

आयकर अपीलीय अधिकरण, चण्डीगढ़ न्यायपीठ, चण्डीगढ़
IN THE INCOME TAX APPELLATE TRIBUNAL
DIVISION BENCH, 'B' CHANDIGARH

BEFORE SHRI LALIET KUMAR, JUDICIAL MEMBER AND
SHRI MANOJ KUMAR AGGARWAL, ACCOUNTANT MEMBER

आयकर अपील सं./ ITA No. 274/CHD/2025

निर्धारण वर्ष / Assessment Year: 2017-18

M/s Trident Group Limited, SCO 20-21, Sector 9-Deduction, Chandigarh.	Vs	The DCIT, Central Circle-1, Ludhiana.
स्थायी लेखा सं./PAN NO: AAECM1012H		
अपीलार्थी/Appellant		प्रत्यर्थी/Respondent

Assessee by : Shri Ashwani Kumar, CA and
Shri Aditya Kumar, CA
Revenue by : Dr. Ranjit Kaur, Addl. CIT, Sr.DR

Date of Hearing : 23.12.2025
Date of Pronouncement : 23.12.2025

PHYSICAL HEARING

ORDER

PER LALIET KUMAR, JM

This appeal is directed against the order passed by the learned Commissioner of Income Tax (Appeals)-5, Ludhiana, dated 30.12.2024, whereby the assessment order passed under Section 143(3) of the Income Tax Act, 1961, dated 23.10.2019, was sustained.

2. The return of income for the Assessment Year 2017-18 was filed by the assessee on 24.10.2017, declaring a taxable income of Rs. 78,47,890/-. During the course of assessment proceedings, it was observed that the assessee company earned substantial exempt income in the form of dividends

from equity shares amounting to Rs. 22,42,21,824/-. This income was claimed as exempt under Section 10(34) of the Act. Additionally, the company received interest income from FDRs and was engaged in providing trademark rights to other entities for royalties.

3. Regarding the expenditure incurred to earn the said exempt income, it was contended by the assessee that all investments were made out of interest-free funds and internal accruals. The assessee submitted that out of the total investment of Rs.124,33,48,325/-, a significant portion of Rs. 90,13,14,521/- was brought forward from earlier years. It was further highlighted that the assessee had not claimed any interest expenditure during the year. A voluntary disallowance of Rs. 5,774/- was made, representing direct expenditure for demat account charges.

4. During the assessment proceedings for the year under consideration, it was observed by the Assessing Officer that the assessee company earned substantial exempt income in the form of dividends from equity shares amounting to Rs. 22,42,21,824/-. However, the satisfaction of the Assessing Officer was not met as the assessee admitted that no separate accounts were maintained for the exempt income head. The following findings were recorded:

- It was held that under Section 14A(2) and (3), the Assessing Officer is empowered to determine the expenditure in accordance with the prescribed method if not satisfied with the correctness of the assessee's claim.

- The AO invoked Rule 8D(2)(ii) and computed the disallowance at 1% of the annual average of the monthly average of the value of investments.
- This resulted in a disallowance of Rs. 1,02,44,219/-, leading to a total assessed income of Rs. 1,80,92,109/-.

5. Aggrieved by the assessment order, an appeal was filed by the assessee before the CIT(A) on 21.11.2019. The learned Authorised Representative for the assessee argued that the company was a cash-rich entity and utilised only its own funds for investments. It was further submitted that no interest expenditure was claimed during the year. Upon consideration of the facts, the learned CIT(A) upheld the addition based on the following findings:

- It was observed that the issue of disallowance under Section 14A is a settled legal position.
- The CIT(A) noted that while the provisions of Section 14A read with Rule 8D were confirmed in principle, the extent of disallowance must be restricted to the exempt income.
- Since the exempt income of Rs. 22,42,21,824/- was significantly higher than the disallowance made by the AO of Rs. 1,02,44,219/-, the entire disallowance was confirmed and the appeal was dismissed.

6. The matter subsequently came before this Tribunal for adjudication.

7. The learned AR for the assessee reiterated that the AO applied Rule 8D blindly as a formula without recording specific satisfaction. Conversely, the learned DR for the Revenue argued that managing an investment portfolio exceeding Rs. 124 Crore inherently involves administrative costs that far

exceed the voluntary disallowance of Rs. 5,774/- .It was submitted by the learned AR that the assessee company is a cash-rich entity which has earned substantial profits over the years. It was argued that:

- The surplus funds retained in business operations were invested in equity and preference shares.
- All investments were made from the assessee's own interest-free funds, including Share Capital and Reserves and Surplus.
- No borrowings in the form of loans or advances were raised for the purpose of making these investments.
- The Assessing Officer failed to record a specific satisfaction regarding the use of interest-bearing funds and instead applied Rule 8D blindly as a formula.
- Judicial precedents were cited to support the contention that no disallowance is permissible when it is found that no expenditure has been incurred for earning exempted income.

8. The learned DR strongly supported the orders of the lower authorities.

9. We have heard the rival contentions and perused the material available on record. For the year ended 31.03.2017, the assessee reported "Revenue from Operations" at Rs. 25,87,73,768/-. As per Note 15 of the financial statements, this comprised Rs. 3,45,51,944/- as royalty and Rs. 22,42,21,424/- as dividend income. Against this, the assessee debited a total expenditure of Rs. 2,73,56,380/-, of which a substantial portion—Rs. 2,66,72,894/—pertained to employee benefit expenses, with the balance

attributable to finance costs, depreciation, and other administrative overheads.

9.1 An analysis of the Revenue and Expenditure account reveals that the assessee's primary activity is the management of investments. The assessee's contention that a paltry sum of only Rs. 5,774/- was expended toward earning exempt income is, in our view, untenable. While the receipt of royalty does not typically necessitate significant operational activity, it is highly disproportionate to suggest that an employee cost of Rs. 2.66 Crore was incurred solely to earn a royalty of Rs. 3.45 Crore. Furthermore, as the assessee failed to maintain separate books of account for its exempt-income-yielding activities, the Assessing Officer (AO) was justified in recording his dissatisfaction regarding the correctness of the assessee's claim.

9.2 Given an investment portfolio exceeding Rs. 124 Crore, the administrative effort required for its management is inherently greater than the nominal disallowance offered by the assessee. The AO and the Ld. CIT(A) have rightly noted that various administrative overheads—including salaries, rent, electricity, and IT expenses—are inextricably linked to the investment activity and ought to have been allocated. Since the assessee failed to provide a credible basis for attributing the expenditure to exempt income, the invocation of Section 14A read with Rule 8D becomes mandatory. The AO restricted the disallowance to 1% of the annual average of monthly average investment, amounting to Rs. 1,02,44,219/-, strictly following the statutory

formula. As the disallowance under Rule 8D is legally capped by the total exempt income earned and follows the prescribed methodology, we find no merit in the assessee's appeal. The action of the lower authorities is, therefore, upheld.

9.3 The reliance of the assessee in ITA No. 307/CHD/2023 is on its own facts and does not apply to the facts before us. The facts mentioned above clearly distinguish the applicability of the said decision to the facts of the present case. Furthermore, the decision in ITA No. 307/CHD/2023 concerned the invocation of Section 263 by the PCIT. The scope and ambit of Section 263 is quite different from making the addition under Rule 8D read with Section 14A by the Assessing Officer. In view of the above, we do not find any merit in the submission of the assessee and accordingly, the appeal of the assessee is dismissed.

10. In the result, the appeal of the assessee is dismissed.

Order pronounced on 23rd December,2025.

Sd/-

(MANOJ KUMAR AGGARWAL)
ACCOUNTANT MEMBER

Sd/-

(LALIET KUMAR)
JUDICIAL MEMBER

“Poonam”

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

1. अपीलार्थी/ The Appellant
2. प्रत्यर्थी/ The Respondent
3. आयकर आयुक्त/ CIT
4. विभागीय प्रतिनिधि, आयकर अपीलीय आधिकरण, चण्डीगढ़/ DR, ITAT, CHANDIGARH
5. गार्ड फाईल/ Guard File