



2025:DHC:11351-DB



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* **IN THE HIGH COURT OF DELHI AT NEW DELHI**

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Date of Decision : 12.12.2025

+ ITA 743/2025 CM APPL. 78546/2025

THE PR. COMMISSIONER OF INCOME TAX -CENTRAL -1

.....Appellant

Through: Mr. Ruchir Bhatia SSC with Mr.
Anant Mann JSC.

versus

R.J. CORP. LTD.

.....Respondent

Through: Mr. Divyansh Jain, Mr. Paritosh Jain,
Mr. Apoorv Saini and Mr. Abhishek,
Advs.**CORAM:****HON'BLE MR. JUSTICE V. KAMESWAR RAO****HON'BLE MR. JUSTICE VINOD KUMAR****V. KAMESWAR RAO, J. (ORAL)**

1. This appeal lays a challenge to an order dated 25.08.2022, whereby the Tribunal while deciding the cross appeals filed by the appellant and the respondent herein challenging the order of CIT (A)-24 dated 08.06.2025 has allowed the appeal of Assessee resulting in the dismissal of appeal filed by the Revenue on the aspect of amendment that had been brought about in terms of Finance Act 2022, which holds that the amendment to Section 14A is prospective in nature.

2. The proposed substantial questions of law as framed in the present appeal and also submitted by Mr. Ruchir Bhaita, learned Senior Standing



Counsel for the appellant are in respect of Section 14A of the Act. Suffice to state that during the relevant Assessment Year 2011-12, the Assessee has earned Rs.50,000/- on divided income, which has been reflected under the head "other income" in the P&L account. The A.O. disallowed an amount of Rs.14,12,51,908/- under Section 14A of the Act. The CIT(A) has determined the disallowance @ 0.5% of the average investment. Aggrieved by the same, the Revenue filed appeal before the Tribunal against the deletion of disallowance to the tune of Rs.6,71,96,859/- by the CIT(A) and also by the assessee for upholding disallowance of Rs.89,32,232/-. The Tribunal after noting the submissions of the departmental representative on behalf of the appellant has sated the following :

"a . Section 14A of the Income-tax Act, 1961 ('A ct') was in to the Income Tax Act, 1961 vide Finance Act 2001, with retrospective application from 1.4.1962. It provides for disallowance of expenditure in relation to income not "includible" in total income. Over a period of time, there have been several cases decided on this issue by various High Courts.

CBDT issued a Circular no. 5/2014 on 11th February 2014, clarifying, inter alia, as follows:

"A controversy has arisen in certain cases as to whether disallowance can be made by invoking section 14A of the Act even In those cases where no income has been earned by an assessee which has been claimed as exempt during the financial-year."

3 . It is pertinent to mention that section 14A of the Act was introduced by the Finance Act, 2001 with retrospective effect from 01.04.1962. The purpose for introduction of section 14A with retrospective effect since inception of the Act was clarified vide Circular No. 14 of 2001 as under:



"Certain incomes are not includible while computing the total income, as these are exempt under various provisions of the Act. There have been cases where deductions have been claimed in respect of such exempt income. This in effect means that the tax incentive given by way of exemptions to certain categories of Income is being used to reduce also the tax payable on the non-exempt Income by debiting the expenses incurred to earn the exempt Income against taxable income. This is against the basic principles of taxation whereby only the net income, i.e., gross income minus the expenditure, is taxed. On the same analogy, the exemption is also In respect of the net Income. Expenses incurred can be allowed only to the extent they are relatable to the earning of taxable Income." Thus, legislative intent is to allow only that expenditure which Is relatable to earning of Income and it therefore follows that the expenses which are relatable to earning of exempt Income have to be considered for disallowance. Irrespective' of the fact whether any such Income has been earned during the financial-year or not."

4. The above position Is further clarified by the usage of term. 'Includible' In the Heading to section 14 A of the Act and also the Heading to Rule 8D of I.T. Rules, 1962 which Indicates that it Is not necessary that exempt Income should necessarily be Included In a particular year's Income, for disallowance to be triggered. Also, section 14A of the Act does not use the word "income of the year" hut "income under the Act . This also Indicates that for Invoking disallowance under section 14A, it Is not material that assessee should have earned such exempt Income during the financial year under consideration.

5. The above position is further substantiated by the language used in Rule 8D(2)(ii) & 8D(2)(iii) of I.T. Rules

6. Thus, in light of above, Central Board of Direct Taxes, in



exercise of its powers under section 119 of the Act hereby clarifies that Rule 80 read with section 14A of the Act provides for disallowance of the expenditure even where taxpayer in a particular year has not earned any exempt income."

The issue therefore, is If sect/o. 14A (1) would stand attracted even If such income, I.e., Income not includible In the total Income, Is not actually earned, subject to expenditure relatable to such income having been Incurred. The CBDT Circular 5/2014, after explaining the rationale of the provision of section 14A (with reference to Circular 14 of 2001), i.e., to curb the practice of reducing the tax liability on taxable income (i.e. income forming part of the total Income) by claiming expenditure incurred in earning tax-exempt Income against taxable Income, goes on to state that the legislative Intent Is that the expenditure relatable to earning such income shall have to be considered for disallowance. In that event i.e expenditure relating to earning tax-exempt income having been incurred, it would be come irrelevant if the exempt income has actually materialized or not , so that the disallowance of the said expenditure u/s . 14A would follow. The same therefore is only a continuation of Circular 14 of 2001, taking the premise of section 14A to its logical conclusion. The purpose of these Circulars and the legislative intent is to apply the basic principle of taxation, i.e., that it is only the net income - taxable or non-taxable, i .e., net of all expenditure incurred for earning the same, that could be subject to tax or, as the case may be, exempt from tax .

The later Circular, which Is In consonance with the Memorandum explaining the provisions of Finance BUI, 2001 (Introducing section 14A) as well as the Notes to the Clauses presented along with the said Bill, has been note with approval by the Hon'ble Supreme Court In CIT v. Walfort Share a Stock Brokers (P.) Ltd, [2010] 192 Taxman 211/326 ITR 1 (SO, holding as under:

"The insertion of section 14A with retrospective effect is the serious attempt on the part of Parliament not to allow deduction



in respect of any expenditure incurred by the assessee in relation to income, which does not form part of the total income under the Act against the taxable Income (see Circular No. 14 of 2001 dated November 22,2001). In other words, section 14A clarifies that expenses incurred can be allowed only to the extent they are relatable to the earning of taxable income. In many cases the nature of expenses incurred by the assessee may be relatable partly to the exempt income and partly to the taxable income. In the absence of section 14A, the expenditure incurred in respect of exempt income was being claimed against taxable Income.

"The mandate of section 14A is clear. It desires to curb the practice to claim deduction of expenses incurred in relation to exempt income against taxable Income and at the same time avail of the tax Incentive by way of exemption of exempt income without making any apportionment of expenses incurred in relation to exempt income. The basic reason for insertion of section 14A is that certain incomes are not includible while computing total income as these are exempt under certain provisions of the Act."

The issue, thus, considered in perspective, is not if the income not forming the part of the total income (the tax-exempt income) is earned or not, but if expenditure relatable to such income has been incurred. If such expenditure stands incurred, section 14A(1) becomes applicable.

The decision by the Apex Court in the case of GIT v. Walfort Shard & Stock Brokers (P.) Ltd. (supra) stands followed in Godrej & Boyce Mfg. Co. Ltd. V. Dy. CIT [2017] 81 taxmann.com 111 (SC) where the Hon'ble Supreme Court, while considering whether deduction of expenditure incurred, in earning dividend income which is not includible in the total income of the Assessee by virtue of the provisions of Section 10(33) of the Income Tax Act, 1961 as in force during the Assessment Year i.e. 2002-2003, was admissible or otherwise, made the following observations:



"32. A brief reference to the decision of this Court in Walfort Share and Stock Brokers (P.) Ltd. (supra) may now be made, if only, to make the discussion complete. In Walfort Share and Stock Brokers (P.) Ltd.(supra) the issue involved was: "whether in a dividend stripping transaction the loss on sale of units could be considered as expenditure in relation to earning of dividend income exempt under Section 10(33), disallowable under Section 14A of the Act?"

"33. While answering the said question this Court considered the object of insertion of Section 14A in the Income Tax Act by Finance Act, 2001, details of which have already been noticed. Noticing the objects and reasons behind introduction of Section 14A of the Act this Court held that:

"Expenses allowed can only be in respect of earning of taxable income."

"In paragraph 17, this Court went on to observe that:

"Therefore, one needs to read the words "expenditure incurred" in section 14A in the context of the scheme of the Act and , if so read, it is clear that it disallows certain expenditure incurred to earn exempt income from being deducted from other income which is includible in the "total income" for the purpose of chargeability to tax." "The views expressed in Walfort Share and Stock Brokers (P.) Ltd. (supra), in our considered opinion, yet again militate against the plea urged on behalf of the Assessee."

The expenditure is incurred to produce or generate or in anticipation of, income, whether taxable or non-taxable. In fact, the classification as to tax status (i.e., taxable or non- taxable) has nothing to do with the income generating process; an income being, as a matter of fiscal incentive, being granted tax exempt status under the Act, for the time being. The fact of having incurred expenditure for earning income – taxexempt (or non-exempt), which is largely a question of fact, would thus remain, and not undergo any change, irrespective of whether it has



resulted in any income (whether tax-exempt or non-exempt). The principle is well-settled, representing a fundamental concept of taxation, i.e., the allowability (or otherwise) of an expenditure would not depend upon whether it has in fact resulted in an income, i.e., positive income, which is in any case a matter subsequent, and that the mere fact that expenditure stands incurred for the purpose is sufficient for its admissibility, as explained by the Apex Court in CIT v. Rajendra Prasad Moody [1978] 115ITR 519 (SC).

The Apex Court was in that case examining the true interpretation of section 57(iii), which employed the words 'any expenditure (not being in the nature of capital expenditure) laid out or expended for the purpose of making or earning such income', the question of law raised before it reading as under:

"Whether, on the facts and in the circumstances of the case, interest on money borrowed for investment in shares which had not yielded any dividend is admissible under s. 57(iii)?"

The revenue's contention in the above case was that the making or earning of income was a sine qua non to the admissibility of the expenditure u/s. 57(iii). And, therefore, where no income resulted, no expenditure would be deductible. The Apex Court rejected the revenue's contention, and held., that to bring a case within the section, it is not necessary that any income should in fact have been earned as a result of the expenditure and therefore, the interest paid on money borrowed for investment in shares, which had not yielded any dividend, was admissible under section 57(iii) . The ratio decidendi of the judgment of Hon'ble Supreme Court in CIT v . Rajendra Prasad Moody (supra) can be applied to say, by the same analogy, that the expenditure incurred to earn an exempt income is subject to its admissibility in accordance with the provisions of the Income Tax Act, 1961 including those of section 14A irrespective of whether there is a receipt or income or not during the year under consideration .



In sum, the principle that It is the net income, i.e., net of expenditure relatable thereto, which is subject to tax and, correspondingly, not liable to tax. I.e., where it does not form part of the total income, is well established. It follows, therefore, that once an income is liable (or not liable) to tax, all expenditure relatable thereto is to be reckoned, and it matters little that the said expenditure has indeed resulted in a positive income. This principle, i.e., to exclude all expenditure relatable to the earning of income not forming part of the total Income, irrespective of its quantum, has also been noted with approval by the Hon'ble Apex Court In the case of Maxopp Investment Ltd. reported In [2018] 91 taxmann.com 154 held vide order dated 12.02.2018 Hon'ble Supreme Court has observed in para 3 and 32 the following:

“3. Though, It Is clear from the plain language of the aforesaid provision that no deduction Is to 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, the effect whereof Is that If certain income Is earned which is not to be included while computing total Income, any expenditure Incurred to earn that Income Is also not allowed as a deduction. It Is well known that tax Is leviable on the net income. Net Income is arrived at after deducting the expenditure Incurred In earning that Income. Therefore, from the gross Income, expenditure Incurred to earn that income is allowed as a deduction and thereafter tax. Is levied on the net Income. The purpose behind Section 14A of the Act, by not permitting deduction of the expenditure Incurred in relation to income, which does not form part of total Income, Is to ensure that the assessee does not get double benefit. Once a particular Income Itself is not to be included in the total income and is exempted from tax, there is no reasonable basis for giving benefit of deduction of the expenditure Incurred In earning such an Income. For example, income in the form of dividend earned on shares held In a company Is not taxable. If a person takes Interest bearing loan from the Bank and Invests that loan in shares/stocks, dividend



earned there from is not taxable. Normally, interest paid on the loan would be expenditure incurred for earning dividend income. Such an interest would not be allowed as deduction as it is an expenditure incurred in relation to dividend income which itself is spared from tax net. There is no quarrel up to this extent."

"32. In the first instance, it needs to be recognized that as per section 14A(1) of the Act, deduction of that expenditure is not to be allowed which has been incurred by the assessee "In relation to Income which does not form part of the total Income under this Act". Axiomatically, it is that expenditure alone which has been incurred in relation to the income which is (not) includible in total Income that has to be disallowed. If an expenditure incurred has no causal connection with the exempted income, then such an expenditure would obviously be treated as not related to the income that is exempted from tax, and such expenditure would be allowed as business expenditure. To put it differently, such expenditure would then be considered as incurred in respect of other income which is to be treated as part of the total income."

The Hon'ble Supreme Court, in the judgment in the case of Maxopp Investment Ltd. reported in [2018] 91 taxmann.com 154 (SC), has also affirmed the view that the dominant purpose for which investment into shares is made by assessee may not be relevant as section 14A applies irrespective of whether shares are held to gain control or as stock-in-trade and further interpreted the dominant purpose test and upheld the theory of apportionment, in following words:

"33..... The entire dispute is as to what interpretation is to be given to the words in relation to in the given scenario, viz. where the dividend income on the shares is earned, though the dominant purpose for subscribing in those shares of the investee company was not to earn dividend. We have two scenarios in these sets of appeals. In one group of cases the main purpose for investing in shares was to gain control over the investee company. Other cases are those where the shares of investee



company were held by the assessee as stock-in-trade (i.e. as a business activity) and not as investment to earn dividends. In this context, it is to be examined as to whether the expenditure was incurred, in respective scenarios, in relation to the dividend income or not.

"34. Having clarified the aforesaid position, the first and foremost issue that falls for consideration is as to whether the dominant purpose test, which is pressed into service by the assessee would apply while interpreting Section 14A of the Act or we have to go by the theory of apportionment. We are of the opinion that the dominant purpose for which the investment into shares is made by an assessee may not be relevant. No doubt, the assessee like Maxopp Investment Limited may have made the Investment In order to gain control of the investee company. However, that does not appear to be a relevant factor in determining the issue at hand. Fact remains that such dividend income is non-taxable. In this scenario, if expenditure is incurred on earning the dividend income, that much of the expenditure which is attributable to the dividend income has to be disallowed and cannot be treated as business expenditure. Keeping this objective behind Section 14A of the Act in mind, the said provision has to be interpreted, particularly, the word 'In relation to the income' that does not form part of total income. Considered in this hue, the principle of apportionment of expenses comes into play as that is the principle which is engrained in Section 14A of the Act. This is so held In Walfort Share & Stock Brokers (P.) Ltd., relevant passage whereof Is already reproduced above, for the sake of continuity of discussion, we would like to quote the following few lines therefrom.

"The next phrase is, "in relation to income which does not form part of total income under the Act". It means that if an income does not form part of total income, then the related expenditure is out side the ambit of the applicability of section 14A.

.....



The theory of apportionment of expenditure between taxable and non-taxable has, in principle, been now widened under section 14A."

"35. The Delhi High Court, therefore, correctly observed that prior to Introduction of Section 14A of the Act, the law was that when an assessee had a composite and Indivisible business which had elements of both taxable and non-taxable Income, the entire expenditure In respect of said business was deductible and, in such a case, the principle of apportionment of the expenditure relating to the non-taxable Income did not apply. The principle of apportionment was made available only where the business was divisible. It Is to find a cure to the aforesaid problem that the Legislature has not only Inserted Section 14A by the Finance (Amendment) Act, 2001 but also made It retrospective. i.e., 1962 when the Income Tax Act Itself came into force. The aforesaid Intent was expressed loudly and clearly In the Memorandum explaining the provisions of the Finance BUI, 2001. VJe, thus, agree with the view taken by the Delhi High Court, and are not inclined to accept the opinion of Punjab & Haryana High Court which went by dominant purpose theory. The aforesaid reasoning would be applicable In cases where shares are held as Investment in the investee company, may be for the purpose of having controlling Interest therein. On that reasoning, appeals of Maxopp Investment Limited as well as similar cases where shares were purchased by the assessees to have controlling Interest in the investee companies have to fail and are, therefore, dismissed.

36. There is yet another aspect which still needs to be looked in to. What happens when the shares are held as 'stock-in-trade' and not as 'investment', particularly, by the banks? On this specific aspect, CBDT has issued circular No.18/2015 dated November 02, 2015.

37. This Circular has already been reproduced in Para 19 above. This Circular takes note of the judgment of this Court in Nawanshahar case wherein it is held that investments made by a



banking concern are part of the business or banking. Therefore, the income arises from such investments is attributable to business of banking falling under the head 'profits and gains of business and profession'. On that basis, the Circular contains the decision of the Board that no appeal would be filed on this ground by the officers of the Department and if the appeals are already filed, they should be withdrawn. A reading of this circular would make it clear that the issue was as to whether income by way of interest on securities shall be chargeable to income tax under the head 'income' from other sources' or it is to fall under the head 'profits and gains of business and profession'. The Board, going by the decision of this Court in Nawanshahar case, clarified that it has to be treated as income falling under the head 'profits and gains of business and profession'. The Board also went to the extent of saying that this would not be limited only to co-operative societies/Banks claiming deduction under Section 80P(2)(a)(i) of the Act but would also be applicable to all banks/commercial banks, to which Banking Regulation Act, 1949 applies.

38. From this, Punjab and Haryana High Court pointed out that this circular carves out a distinction between 'stock-in-trade' and 'investment' and provides that if the motive behind purchase and sale of shares is to earn profit, then the same would be treated as trading profit and if the object is to derive income by way of dividend then the profit would be said to have accrued from investment. To this extent, the High Court may be correct. At the same time, we do not agree with the test of dominant intention applied by the Punjab and Haryana High Court, which we have already discarded. In that event, the question is as to on what basis those cases are to be decided where the shares of other companies are purchased by the assessee as 'stock-in-trade' and not as 'investment'. We proceed to discuss this aspect hereinafter.

39. In those cases, where shares are held as stock-in-trade, the main purpose is to trade in those shares and earn profits therefrom. However, we are not concerned with those profits which would naturally be treated as 'income' under the head



'profits and gains from business and profession'. What happens is that, in the process, when the shares are held as 'stock-in-trade', certain dividend is also earned, though incidentally, which is also an income. However, by virtue of Section 10 (34) of the Act, this dividend income is not to be included in the total income and is exempt from tax. This triggers the applicability of Section 14A of the Act which is based on the theory of apportionment of expenditure between taxable and non-taxable income as held in Walfort Share & Stock Brokers (P.) Ltd. case. Therefore, to that extent, depending upon the facts of each case, the expenditure incurred in acquiring those shares will have to be apportioned."

Hence, the Hon'ble Supreme Court, In the judgment In the case of Maxopp Investment Ltd. has held as under:

(i) Only that expenditure which is in relation to earning dividends can be disallowed under section 14A and rule 8D.

(ii) The dominant purpose for which investment into shares is made by assessee may not be relevant as section 14A applies Irrespective of whether shares are held to gain control or as stock-in-trade. However, where shares are held as stock-in-trade, main purpose is to trade in those shares and earn profits therefrom and, in process, certain dividend is also earned which is tax exempt under section 10(34); expenditure attributable to exempt dividend Income will have to be apportioned to be disallowed under section 14A.

(iii) Rule 8D is prospective in nature and could not have been made applicable in respect of assessment years prior to 2007 when this rule was inserted.

Amendments of Finance Bill 2022.

The Finance Bill 2022, has introduced an amendment to clarify that expense disallowance under the said section shall apply and shall be deemed to have always applied even in a case where the



exempt income has not accrued or arisen or has not been received during a particular year.

The amendments which are introduced with the use of words 'for removal of doubts', 'shall be deemed always to have meant' or to explain an existing provision, are normally considered to be clarificatory or declaratory amendments.

These amendments are expected to provide for an obvious omission or clear up doubts in the interpretation of an existing legislation. As a general rule, such clarificatory amendments are considered to have a retrospective effect. This applies even if such amendments are made applicable from a prospective date in the Finance Bill (See Justice GP Singh's Principles of Statutory Interpretation and CIT v. Vatika Town ship (P) Ltd [2014] 49 taxmann. com 249 (SC) .

In the case of Vatika Township (P) Ltd (supra), the Hon'ble Supreme Court discussed the general principles concerning retrospectively, an extract of which is as under:

. "A legislation, be it a statutory Act or a statutory rule or a statutory Notification, may physically consists of words printed on papers. However, conceptually It' is a great deal more than an ordinary prose. There is a special peculiarity in the mode of verbal communication by a legislation. A legislation is not just a series of statements, such as one finds in a work offiction/non-fiction or even in a judgment of a Court of law. There is a technique required to draft a legislation as well as to understand a legislation. Former technique is known as legislative drafting and latter one is to be found in the various principles of 'Interpretation of Statutes'. Vis-a-vis ordinary prose, a legislation differs in its provenance, lay-out and features as also in the impiication as to its meaning that arise by presumptions as to the intent of the maker thereof. [Para 30]

. of the various rules guiding how a legislation has to be interpreted, one established rule is that unless a contrary



*intention appears, a legislation is presumed not to be intended to have a retrospective operation. The idea behind the rule is that a current law should govern current activities. Law passed today cannot apply to the events of the past. One principle of law is known as *lex prospicit non resicit*: law looks forward not backward. As was observed in *Philips V. Eyre* [1870] LR 6 QB 1 a retrospective legislation is contrary to the general principle that legislation by which the conduct of mankind is to be regulated when introduced for the first time to deal with future acts ought not to change the character of past transaction carried on upon the faith of the then existing law. [Para 31].*

. Thus, legislations which modified accrued rights or which impose obligations or impose new duties or attach a new disability have to be treated as prospective unless the legislative intent is clearly to give the enactment a retrospective effect; unless the legislation is for purpose of supplying an obvious omission in a former legislation or to explain a former legislation . [Pa ra 32]

. For the sake of completeness, that where a benefit is conferred by a legislation, the rule against a retrospective construction is different. If a legislation confers a benefit on some persons but without inflicting a corresponding detriment on some other person or on the public generally, and where to confer such benefit appears to have been the legislators object, then the presumption would be that such a legislation, giving it a purposive construction, would warrant it to be given a retrospective effect. This exactly is the justification to treat procedural provisions as retrospective. [Para 33]"

Hence, the rule is different when it comes to substantive amendments which modify existing rights, or which impose new obligations or impose new duties or attach a new disability. Such amendments are presumed to have prospective effect unless there is an express legislative intent to give retrospective effect.

It is my humble submission therefore alongwith the aforesaid



Judgments of Hon'ble Supreme Court which constitute an authority in law on the issue whether an expenditure incurred in relation to a tax-exempt income attracts 'disallowance u/s 14A irrespective of whether such tax-exempt income has been earned during the year or not or earned incidentally with business income, the Finance Biii 2022 has sought to put matters at rest by laying down in no uncertain terms and in a crystal clear manner the dominant intention of the statute. The, same intention which was sought to be redressed by the CBDT vide Circular no.5/2014 dated 11/02/2014. For the sake of repetition, it is stressed again that the intention of the statute is that expense disallowance under the said section shall apply and shall be deemed to have always applied even in a case where the exempt income has not accrued or arisen or has not been received during a particular year. It does not talk about income earned during a particular year but income earned under the Income Tax Act. Most importantly the clarification has not modified accrued rights or imposed obligations or imposed new duties or attached new disabilities but only sought to reinforce the spirit behind the law which was the stand of the Law makers from the date of introduction of the section 14A vide Finance Act 2011, with retrospective application from 1.4.1962.

In the instant case of the appellant, as the amendments are applicable retrospectively the disallowance made by the AO deserves to be confirmed.”

3. In paragraphs 7 & 8, the Tribunal has also stated as under :

“7. As the facts reveal that the assessee has earned Rs.50,000/- only as dividend, relying on the judicial pronouncements mentioned below and the settled position of law, we hold that no disallowance is called for more than the amount earned as dividend.

(i) Joint Investments Pvt. Ltd. Vs. CIT (59 com 295) - it was held that disallowance u/s 14A of the Act is to be restricted to the tax exempt income.

(ii) Daga Global Chemicals Pvt. Ltd. Vs. ACIT [2015-ITRV-



ITAT-MUM-123) - has held that disallowance u/s 14A r.w.Rule 8D cannot exceed the exempt income.

(iii) M/s. Pinnacle Brocom Pvt. Ltd. Vs.ACIT (ITA No.6247/M/2012) – has held that disallowance u/s 14A cannot exceed the exempt income.

(iv) DCM Ltd. V. DCIT (ITA No.4567/Del/2012) - held that the disallowance u/s 14A of the Act cannot exceed the exempt income.

8. We have gone through the submissions of the Id. DR and find, that the ;amendment has been brought by the Finance Bill 2022 which is prospective in nature. Hence, we hold that, the amount of disallowance u/s 14A of the I.T.Act needs to be restricted to the extent of exempted income earned (Rs50,000/-) during the relevant assessment year. The appeal of the Revenue on this ground is dismissed and the appeal of the assessee is allowed.”

4. The Tribunal held that the amount of disallowance under Section 14A of the Act needs to be restricted to the extent of exempted income earned Rs.50,000/- (during the relevant Assessment Year). We also note that the Tribunal had relied upon the judgment in case of ***Joint Investments (P.) Ltd. v. Commissioner of Income-tax, [2015] 59 taxmann.com 295 (Delhi)*** to hold that the disallowance under Section 14A of the Act is to be restricted to the exempted income.

5. Mr. Ruchir Bhaita, SSC has fairly states that there is another aspect of the matter i.e. the applicability of the amendment carried out in terms of the Finance Act 2022, in as much as the same has been declared to be prospective in the judgment in the case of ***Principal Commissioner of Income-tax (Central) v. Era Infrastructure (India) Ltd. [2022] 141 taxmann.com 289 (Delhi)***.



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6. If that be so, concedingly the appeal concerns the Assessment Year 2011-12 and as such the applicability of the Section 14A being prospective the said amendment shall not be applicable to the case in hand. As no substantial questions of law as proposed, would not arise for consideration in this appeal, the appeal is dismissed.

V. KAMESWAR RAO, J

VINOD KUMAR, J

DECEMBER 12, 2025

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