

Profits increased due to Sec. 14A disallowance would be eligible for Sec. 10A relief: Mumbai ITAT

Summary – The Mumbai ITAT in a recent case of Informed Technologies India Ltd., (the Assessee) held that where any part of expenditure claimed by assessee was disallowed under section 14A, then as a consequence thereto profits of assessee eligible for deduction under section 10A would witness a corresponding increase, leading to a consequent increase in claim of deduction of assessee under 10A

Facts

- The assessee company had made investments and had received exempt income under section 10 on the same, but had not worked out and reflected the disallowance under section 14A in its 'Return of income'.
- The assessee submitted that pursuant to the carrying out of disallowance by the Assessing Officer under 14A, the consequential enhancement to its claim of deduction under section 10A was required to be given effect to, as a result whereof the net business income would remain at Rs. Nil.
- The Assessing Officer however viewed that the disallowance under section 14A did not fall within the sweep of sections 28 to 44, which regulated the computation of the income under the head 'Business or Profession', therefore the same would not go to increase the business profit eligible for deduction under section 10A and thus rejected the contention of the assessee and worked out the disallowance under section 14A without carrying out any enhancement to the amount of deduction under section 10A.
- On appeal, the Commissioner(Appeals) sustained the order of the Assessing Officer.
- On appeal to the Tribunal:

Held

- The assessee company submitted that it had business income only from one source, i.e. software unit located in Software Technology Park (STP) , which pursuant to its corresponding entitlement towards claim of deduction under section 10A, therein reduced the taxable income to Rs. Nil. It was thus submitted by the assessee that now when any part of the expenditure claimed by the assessee was disallowed under section 14A, then as a consequence thereto the profits of the assessee eligible for deduction under section 10A would witness a corresponding increase, leading to a consequent increase in the claim of deduction of the assessee under 10A, pursuant where to the net effect would remain at Rs. Nil. There is substantial force in the contention of the assessee that pursuant to disallowance under section 14A, the business profits eligible for deduction under section 10A, to the said extent would stand enhanced. Thus, the Assessing Officer was to be directed that pursuant to the disallowance so made by him under section 14A, a consequent enhancement of the entitlement of the assessee towards claim of deduction under section 10A be carried out.