, not receiving any exempt income during the year will not entitle appellant to claim expenses relating to investments which will result only in exempt income. Therefore in the absence of clear cut details of utilisation of funds, the formula given in rule 8D which is mandatory this year is to be applied. Since assessing officer worked out interest disallowance as per rule 8D, the interest disallowance is confirmed.

The Id. AR submitted that this finding of Id. CIT(A) is containing to the law settled by various judicial pronouncements. We have given our thoughtful consideration to the facts and the decision relied upon by the Id. AR. The Hon'ble Punjab & Haryana High Court in the case of Commissioner of Income Tax Vs. Winsome Textile Industries Ltd., has held that in the present case, admittedly, the assessee did not make any claim for exemption. In such a situation, section 14A could have no application. In this case also, the assessee has not claimed any exempt income in this year. Therefore, respectfully following the judgment of Hon'ble High Court of Punjab & Haryana in the case of Winsome Textile Industries Ltd. (supra), we hereby allow this ground and direct the AO to delete the addition. Therefore, ground Nos. 1 to 1.2 raised by the assessee in its cross-objection are allowed.

3. Counsel for the Revenue submitted that the Assessing Officer as well as CIT(Appeals) had applied formula of rule 8D of the income tax Rules, since this case arose after the assessment year 2009-10. Since in the present case, we are concerned with the assessment year 2009-10, such formula was correctly applied by the Revenue. We however, notice that sub-section (1) of section 14A provides that for the purpose of computing total income under Chapter IV of the Act, 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 the Act. In

the present case, the tribunal has recorded the finding of fact that the assessee did not make any claim for exemption of any income from payment of tax. It was on this basis that the tribunal held that disallowance u/s 14A of the Act could not be made. In the process tribunal relied on the decision of Division Bench of Punjab and Haryana High Court in case of Commissioner of Income Tax Vs. Winsome Textile Industries Ltd., in which also the Court had observed as under :

7. We do not find any merit in this submission. The judgment of this court in Commissioner of Income Tax-I Vs. Abhishek Industries Ltd., was on the issue of allowability of interest paid on loans given to sister concerns, without interest. It was held that deduction for interest was permissible when loan was taken for business purpose and not for diverting the same to sister concern without having nexus with the business. The observations made therein have to be read in that context. In the present case, admittedly the assessee did not make any claim for exemption. In such a situation section 14A could have no application.

We do not find any question of law arising, Tax Appeal is therefore dismissed.