

**IN THE INCOME TAX APPELLATE TRIBUNAL "D" BENCH, MUMBAI
BEFORE SHRI PAWAN SINGH, JUDICIAL MEMBER AND
SHRI MAKARAND VASANT MAHADEOKAR, ACCOUNTANT MEMBER
ITA No. 7160/MUM/2025 (AY: 2016-17)
ITA No. 7161/Mum/2025 (AY: 2017-18)**

(Physical hearing)

Manugraph India Limited 2 nd Floor, Sidhwa House, NA Sawant Marg, Colaba, Mumbai – 400005. [PAN: AAACM7246H]	Vs	ACIT Circle – 3(2)(1), Mumbai Room No. 608, 6 th Floor, Aayakar Bhavan, M.K. Road, Mumbai – 400020.
Appellant / Assessee		Respondent / Revenue

Assessee by	Dr. K. Shivram, Senior Advocate with Shri Rahul Hakani, Advocate
Revenue by	Shri Annavaram Kosuri- Sr. DR
Date of hearing	22.04.2026
Date of pronouncement	04.06.2026

Order under section 254(1) of Income Tax Act

PER PAWAN SINGH, JUDICIAL MEMBER:

1. These two appeals by assessee are directed against the separate orders of Id. CIT(A) both dated 10.09.2025 for Assessment Year (AY) 2016-17 & 2017-18 respectively. Certain facts in both the years are common. The assessee has raised certain common grounds of appeal in both the years, therefore, with the consent of parties both the appeals are heard, clubbed together and are decided by common order to avoid the conflicting decision. For appreciation of fact, facts in A.Y. 2016-17 in ITA No. 7160/M/2025 is treated as lead case. The assessee has raised following grounds of appeal:

"1. Disallowance of expenses u/s. 14A of the Act-Rs.27,75,315/-
1.1. The Assistant Commissioner of Income-tax, Circle 3(2)(1), Mumbai (AO) erred in disallowing expenses of Rs.27,75,315/- u/s. 14A as against Rs. 1,20,899/- disallowed by the appellant company in the Return of Income.

1.2. *The Commissioner of Income-tax, (Appeals)-48, Mumbai [CIT (A)] erred in setting aside the matter to the file of the AO for computing the disallowance of expenses after taking income from growth funds. The appellant submits that investments made by the appellant in growth mutual funds are not capable of earning exempt income as dividend is not paid by the fund to the unit holders.*

1.3. *The AO erred in considering interest expenses of Rs. 1,65,37,000/- for the purpose of disallowance u/s14A of the Act r.w.r BD(ii) and 8D(iii) of the Rules. The appellant submits that the said expenses are incurred on facilities availed from banks for working capital requirements and not for the purpose of investments. The appellant submits that the investments have been made by the appellant out of its own funds and not out of borrowed funds. The CIT(A) erred in holding that the appellant has not submitted any supporting document for its contrary claim.*

2. Rent expenses - Rs. 13,20,000/-

2.1. *The CIT (A) erred in confirming the disallowance of rent expenses of Rs. 13,20,000/-made by the AO u/s. 40A(2)(b) of the Act.*

2.2. *The AO erred in disallowing the expenses without bringing anything on record to show that the rent paid by the appellant is excessive and unreasonable.*

2.3. *The appellant submits that these expenses have been incurred by the appellant exclusively for the purpose of business and therefore are allowable under law.*

3. Scientific Research expenses u/s37(1)/35(1)(i) - Rs.22,00,648/-

3.1. *The CIT (A) erred in not allowing the Scientific Research expenses of Rs.22,00,648/-u/s. 37(1)/35(1)(i) of the Act incurred by the appellant for the purpose of business.*

3.2. *The appellant submits that the appellant claimed deduction in respect of revenue expenses of Rs.1,90,81,154/- u/s. 35(2AB) of the Act. However, the DSIR has approved expenses of Rs. 1,68,80,506/- for weighted deduction. The expenses of Rs.22.00,648/-not considered by the DSIR u/s. 35(2AB) of the Act ought to have been allowed by the AO u/s. 35(1)(i)/37(1) of the Act as the expenses relate to the business of the appellant company.*

4. *Each of the above grounds is without prejudice to one another.*

5. *The appellant craves leave to add, to alter, vary or cancel any of the above grounds of appeal."*

2. Brief facts of the case are that assessee is a company engaged in the business of manufacturing and exporting of precision and sophisticated printing machines. The assessee filed its return of income for A.Y. 2016-17 on 29.11.2016 declaring loss of Rs. 2.22 crore under normal provisions of the Act and a book profit of Rs. 3.32 crore under section 115JB. Case was selected for scrutiny. The assessment was completed on 22.12.2018. The Assessing Officer (AO) while passing the assessment order made disallowance under section 14A read with Rule 8D of Rs. 27,75,315/-, disallowance of claim for deduction under section 35(2AB) of Rs. 44,01,296/- and disallowance of rent expenses of Rs. 13,20,000/-. On appeal before Id. CIT(A), the disallowance of rent expenses and scientific research expenditure was upheld. On disallowance of section 14A, the assessee was allowed part relief. Further, aggrieved the assessee has filed present appeal before Tribunal.
3. We have heard the submissions of Dr Shivaram learned Senior Advocate assisted by Sh Rahul Hakkani Advocate, hereinafter referred as learned Authorised Representative (Id. AR) of the assessee and the learned Senior Departmental Representative (Id. Sr. DR) for the Revenue. Ground No. 1 relates to disallowance under section 14A. The Id. AR of the assessee submits that during relevant financial years, the assessee earned exempt dividend income of Rs. 23,04,695/-. The assessee computed *suo moto* disallowance under section 14A r.w. Rule 8D of Rs. 1,20,899/-. The details of dividend income, computation of total income and working of suo moto disallowance was furnished before Assessing Officer (AO) and copy

thereof is filed before Tribunal. The AO disregarded suo moto disallowances and computed disallowance by invoking Rule 8D and worked out disallowance of Rs. 28,96,214/-. The AO while computing disallowance considered all investments instead of restricting to those investments which yielded exempt income. Before Id. CIT(A), the assessee demonstrated that so far as interest expenses is concerned, such interest expenses were incurred for the purpose of business and not for the purpose of any investment. Even otherwise, the assessee explained that they have interest free funds more than the interest-bearing funds. The Id. CIT(A) directed that disallowance under section 14A should be restricted to the exempt income and he also directed the AO to verify if any dividend was received in growth mutual funds. The Id. CIT(A) not considered the submission of assessee that for the purpose of Rule 8D only investment which yielded exempt income should be considered. The assessee while making suo moto disallowances considered only those investments are yielded exempt income and computed disallowance of Rs. 1,20,000/-. The Id. AR of the assessee submits that Id. CIT(A) erred in holding that dividend is paid by growth mutual fund. In fact, the assessee has paid capital gain on redemption. Growth fund does not yield any dividend/exempt income hence provision of section 14A does not apply. To support his submission, the Id. AR of the assessee relied upon the decision of special bench of Delhi Tribunal in ACIT vs Vireet Investments P. Ltd. (2017) 165 ITD 27 (Delhi-Trib.) (SB), Manugraph India Ltd. in ITA No.

4761/M/2013 dated 25.03.2025 and Manugraph India Ltd. in ITA No. 2631/M/2015 dated 14.01.2016.

4. On the other hand, the learned Senior departmental representative (Id. Sr. DR) of the Revenue supported the order of lower authorities. The Id. Sr. DR for the Revenue submits that once the assessee earned exempt income, the assessee was supposed to offer *suo moto* disallowance, which the assessee failed. The assessee furnished working of *suo moto* disallowance only on show cause notice. *Suo moto* disallowance of section 14A was disregarded by AO and he worked out disallowance under section 14A as per formula in Rule 8D. The Id Sr DR for the revenue prayed for rejection of this ground of appeal.
5. We have considered the submissions of both the parties and have gone through the orders of lower authorities carefully. We find that during assessment, the AO noted that assessee has earned dividend income of Rs. 23,04,695/-. On show cause notice, the assessee submits that in the computation of income, the assessee has worked out disallowance under section 14A of Rs. 1,20,899/-. The AO was of the view that disallowance under section 14A is not in accordance with Rule 8D. The AO by referring various case laws invoked provision of Rule 8D and worked out disallowance of Rs. 28,96,214/- which consists of interest disallowance of Rs. 15,16,732/- and 0.5% of average value of investment. The AO allowed the benefit of *suo moto* disallowance and thereby worked out disallowance of Rs. 27,75,315/-. Before Id. CIT(A), the assessee submitted that growth mutual fund does not generate dividend. Such contention was not

accepted by Id. CIT(A). On interest disallowance, the assessee submitted that interest free funds are far excess utilization of interest free funds. The Id. CIT(A) held that assessee has not demonstrated with supporting evidence about such plea. The assessee also took plea that disallowance under section 14A cannot exceed the exempt income. Such contention was also rejected by Id. CIT(A) that there are several contrary decisions. The Id. CIT(A) further noted that assessee claimed exempt income of Rs. 23,04,695/-, but not submitted details, if dividend income earned through growth funds were reinvested or not. The Id. CIT(A) directed the AO to recompute the disallowance on furnishing fresh figure by the assessee with regard to exempt income related to dividend on growth mutual fund.

6. Before us, the Id. AR of the assessee, apart from other contention raised primary submission that disallowance under section 14A should be restricted to the investment which yielded exempt income. Such contention is duly supported by the decision of special bench of Delhi Tribunal in ACIT vs Vireet Investments P Ltd. (supra). Thus, we accept the submission of Id. AR of the assessee and direct the AO to consider only those investments which yielded exempt income for disallowance under section 14A. Thus, the assessee gets partial relief on the disallowance under Rule 8D(2)(iii). So far as the interest disallowance under Rule 8D(ii) is concerned, we find that Id. AR of the assessee vehemently argued that interest free funds are in far excess than the investment made by assessee. We find that before Id. CIT(A), the assessee in its submission submitted that assessee is having its own fund in the form of equity

capital and reserve of Rs. 21619.8 lacs. The assessee has made investment (current & non-current) of Rs. 10044.53 lac. Such facts are not disputed by Id CIT(A). On perusal of financial statement of assessee, we find that interest free funds are in far excess to the investment. Thus, as per the decision of Hon'ble Jurisdictional High Court in CIT vs HDFC Bank 366 ITR 505 (Bombay) wherein it was held that there is presumption of interest free funds are far in excess then the investment made in tax free securities that investment out of interest free funds available with assessee. Hence, we direct the AO to delete the entire interest disallowance under Rule 8D(2)(ii) and recompute disallowance as per aforesaid directions. In the result, ground No.1 of appeal is partly allowed.

7. Ground no. 2 relates to rental expenses disallowed under section 37(1). The Id. AR of the assessee submits that assessee company has incurred rental expenses for stay in Farm house in Alibaug, which was taken on leave and license basis from Sanjay Shah, Vice Chairman and Managing Director (MD), Pradeep Shah (MD) and Sudha Shah (MD). Copy of rent agreement was furnished. The Alibaug is in the vicinity of Mumbai. The said farm house was taken on leave and license for the purpose of comfortable stay of foreign clients and it was used for the purpose of business. TDS was deducted on the payment of rent. Rent was paid @ Rs. 2,20,000/- per month. The AO disallowed such rental expenditure by holding that it was not incurred for the purpose of business and rent was paid to related parties. The AO wrongly held that rent agreement was not furnished. The Id. CIT(A) confirmed the action of assessing officer. The Id.

AR of the assessee submits that assessee is a company and there is no personal element on the expenses of a company. Rental expenses were incurred wholly and exclusively for the purpose of business of assessee. The AO has not brought any evidence on record that firm house was not used for the purpose of business. The rent is taxed in the hands of recipient and there is no tax evasion. Similar expenses were allowed in earlier year. To support his submission, the Id. AR of the assessee relied upon the decision of Sayaji Iron & Engg. Co. vs CIT (2002) 253 ITR 749 (752) Guj – HC).

8. On the other hand, Id. Sr. DR for the Revenue supported the order of lower authorities. The Id. Sr. DR for the submits that no agreement or other information about the leave and license was provided. The alleged rental property has no business connection.
9. At the time of hearing, we direct the assessee to furnish the name of the foreign guest, their nationality and purpose of visit and period of his stay. In response to our such query, the assessee furnished the name of foreign guest namely, Mr. Demitry, Managing Director from Russia who visited for the purpose of negotiation and finalization of web offset printing machine and stays only one night. Further, Mr. Ken Inoue, Head Procurement from Seiken Graphics Inc from Japan also stayed for one night.
10. We have considered the rival submissions of both the parties and have gone through the orders of the lower authorities carefully. We find that during the assessment, the AO recorded that details of rent expenses was not provided. The assessee could not justify the expenses incurred wholly

and exclusively for the purpose of business. The AO also recorded that rental expenses was paid to Sanjay Shah, Pradeep and Sudha Shah for occupying bungalow at Alibaug, who are related party. The assessee has no business connection in Alibaug. All the three persons to whom rent was paid are covered under section 40A(2)(b). The AO also noted that office of assessee is situated in Mumbai, manufacturing unit is at Kolhapur and paying rent at Bungalow situated in Alibaug. Rent was paid to directors and relatives who are covered under section 40A(2)(b) which shows divergent of fund. The assessee could not justify such expenses. The Id. CIT(A) also held that assessee failed to establish that expenses were incurred wholly and exclusively for the purpose of business. On the contention of assessee that expenses were allowed in past and scrutiny assessment. The Id. CIT(A) held that principle of res-judicata is not applicable in income tax proceeding and onus on assessee to prove that expenditure is led out wholly and exclusively for the purpose business. The AO has clearly noted the lack of direct business connection. General statement is not sufficient and no details of visitors may hold or specific corroborative evidence is furnished.

11. Before us, the Id. AR of the assessee vehemently submitted that Bungalow taken on rent was used for the purpose of foreign visitors / customers and was used for the purpose of business and no personal element is involved. We find that assessee has not disputed that payments on account of rental expenses were paid to related parties covered under section 40A(2)(b). The assessee has paid rental expenses of Rs. 13,20,000/- for

the period April, 2015 to September, 2015 and thereafter discontinued. Thus, the assessee has claimed continuous expenses for six months. No doubt that expenditure incurred wholly and exclusively for the purpose of business is to be allowed. However, the assessee has to prove the business expediency and the purpose for which such expenditure was incurred. The Id. AR of the assessee explained before us that expenditure was incurred for stay of foreign customers. The name and details of foreign customers have not been furnished. From the details furnished, we find that only two foreign clients stayed in the farm house for one or two days in entire period of six months. Thus, in order to avoid the possibility of revenue leakage, the disallowance is restricted to 50% of the rental expenses. The disallowance is also restricted to that extent keeping in view that the farm house is in the name of directors of the assessee company and personal use is not ruled out. In the result, this ground of appeal is partly allowed.

12. Ground no. 3 relates to disallowance under section 37(1)/35(1)(i). The Id. AR of the assessee submits that during the year, the assessee claimed deduction under section 35(2AB), bifurcation of which were furnished before lower authorities. The assessee debited Rs. 1.90 crore in its profit and loss account on account of revenue expenses and claimed 200% weighted deduction in computation of income at Rs. 3.81 crore. The assessee also claimed capital expenditure of Rs. 1.04 lacs and claimed weighted deduction @ 200% that is Rs. 2.01 lacs. The Id. AR of the assessee submits that Department of Scientific & Industrial Research

(DSIR) vide his approval dated 10.10.2019, approved the expenses of Rs. 1.68 crore. Thus, on the basis of such approval, the weighted deduction of Rs. 44,00,308/- is not allowed by AO. The Id. CIT(A) confirmed the action of AO. The Id. AR of the assessee submits that research and development is Revenue expenses of Rs. 22,04,648/- not approved by DSIR for weighted deduction it may be allowed under section 37(1) or 35(1)(i). To support such submission, the Id. AR of the assessee relied upon the decision of Delhi Tribunal in Auto Ignition Ltd. vs ADIT in ITA No. 3248/Del/2017 dated 11.08.2021 and Bangalore Tribunal in BEML Ltd. vs DCIT in ITA No. 291/Bang/2023 dated 19.07.2023. The Id. AR of the assessee submits that details of research and development (R & D) expenses was never disputed. The expenses were incurred for the purpose of business.

13. On the other hand, the Id. Sr. DR for the Revenue submits that weighted deduction under section 35(2AB) was allowed to the extent, it was approved by DSIR. The assessee cannot claim a single expense under two different heads.
14. We have considered the rival submissions of both the parties and have gone through the orders of lower authorities carefully. We find that AO allowed the weighted deduction to the extent, it was approved / allowed by DSIR and rest of the weighted deduction of Rs. 44,01,296/- was disallowed. The Id. CIT(A) also confirmed the action of assessing officer by taking view that if the expenditure which a part of R & D claim is not certified by DSIR which is not eligible for the benefit under section

35(2AB). The alternative plea of assessee that uncertified portion may be allowed under section 37(1) / 35(1)(i) was also rejected by Id. CIT(A) as it was not approved so deduction automatically cannot be considered as general expenditure under section 37(1) without demonstrating that it meets criteria of research and development expenditure.

15. We find that there is no much dispute on the fact. We find that co-ordinate bench of Delhi Tribunal in Auto Ignition Ltd. vs ADIT (supra) while considering the similar ground of appeal held that R&D expenditure though not eligible weighted deduction under section 35(2AB) but is allowable under section 37(1) to the extent of amount expenditure incurred by assessee. By following the decision of Delhi Tribunal, similar view was taken by Bangalore Tribunal in BEML Ltd. vs DCIT (supra). Thus, respectfully following the same, we direct the AO to allowed deduction of Rs. 22,00648/- under section 37(1). In the result, this ground of appeal is allowed.

16. In the result, appeal of the assessee is partly allowed.

ITA 7161/M/2025 (A.Y. 2017-18)

17. The assessee has raised following grounds of appeal:

1. Disallowance of expenses u/s. 14A of the Act-Rs.57,22,349/-

1.1. The Assistant Commissioner of Income-tax, Circle 3(2)(1), Mumbai (AO) erred in disallowing expenses of Rs.57,22,349/- u/s. 14A as against Rs. Nil disallowed by the appellant company in the Return of Income.

1.2. The Commissioner of Income-tax, (Appeals) - 48, Mumbai [CIT (A)] erred in setting aside the matter to the file of the AO for computing the disallowance u/s14A of the Act after taking income from growth funds. The AO ought to have considered only those investments which have yielded exempt income during the year for the purpose of determining disallowance.

The appellant submits that investments made by the appellant in growth mutual funds are not capable of earning exempt income as dividend is not paid by the fund to the unit holders.

1.1. The AO erred in considering interest expenses of Rs.67,16,000/- for the purpose of disallowance u/s14A of the Act r.w.r 8D(ii) and 8D(iii) of the Rules. The appellant submits that the said expenses are incurred on facilities availed from banks for working capital requirements and not for the purpose of investments. The appellant submits that the investments have been made by the appellant out of its own funds and not out of borrowed funds. The CIT(A) erred in holding that the appellant has not submitted any supporting document for its contrary claim.

1.3. Without prejudice to the above, the AO ought to have restricted the disallowance u/s14A to the amount of exempt income earned during the year by the appellant which is Nil.

2. Scientific Research Expenses u/s35(2AB) - Rs.2,15,94,000/-

2.1. The CIT (A) erred in confirming the disallowance of expenses of Rs.2,15,94,000/- made by the AO u/s. 35(2AB) of the Act by misinterpreting the facts of the case.

2.2. The appellant submits that as against deduction on R & D Expenses of Rs. 1,98,99,438/-, the DSIR has approved expenses of Rs. 1,77,67,000/- as eligible for weighted deduction. The AO ought to have allowed weighted deduction of Rs.3,55,34,000/- (being 200% of Rs.1,77,67,000/-) u/s.35(2AB) of the Act as approved by the DSIR vide its approval dated 10th October 2019.

2.3. The CIT (A) has not adjudicated ground No.5.3 of grounds relating to weighted deduction of capital expenditure of Rs. 1,01,78,108/- being 200% of Rs.50,89,054/- u/s. 35(2AB) of the Act. The appellant submits that the said expenses have been approved by the DSIR vide its approval dated 10th October 2019.

3. The CIT (A) has not adjudicated ground No.5.4 relating to the claim of deduction of Rs.86,65,857/- u/s 35(1)(i) of the Act in respect of expenditure incurred on Scientific Research related to the business carried on by the appellant.

4. Scientific Research expenses u/s37(1)(35(1)(i) - Rs.21,32,438/-

3.1. The CIT (A) erred in not allowing the Scientific Research expenses of Rs.22,00,648/-u/s. 37(1)/35(1)(i) of the Act incurred by the appellant for the purpose of business.

3.2. The appellant submits that the appellant claimed deduction in respect of revenue expenses of Rs.1,98,99,438/- u/s. 35(2AB) of the Act. However, the DSIR has approved expenses of Rs. 1,77,67,000/- for weighted deduction. The expenses of Rs.21.32,438/-not considered by the DSIR u/s. 35(2AB) of the Act ought to have been allowed by the AO u/s. 35(1)(i)/37(1) of the Act as the expenses relate to the business of the appellant company.

5. Each of the above grounds is without prejudice to one another.

6. The appellant craves leave to add, to alter, vary or cancel any of the above grounds of appeal.

18. We find that ground no. 1 relates to disallowance under section 14A.

Considering the fact that this ground of appeal is similar to the ground no. 1 in appeal for A.Y. 2016-17, which we have partly allowed. Hence, this ground of appeal is allowed with similar direction. In the result, this ground of appeal is partly allowed.

19. Ground no. 2 to 4 relates to weighted deduction on research and development expenses under section 35(2AB) and in alternative under section 37(1) of the Act. We find that these grounds of appeal are similar as in appeal for AY 2016-17, which we have allowed in our detailed order, thus, these grounds of appeals are also allowed with similar directions.

20. In the result, appeal of the assessee for AY 2017-18 is also partly allowed.

Order was pronounced on 04/06/2026 in open Court.

Sd/-

MAKARAND VASANT MAHADEOKAR
ACCOUNTANT MEMBER

Sd/-

PAWAN SINGH
JUDICIAL MEMBER

MUMBAI, Dated: 04/06/2026
Biswajit

Copy of the order forwarded to:

- (1) The Assessee;
- (2) The Revenue;
- (3) The PCIT / CIT (Judicial);
- (4) The DR, ITAT, Mumbai; and
- (5) Guard file.

By Order

Assistant Registrar/DDO
ITAT, Mumbai