

Rule 8D cannot be applied only if assessee had mixed funds for earning tax free income

Summary – The High Court of Gujarat in a recent case of Gujarat State Fertilizers And Chemicals Ltd., (the Assessee) held that Rule 8D cannot be applied only if assessee had mixed funds for earning tax free income

Facts

- In course of assessment, the Assessing Officer made disallowance of interest expenses under section 14A, read with rule 8D, of 1962 Rules in respect of tax free income earned by assessee.
- The Tribunal held that the spare interest free funds were much more than the investments made for earning tax free income. Also the Assessing Officer had failed to establish that the borrowed funds were utilized for making investment to earn exempt income. Accordingly, the disallowance made by the Assessing Officer was deleted.
- On revenue's appeal:

Held

- The HC held that before invoking rule 8D of 1962 rules, the Assessing Officer is obliged to indicate that having regard to the accounts of the assessee, he is not satisfied with the correctness of the claim of the assessee in respect of such expenditure in relation to the income which does not form part of the total income under the Act. No such findings have been made by the assessing officer.
- In the overall view of the matter, no error, not to speak of any error of law, could be said to have been committed by the Tribunal in passing the impugned order.
- In the result, revenue's appeal is dismissed.