

**IN THE INCOME TAX APPELLATE TRIBUNAL
“A” BENCH MUMBAI**

**BEFORE SHRI AMIT SHUKLA, JUDICIAL MEMBER &
SHRI MAKARAND VASANT MAHADEOKAR, ACCOUNTANT MEMBER**

**ITA No. 7686/Mum/2025
(Assessment Year: 2018-19)**

Amarsingh N. Thakur 111, 1 st Floor, Horizon Tower, Bhakti Mandir Road, Hari Niwas, Thane- 400 602, Maharashtra	Vs.	ACIT Circle-1, Ashar IT Park, 6 th floor, Road No. 16Z, Wagle Industrial Estate, Thane-400 604
PAN/GIR No. AAPPT4837		
(Applicant)		(Respondent)

Assessee by	Shri Mayur J. Gosrani, Ld. AR
Revenue by	Shri Surendra Mohan, Ld. DR

Date of Hearing	28.01.2026
Date of Pronouncement	04.02.2026

आदेश / ORDER

PER MAKARAND VASANT MAHADEOKAR, AM:

This appeal by the assessee is directed against the order passed by the learned Commissioner of Income-tax (Appeals), National Faceless Appeal Centre, Delhi [hereinafter referred to as “CIT(A)”], under section 250 of the Income-tax Act, 1961 [hereinafter referred to as “the Act”], dated 29.09.2025 for

the assessment year 2018–19, arising out of the assessment order passed by the Assessing Officer under section 143(3) read with section 144B of the Income-tax Act, 1961, dated 12.08.2021.

Facts of the Case

2. The assessee is an individual engaged in the business of builders and real estate developers. The assessee undertakes development projects in his own capacity as well as through partnership firms and private limited companies. The projects are capital intensive in nature. For the purpose of such projects, funds are sourced from own capital, secured bank loans and unsecured loans.

3. During the previous year relevant to the assessment year under consideration, the assessee earned income under various heads, including income from salary, income from house property, income from capital gains and income from other sources. Under the head “Income from Other Sources”, the assessee declared interest income from M/s Saptashree Techworld, a partnership firm, amounting to Rs. 19,14,345/-, and interest income from M/s Shree Saptashree Builders and Developers Private Limited amounting to Rs. 31,77,360/-, aggregating to Rs. 50,91,705/-. In the return of income, the assessee claimed deduction of interest expenditure of Rs. 50,91,705/- under section 57 of the Act against the said interest income.

4. During the course of assessment proceedings, the Assessing Officer examined the claim of deduction of interest expenditure under section 57 of the Act. The assessee submitted before the Assessing Officer that the loans were utilised for the purpose of earning interest income from the firm and the private limited company and that the interest expenditure was incurred wholly and exclusively for earning such income. The assessee further submitted that similar claims had been allowed in earlier assessment years and that the genuineness of the interest expenditure was not in dispute. The Assessing Officer, however, held that the assessee failed to establish a direct nexus between the borrowed funds and the interest income earned. It was observed that no fund-flow statement or other satisfactory evidence was furnished to demonstrate that the borrowed funds were utilised specifically for earning the interest income offered under the head "Income from Other Sources". The Assessing Officer further held that the expenditure was not incurred wholly and exclusively for earning income under the said head. Accordingly, the Assessing Officer disallowed the claim of deduction of Rs. 50,91,705/- under section 57 of the Act and added the same to the total income of the assessee.

5. Aggrieved, the assessee carried the matter in appeal before the learned CIT(A). Before the learned CIT(A), the assessee reiterated that the interest income from the firm and the private limited company had been offered to tax under the head "Income from Other Sources" and that the corresponding interest

expenditure had been claimed under section 57 of the Act. It was submitted that the assessee had restricted the claim only to the interest relatable to such income and that no expenditure was claimed against other categories of income. It was also contended that similar claims had been allowed in earlier years and, therefore, the principle of consistency should be followed. The learned CIT(A) considered the submissions of the assessee but confirmed the disallowance. The learned CIT(A) held that the assessee failed to provide a direct and verifiable nexus between the borrowed funds and the interest income against which the deduction was claimed. It was further observed that the principle of consistency could not be applied in the absence of factual proof of direct application of funds. The judicial precedents relied upon by the assessee were held to be distinguishable on facts. Accordingly, the learned CIT(A) upheld the action of the Assessing Officer in disallowing the interest expenditure of Rs. 50,91,705/- under section 57 of the Act.

6. Against the order of the learned CIT(A), the assessee is in appeal before us and has raised following grounds:

1. *The Ld. CIT(A) erred of law as well as of fact by disallowing the expenses claimed u/s 57 of Income Tax Act, 1961 of Rs 50,91,705/- without justification and upholding the assessment order.*
2. *The Ld. CIT(A) erred both in law and in fact in upholding the disallowance of expenses under Section 57 of the Income Tax Act, 1961, despite the fact that both the Assessing Officer (AO) and the Ld. CIT(A) had accepted the genuineness of the expenses.*
3. *The Ld. CIT(A) erred of law as well as of fact that the appellant had been consistently claiming the expenses u/s 57 of Income Tax Act, 1961 and the same had been allowed by the Ld. AO in the previous*

years assessment u/s 143(3) of Income Tax Act, 1961. Hence, the CIT(A) ignored the principle of consistency. The Ld. CIT(A) ignored the judicial pronouncements of Hon'ble Supreme Court of India and Hon'ble Bombay High Court (Jurisdiction High Court)

- a. *Radhasoami Satsang vs CIT (Supreme Court of India) (1992) 193 ITR 0321*
 - b. *Municipal Corporation of City of Thane vs. Vidyut Metallics Ltd &Anr. (2007) 8 SCC 688 (Supreme Court of India)*
 - c. *Commissioner of Income Tax vs E-City Project Construction (P) Ltd – (2017) 298 CTR 0449 (Bombay High Court)*
 - d. *CIT vs Tata Chemicals Ltd (ITA No. 418 of 2014) (Bombay High Court)*
 - e. *The Commissioner of Income Tax (Exemptions) vs United Way of Baroda (Tax Appeal No. 4 of 2024) (Gujarat High Court) dated 22nd January, 2024*
4. *The Appellant prays that the Hon'ble Income Tax Appellate Tribunal be pleased to allow the claim, as the expenses in question are bona fide and incurred for the purpose of the business. Judicial Pronouncement – S. Rajagopal vs ITO [2015] 57 taxmann.com 237 (Chennai Tribunal)*
 5. *The order appealed against is bad in Law and against the principles of natural justices and tax jurisprudence.*
 6. *The order appealed against is based on surmises and conjectures.*
 7. *The appellant craves leave to add, amend, alter and vary any of the grounds of appeal either before or at the time of hearing of the appeal.*
 8. *Each ground of appeal is distinct and separate.*

7. During the course of hearing before us, the learned Authorised Representative (AR) for the assessee reiterated the factual matrix as emerging from the paper book and drew our attention to the detailed break-up of interest income and interest expenditure placed on record.

8. It was submitted that the assessee had received interest income from M/s Saptashree Techworld, a partnership firm, amounting to Rs. 19,14,345/-, and from M/s Shree Saptashree

Builders and Developers Private Limited amounting to Rs. 31,77,360/-, which were duly offered to tax under the head "Income from Other Sources". It was further pointed out that the assessee had incurred total interest expenditure of Rs. 1,23,14,712/-, out of which an amount of Rs. 72,23,007/- was capitalised and only Rs. 50,91,705/- was claimed as deduction under section 57 of the Act.

9. The learned AR demonstrated, with reference to Note 1 and Note 2 forming part of the computation, that the claim of deduction under section 57 was restricted only to the interest expenditure relatable to the interest income earned from the firm and the private limited company, namely Rs. 19,14,345/- and Rs. 31,77,360/-, aggregating to Rs. 50,91,705/-, and that no expenditure was claimed against dividend income, savings bank interest, fixed deposit interest or other interest receipts. It was thus contended that the assessee had claimed deduction only against that income against which the corresponding expenditure had been incurred and that the nexus between the interest income and the interest expenditure stood established from the statement of income, computation of total income and the profit and loss account placed in the paper book.

10. Per contra, the learned Departmental Representative relied upon the orders of the Assessing Officer and the learned CIT(A). It was submitted that the assessee had failed to establish any direct and proximate nexus between the interest expenditure claimed and the interest income offered to tax under the head "Income

from Other Sources”. The learned DR contended that, in the absence of cogent evidence demonstrating that the borrowed funds were utilised specifically for earning the interest income in question, the deduction claimed under section 57 of the Act was rightly disallowed by the lower authorities.

11. We have carefully considered the rival submissions and perused the material available on record, including the assessment order, the order of the learned CIT(A), and the paper book filed by the assessee. We have also examined the computation of income, the statement of income, and the profit and loss account placed before us.

12. The issue arising for adjudication before us is whether, on the facts and in the circumstances of the case, the assessee is entitled to deduction of interest expenditure of Rs. 50,91,705/- under section 57 of the Income-tax Act, 1961 against the interest income offered under the head “Income from Other Sources”.

13. From the record, it is evident that the assessee claimed deduction under section 57 only in respect of interest income offered under the head “Income from Other Sources” and capitalised the balance interest expenditure. The Assessing Officer disallowed the claim on the ground that no direct nexus between the interest expenditure and the interest income was established and held that the condition of section 57 was not satisfied. The learned CIT(A) affirmed the disallowance, holding that the principle of consistency could not be applied in the

absence of factual proof of utilisation of borrowed funds and that the judicial precedents relied upon by the assessee were distinguishable on facts.

14. Section 57(iii) of the Act provides that any expenditure, not being capital expenditure, laid out or expended wholly and exclusively for the purpose of making or earning income chargeable under the head "Income from Other Sources", shall be allowed as deduction. The settled legal position is that there must be a proximate and live nexus between the expenditure incurred and the income sought to be earned, and the test is not whether the expenditure resulted in income, but whether it was incurred for the purpose of earning such income.

15. In the present case, on perusal of the statement of income and the profit and loss account, it is evident that the interest income from the firm and the private limited company corresponds to the interest expenditure claimed under section 57. The assessee has demonstrated, with reference to the computation and the notes thereto, that the claim of Rs. 50,91,705/- represents the interest relatable to the funds advanced to the said entities, from which the interest income has been earned and offered to tax.

16. The lower authorities have not doubted the genuineness of the interest expenditure, nor have they recorded any finding that the interest income in question was earned from sources unconnected with the borrowings on which interest was paid. The

disallowance has been made solely on the premise that a direct nexus was not established, without controverting the factual correlation emerging from the computation of income and the accounts placed on record.

17. In our considered opinion, the expression “for the purpose of making or earning such income” occurring in section 57(iii) of the Act has a wider connotation and does not postulate that the expenditure must necessarily and immediately result in the earning of income in the same previous year. The statutory requirement is not that the expenditure should fructify into income, but that it should be incurred with the dominant and proximate object of earning income chargeable under the head “Income from Other Sources”. What is, therefore, required to be established is a reasonable and intelligible nexus between the expenditure incurred and the income sought to be earned. The test is one of purpose and connection, and not of actual yield.

18. Once it is demonstrated that the borrowed funds have been utilised for the purpose of advancing loans or making investments which generate interest income, and such interest income has in fact been brought to tax under the head “Income from Other Sources”, the interest paid on such borrowings assumes the character of an expenditure incurred wholly and exclusively for the purpose of earning that income. The allowability of such expenditure cannot be denied merely on the ground that the income earned is less than the expenditure incurred, or that the income does not arise contemporaneously in

the same accounting period. So long as the expenditure is not capital in nature and is shown to have been incurred with the object of earning taxable income, the statutory condition of section 57(iii) stands satisfied.

19. Accordingly, where the utilisation of borrowed funds for earning interest income is established on the basis of material on record and the corresponding interest income is duly offered to tax, the interest expenditure incurred on such borrowings is allowable as a deduction under section 57(iii) of the Act, being expenditure laid out wholly and exclusively for the purpose of making or earning such income.

20. Applying the above principle to the facts of the present case, we find from the computation of income and the notes thereto that the assessee has restricted the claim under section 57 only to the interest income earned from the partnership firm and the private limited company, aggregating to Rs. 50,91,705/-, and has not claimed any expenditure against other categories of income. The balance interest expenditure has been capitalised. This factual position establishes a direct correlation between the interest income offered to tax and the interest expenditure claimed. In our considered view, the lower authorities have failed to appreciate this computation-based nexus and have rejected the claim without dislodging the factual linkage demonstrated on record.

21. Thus, in the light of the material on record, we hold that the interest expenditure of Rs. 50,91,705/- was incurred for the purpose of earning the interest income offered under the head "Income from Other Sources" and is allowable as deduction under section 57 of the Act. Accordingly, the disallowance of Rs. 50,91,705/- made by the Assessing Officer and sustained by the learned CIT(A) is deleted. The ground raised by the assessee on this issue is allowed.

22. In the result, the appeal filed by the assessee is allowed.

Order pronounced in the open court on 04.02.2026.

Sd/-
(AMIT SHUKLA)
JUDICIAL MEMBER

Sd/-
(MAKARAND VASANT MAHADEOKAR)
ACCOUNTANT MEMBER

Mumbai, Dated 04/02/2026
Dhananjay, Sr.PS

आदेश की प्रतिलिपि अग्रेषित / Copy of the Order forwarded to :

1. अपीलार्थी / The Appellant
2. प्रत्यर्थी / The Respondent.
3. संबंधित आयकर आयुक्त / The CIT(A)
4. आयकर आयुक्त (अपील) / Concerned CIT
5. विभागीय प्रतिनिधि, आयकर अपीलीय अधिकरण, मुम्बई / DR, ITAT, Mumbai
6. गार्ड फाईल / Guard file.

आदेशानुसार/ BY ORDER,

सत्यापित प्रति //True Copy//

1.

उप/सहायक पंजीकार (Asst. Registrar)
आयकर अपीलीय अधिकरण, मुम्बई / ITAT, Mumbai