

IN THE INCOME TAX APPELLATE TRIBUNAL
MUMBAI "A" BENCH : MUMBAI

BEFORE SHRI VIKRAM SINGH YADAV, ACCOUNTANT MEMBER
AND
SHRI ANIKESH BANERJEE, JUDICIAL MEMBER

ITA No. 2334/Mum/2025
Assessment Year : 2013-14

Alex Grinders Pvt. Ltd., 32, Diamond Queen, West Avenue, Santacruz, Mumbai-400054. PAN : AAACA3664K	vs.	DCIT, Circle-4(1)(1), Aayakar Bhavan, Maharshi Karve Road, New Marine Lines, Churchgate, Mumbai-400020.
(Appellant)		(Respondent)

For Assessee :	Shri Bharat Kumar
For Revenue :	Shri Surendra Mohan, Sr.DR

Date of Hearing :	03-11-2025
Date of Pronouncement :	24-11-2025

ORDER

PER VIKRAM SINGH YADAV, A.M :

This is an appeal filed by the assessee against the order of the Learned Commissioner of Income Tax (Appeals)-National Faceless Appeal Centre (NFAC), Delhi [‘Ld. CIT(A)’], dated 04-02-2025, pertaining to Assessment Year (AY) 2013-14, wherein the assessee has taken the following ground(s) of appeal:

“On the facts and in the circumstances of the case and in law, the Learned CIT(A) erred in confirming the disallowance of ₹26,60,000/- paid to the labour union, which was incurred wholly and exclusively for the purposes of the business and should be allowed as a deduction on grounds of commercial expediency.”

2. Briefly the facts of the case are that the assessment in this case was completed u/s. 143(3) of the Income Tax Act, 1961 ('the Act') vide order dt. 12-02-2016, wherein the AO has brought to tax a sum of Rs. 26,60,000/- holding that the same has not been expended wholly and exclusively for the purposes of assessee's business and held disallowable u/s. 37(1) of the Act.

3. The relevant findings of the AO are contained in para 3 of the assessment order and the same reads as under:

"3.Labour Welfare:

On perusal of the Notes to Accounts an amount of Rs. 56,74,360/- was found debited under the head Welfare & other Expenses which comprised an amount of Rs. 26,60,000/- pertaining to Labour Welfare. Vide questionnaire dtd. 27.11.2015 the assessee was asked to give break-up of Rs. 56,74,360/- alongwith evidences thereof. The AR of the assessee vide its letter dtd. 29.12.2015 submitted the details in this regard.

3.1 From the details of welfare and other expenses submitted, it was seen that the assessee had made a payment of Rs.26,60,000/- to Maharashtra Rajya Sramik Mathadi Transport, Suraksha Rakshan Aani General Kamghar Union (Regd.). During the course of assessment proceedings, vide ordersheet noting dated 30.12.2015, the AR of the assessee was requested to offer explanation on the above payment. In response, vide letter dated 15.01.2016, the AR stated that there was constant disruption of work because of labour trouble at Lonavala factory owing to which production was suffering and there were some notorious workers also. Hence, to run the business smoothly and continuously by seeking cooperation from the said Union, the assessee had to contribute this amount. The AR submitted a copy of the receipt issued by the said Union. However, it is observed from the said Union's letter dated 12.12.2012 addressed to the assessee, it was a mere request for extending financial support for the welfare of its members. Therefore, the contention made by the AR appears to be contradictory from the contents of the letter issued by the Union. The contents of the Union's letter is general in nature and not specific related to the workers of the assessee company.

3.2 Further notice u/s 142(1) of the Act was issued on 22.01.2016 mentioning the above observations and accordingly, the assessee was again requested to justify its claim of said payment as business expenditure. In reply, the AR vide letter dated 05.02.2016 after reiterating its earlier submissions contended that the assessee's turnover had jumped from Rs. 18.76 crores to Rs.28.45 crores and net profit increased from Rs.5.72 crores to Rs.12.31 crores after making

the payment to the said payment to the said Union. The AR further contended that had the issue not been settled with the Union by making the above payment, the assessee's factory could not have achieved such turnover/profit. The assessee had no other choice but to make this contribution to the Union to executed huge amounts of orders by continued production without any kind of interruption and therefore, stated that this expenditure is fully business expenditure.

3.3 The submissions made by the assessee have been considered, however the same are not acceptable. It is seen that the assessee had issued the cheque to the Union at the fag end of the financial year i.e., on 31.03.2013. Therefore, the contention of the assessee that the assessee's turnover had increased due to the settlement of issues with the Union is totally unacceptable as it is beyond any stretch of imagination that the assessee achieved total turnover of the full year on a single day. Further, from the details furnished, it is also noticed that some of the employees were also retrenched. Even if it is accepted that the assessee was mulling over a period of time to settle the issues with the Union so that huge amount of orders can be executed, there appears to be no reason as to why the assessee had to retrench some of its employees, which would hamper the production capabilities of the factory. Moreover, the assessee has not placed on record any documentary evidence in the form of representation or strike notice earlier submitted by the Union threatening to go on strike in the event of their demands unmet. The letters issued to the Union calling for meeting or record of minutes of meeting held with the Union reflecting the discussion had with the Union leaders have also not been produced by the assessee in support of its contention. There is no evidence brought on record reflecting decrease of manufacturing activities at Lonavala factory due to the labour trouble.

3.4 Further, the Union in its letter dated 12.12.2012 had clearly stated that in times of global crises, workers in various industries have to face difficult financial situations for various reasons and the labour Unions have to help them by providing some sort of financial assistance. It is further stated that their Union has been appreciated by the assessee for working towards the welfare of its workers and hence, the Union keeping in view the same, requested for granting financial assistance to the Union. From the contents, it nowhere appears that the Union had not used any words to threat the assessee if the demand is not met. Therefore, the contention of the assessee in making the said payment for settlement with the Union is totally contradictory. The facts under which the payment made to the Union shows/proves no commercial expediency or contractual liability; it shows payment is in the nature of donation. There is nothing on record by the assessee to show that any arbitration or conciliation or collective bargaining was held with the Union and with the management of the assessee company. No dispute whatsoever was brought before the Labour Court so that a settlement took place for which the above payment was made to the Labour Union. Significantly the Union in its letter had never mentioned any specific purpose/claim/demand of the employees of the assessee company. Thus the payment made that to in the

end of the financial year do not entail any business purpose nor any enduring benefit has been accrued to the assessee company because already a chunk of employees had been retrenched thereby leaving no scope of further negotiation. In view of the above discussion, in my considered opinion, the said payment of Rs.26,60,000/- to the said Union is in contravention of law and is not a permissible expenditure and is held to be not expended wholly and exclusively for the purpose of the assessee's business and accordingly, the said sum of Rs.26,60,000/- is disallowed u/s 37(1) and added to the total income. Penalty proceedings u/s 271(1)(c) of the Act are initiated separately for furnishing inaccurate particulars of income leading to concealment of income."

4. The assessee carried the matter in appeal before the Ld.CIT(A), who has since sustained the said addition, holding that the assessee has failed to substantiate the claim that the payment of Rs. 26,60,000/- to the labour union was incurred wholly and exclusively for the purposes of assessee's business. Against the said findings, the assessee is in appeal before us.

5. During the course of hearing, the Ld.AR submitted that the assessee-company made a payment of Rs.26,60,000/- to Maharashtra Rajya Shramik Mathadi Transport, Suraksha Rakshak aani General Kamgar Union (Reg). The assessee-company is having registered office at Mumbai and factory at Lonawala. It is a 100% Export oriented unit and is manufacturing various parts as per requirement of foreign customers. During this year, the assessee-company had a labour problem at Lonavala factory. Some labourers joined this union, namely, Maharashtra Rajya Shramik Mathadi Transport, Suraksha Rakshak aani General Kamgar Union (Reg). It was submitted that due to this, there was a constant disruption of work and business was suffering and there were some notorious worker also and further submitted that to run the business smoothly and continuously, the assessee had to seek co-operation and help of this union and the assessee could purchase the peace from labour

trouble by contributing this amount to the organization run by labour union. The Union permitted the assessee to get rid of the notorious workers as well as guaranteed us smooth functioning of factory. Had the assessee not reached to this settlement, then there would have been constant disruption of production which the assessee could ill afford as the assessee had very good orders to complete. So, it had to take considered decision to run the production smoothly.

6. It was further submitted that in export business, time of supply is very crucial and the assessee cannot give excuse for delay in supply to its customers. It could incur heavy penalty for non-execution of delay in supply. It was submitted that by settling this issue with the union amicably, the assessee did excellent business resulting in excellent profit and the Government has also benefitted by extra taxes to the extent of Rs.3,98,23,031/- and in this connection, the Ld. AR drawn our attention to the following comparative figures:

Sr.No.	Financial year	Turnover (₹)	Net Profit (₹)	Tax (₹)
1.	2011-12	18,76,48,547	5,72,06,568	1,77,98,304
2.	2012-13	28,45,31,047	12,31,36,035	4,00,99,648

7. The Ld.AR drawn our reference to the decision of the Hon'ble Gujarat High Court in the case of PCIT vs. GNFC Ltd. [2020] 422 ITR 164(Guj), wherein the Hon'ble High Court held as under:

"The test of commercial expediency cannot be reduced to a ritualistic formula, nor can it be put in a water light compartment. As long as the expenses are incurred wholly and exclusively for the purpose of earning income from business or profession, merely because some of these expenses are incurred voluntarily, i.e. without there being any legal contractual obligation to incur them, those expenses do not cease to be deductible in nature."

8. Further, reference was drawn to the copy of the bank statement of the assessee-company and it was submitted that the payment has been made through the banking channel and the cheque dt. 31-03-2013 so issued has been duly cleared as so reflected in the bank statement on 07-05-2013. Further, reference was drawn to the settlement arrived at by the assessee company with the assistance of the labour union and a copy of the Memorandum of Settlement dt. 31-03-2013 was submitted as so directed by the Bench during the course of hearing and it was accordingly submitted that necessary nexus has been established by the assessee in terms of reaching the settlement with its workers through assistance of the labour Union and, therefore, the amount paid to the Labour Union for facilitating the settlement is clearly in the nature of expenditure which has been incurred wholly and exclusively for the purposes of assessee's business. It was accordingly submitted that the necessary relief be provided to the assessee.

9. Per contra, the Ld. DR vehemently argued the matter and has placed reliance on the findings of the AO as well as that of the Ld.CIT(A) and it was submitted that the payment has been made to the external trade union and which has no connection with the assessee's business and therefore, no nexus has been established with the assessee's business. He accordingly submitted that the order of the AO and that of the ld CIT(A) be sustained and appeal of the assessee be dismissed.

10. In his rejoinder, the assessee has submitted that the members of the trade union were the employees of the assessee-company and same is evident from the Memorandum of Settlement, wherein the name of the assessee's employees, who were also the Members of the trade union have been clearly mentioned. It was accordingly submitted that the settlement

has been done through the assistance of the trade union, wherein the employees of the assessee were the Members and it is, therefore, not a case of payment to any external trade union, which has no connection with the assessee's business.

11. We have heard the rival contentions and perused the material available on record. The matter under consideration relates to payment of Rs. 26,60,000/- to Maharashtra Rajya Sramik Mathadi Transport, Suraksha Rakshan Aani General Kamghar Union (Regd.) as to whether the said expenditure has been incurred wholly and exclusively for the purposes of assessee's business and has been rightly claimed and allowable as business expenditure u/s 37(1) of the Act. During the course of assessment proceedings, the assessee has explained that there was constant disruption of work on account of labour unrest at its Lonavala factory owing to which production was suffering and to run the business smoothly and continuously, it sought cooperation from the said labour Union and had thus contributed the said amount to the labour Union. The Assessing officer has rejected the said explanation stating that there is nothing on record by the assessee to show that any arbitration or conciliation or collective bargaining was held with the Union and with the management of the assessee company, that no dispute whatsoever was brought before the Labour Court so that a settlement took place for which the above payment was made to the Labour Union, that the Union in its letter had never mentioned any specific purpose/claim/demand of the employees of the assessee company, that the payment made towards the fag end of the financial year do not entail any business purpose nor any enduring benefit has been accrued to the assessee company as a chunk of employees had been retrenched thereby leaving no scope of further negotiation and the explanation so submitted was rejected and the amount

so claimed was disallowed and which has since been sustained by the Ld. CIT(A).

12. In this background, during the course of hearing, the Bench has directed the ld AR to produce the necessary documentation in terms of labour settlement, if any arrived at with the assistance of labour Union and in response, the ld AR submitted a copy of the Memorandum of Settlement dt. 31-03-2013 under Section 2(p) read with Section 18(1) of the Industrial Disputes Act, 1947 arrived between the General Secretary, Maharashtra Rajya Sramik Mathadi Transport Suraksha Rakshak and General Kamghar Union and the management of the assessee company. It is noted from the assessee's submission that a copy of memorandum of settlement has also been submitted on 31-03-2013 to the Secretary, Government of Maharashtra, Industries Energy and Labour Department, Mumbai.

13. On perusal of the contents of the memorandum of settlement, it is noticed that the settlement relates to 26 workmen of the assessee company who have joined the aforesaid labour Union and basis discussion between the management and general secretary of the labour Union, the terms and conditions of the settlement have been arrived at and provided for whereby these workers will resign from the assessee company and the assessee company will pay the legal dues and ex-gratia payment to each of the workmen and details in respect of each of the workers and their corresponding payment have been specified and the settlement has been signed by the authorized signatories on behalf of the assessee company and the labour union and individually signed by each of the workers concerned.

14. We, therefore, find merit in the contention advanced by the Ld.AR that in order to arrive at a mutually acceptable settlement with its workers, where the assessee company engaged in dialogue and discussion with the workers through the labour Union and has reached the settlement with its workers through assistance of the labour Union, the amount paid to the labour Union for facilitating the settlement is clearly in the nature of expenditure which has been incurred wholly and exclusively for the purposes of assessee's business as the necessary nexus has been established by the assessee company between the payment so made (through banking channel) with its business activities as well as the test of commercial expediency and thus, the expenditure so incurred has been incurred for the purposes of assessee's business and the same is allowable u/s 37(1) of the Act.

15. In the result, the addition so made and sustained by the Ld.CIT(A) is hereby deleted and the AO is directed to give necessary relief to the assessee company.

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

Order pronounced in the open court on 24-11-2025

Sd/-
[ANIKESH BANERJEE]
JUDICIAL MEMBER

Mumbai,
Dated: 24-11-2025

TNMM

Sd/-
[VIKRAM SINGH YADAV]
ACCOUNTANT MEMBER

Copy to :

- 1) The Appellant
- 2) The Respondent
- 3) The CIT concerned
- 4) The D.R, ITAT, Mumbai
- 5) Guard file

By Order

Dy./Asst. Registrar
I.T.A.T, Mumbai