IN THE INCOME TAX APPELLATE TRIBUNAL, 'H' BENCH MUMBAI

BEFORE: SHRI AMIT SHUKLA, JUDICIAL MEMBER
&
SHRI G.M. DOSS, ACCOUNTANT MEMBER

ITA No.1591/Mum/2026
(**Assessment Year :2014-15**)

Tata Sons Private Limited Bombay House 24, Homi Mody Street Fort, Mumbai- 400 001	Vs.	Deputy Commissioner of Income Tax-2(3)(1), Mumbai
PAN/GIR No.AAACT4060A		
(Appellant)	..	**(Respondent)**

ITA No.2338/Mum/2026
(**Assessment Year :2014-15**)

Deputy Commissioner of Income Tax-2(3)(1), Mumbai	Vs.	Tata Sons Private Limited Bombay House 24, Homi Mody Street Fort, Mumbai- 400 001
PAN/GIR No.AAACT4060A		
(Appellant)	..	**(Respondent)**

Assessee by	Shri Percy Pardiwala & Shri Sukhsagar Syal
Revenue by	Shri Ajay Chandra, CIT DR
Date of Hearing	**22/10/2026**
Date of Pronouncement	**29/10/2026**

आदेश / O R D E R

PER AMIT SHUKLA (J.M):

These cross appeals are directed against the order dated 9 December 2025 passed by the learned Commissioner of Income-tax (Appeals)-58, Mumbai, arising from the assessment order dated 16 February 2018 passed under section 143(3) read with section 144C(3) of the Income-tax Act, 1961, for the assessment year 2014-15. The principal issue in the Revenue's appeal is whether interest paid on capital borrowed and utilised by the assessee for investments in companies of the Tata group is allowable as business expenditure under section 36(1)(iii), subject to disallowance under section 14A to the extent the expenditure is relatable to exempt income. The connected issues concern the computation of the section 14A disallowance, including the treatment of interest income and investments which did not yield exempt income during the year, and the treatment of that disallowance in computing book profit under section 115JB. In its appeal, the assessee challenges the assessment as barred by limitation under section 153 and the disallowance of ₹24,49,007 paid to Rediffusion Dentsu Young & Rubicam Private Limited. The assessee had also advanced before the learned CIT(A) an alternative claim under section 37(1) in respect of the interest expenditure. At the hearing before us, learned counsel stated that the Rediffusion ground

was not pressed solely having regard to the smallness of the amount, and not because the assessee lacked merit. As regards limitation, learned counsel requested that the ground be kept open if the Revenue's appeal were dismissed.

2. The assessee is the principal investment-holding company and promoter of several operating companies of the Tata group. Its activities, as described in the record, include maintaining shareholdings in the principal group companies, exercising the rights and responsibilities associated with promoter and controlling interests, facilitating the growth of operating companies, promoting the group's entry into new businesses, and owning and licensing the Tata name and trademark under the Brand Equity and Business Promotion Agreement. The assessee's case is that it holds and manages these investments in a regular and systematic manner as part of its business, and that the investments serve commercial purposes beyond the receipt of dividend. In the written submission filed pursuant to the directions of the Bench, the assessee stated that, during the relevant previous year, it earned dividend income of ₹4,387.19 crore, claimed as exempt under section 10(34); brand subscription fees of ₹453.29 crore under the Brand Equity and Business Promotion Agreement, offered to tax; and interest income from bank deposits and inter-corporate deposits, also offered to tax. The assessee relies on these taxable receipts, together

with its promoter and group-support functions, to demonstrate that its investment activity is not confined to earning exempt dividend but also supports and gives rise to taxable business income.

3. The written submission refers to finance costs of ₹1,534.06 crore, comprising interest expenditure of ₹1,498.71 crore and other borrowing costs of ₹35.35 crore. The assessee stated that it had made a disallowance under section 14A in its return and had furnished a revised computation during the assessment proceedings by reference to investments which yielded exempt income during the year. The learned CIT(A) records the revised disallowance at ₹578.56 crore and directed the Assessing Officer to adopt that computation. The assessee's position is that the expenditure relatable to exempt income has thus been disallowed under section 14A, while the balance interest expenditure was incurred on borrowings deployed for its investment-holding business and is allowable under section 36(1)(iii). The assessee also stated that the borrowings formed part of a common pool and were not earmarked to any particular investment or stream of income.

4. The Assessing Officer did not accept the assessee's claim for deduction of interest. His principal reason was that investment in the shares of group companies could not be regarded as the assessee's business. On that premise, he

declined the deduction under sections 36(1)(iii) and 37(1). In computing the disallowance under section 14A, the Assessing Officer enhanced it to ₹ 1,522.40 crore, inter alia, by taking into account gross interest expenditure and investments which had not yielded exempt income during the year. He also added the disallowance computed under section 14A read with Rule 8D while computing book profit under section 115JB. The learned CIT(A), after considering the assessee's submissions and the decisions of the Tribunal in the assessee's own case for earlier assessment years, held that the assessee's investment-holding activity formed part of its business. The learned CIT(A) noted that the assessee's role was not limited to holding shares to earn dividend but included maintaining promoter holdings, exercising controlling interests, facilitating the growth of group companies, promoting new businesses and developing the group's brand. In particular, the Tribunal's orders in Tata Sons Ltd. v. ACIT, ITA Nos. 4630 and 4637/Mum/2016 for A.Y. 2009-10, dated 7 August 2020; Tata Sons Ltd. v. ACIT, ITA Nos. 6418 and 6402/Mum/2016 for A.Y. 2010-11, dated 21 January 2022; Tata Sons Ltd. v. ACIT, ITA Nos. 4323 and 4221/Mum/2017 for A.Y. 2011-12, dated 16 August 2022; and Tata Sons Pvt. Ltd. v. JCIT, ITA Nos. 1093 and 1349/Mum/2019 for A.Y. 2012-13, dated 15 March 2024, were relied upon. The order of the predecessor CIT(A) for A.Y. 2013-14 the learned CIT(A) allowed the interest under section

36(1)(iii), subject to section 14A; restricted the section 14A disallowance to ₹ 578.56 crore in accordance with the revised computation; and held that the Rule 8D disallowance could not be mechanically imported into the computation of book profit under section 115JB.

5. The learned Departmental Representative supported the assessment order and the Revenue's grounds. The Revenue's case, as reflected in the assessment order, is that the assessee's investments in group companies cannot be treated as its business merely because it is a promoter or exercises control over those companies; that interest on borrowings used for such investments is therefore not allowable under section 36(1)(iii) or section 37(1); and that the Assessing Officer's computation under section 14A and its treatment under section 115JB ought to be restored. It was further the Revenue's position that the assessee's computation of expenditure relatable to exempt income could not be accepted and that the Assessing Officer was justified in taking into account gross interest and the full value of investments in applying Rule 8D.

6. Mr. Percy Pardiwala, learned Senior Counsel for the assessee, submitted that the issue concerning the business character of Tata Sons' investment activity and the allowability of interest on borrowings used for that activity

stands covered by the decisions of the Tribunal in the assessee's own case for earlier years. He submitted that Tata Sons is an investment-holding promoter company and that acquiring and maintaining controlling interests in group companies, facilitating their growth and promoting new businesses are integral to its business. The assessee does not derive only exempt dividend from those investments; it also earns taxable brand subscription or royalty income under the Brand Equity and Business Promotion Agreement, interest from inter-corporate and bank deposits, and other income. Learned Senior Counsel emphasised that the relevant enquiry under section 36(1)(iii) is whether the capital was borrowed for the purposes of the assessee's business, and not whether each borrowing can be matched with a particular investment or a specific item of income. The borrowings formed a common pool and were not earmarked against individual investments. Since the expenditure relatable to exempt income had been disallowed under section 14A, the balance interest expenditure was, according to the assessee, incurred for the purposes of its business and allowable under section 36(1)(iii). In support, he relied on the Tribunal's decisions in the assessee's own case, CIT v. Distributors (Baroda) (P.) Ltd., (1972) 83 ITR 377 (SC); CIT v. Phil Corporation Ltd., (2011) 244 CTR 226 (Bom), also reported at (2011) 202 Taxman 368 (Bom) and (2011) 14 taxmann.com 58 (Bom); S.A. Builders Ltd. v. CIT (Appeals), (2007) 288 ITR 1 (SC), also reported at

(2007) 158 Taxman 74 (SC); Maxopp Investment Ltd. v. CIT, (2018) 402 ITR 640 (SC); Sharp Business System v. CIT, 2025 INSC 1481, reported at (2026) 484 ITR 509 (SC); and L.K. Trust v. CIT & Anr., 2026 INSC 474, also reported at [2026] 5 SCR 567. On section 14A, learned Senior Counsel submitted that the Assessing Officer was not justified in using gross interest expenditure without giving effect to interest income and the relevant adjustments; that only investments yielding exempt income during the year should be included in the average value of investments; that interest expenditure directly relatable to taxable interest income should be excluded; and that a Rule 8D disallowance could not be mechanically added to book profit under section 115JB. Those contentions, he submitted, were covered by the decisions of the Tribunal in the assessee's own case for earlier years and by the authorities referred to in the written submission.

7. We have considered the rival submissions, perused the relevant material placed on record and examined the findings given in the impugned order. We have also considered the written submission filed by the assessee pursuant to the directions of the Bench and the decisions of the Tribunal in the assessee's own case for the earlier assessment years. The issue is not answered merely by describing the shares as investments or by observing that dividend income is exempt.

The enquiry is whether the capital was borrowed for the purposes of the assessee's business and, if so, what consequence follows under section 36(1)(iii), subject to the distinct operation of section 14A. In undertaking that enquiry, the assessee's business must be considered as a whole and in the commercial setting in which the borrowings were made and deployed. The record describes Tata Sons as the principal investment-holding promoter of the Tata group, whose functions include maintaining promoter holdings, exercising controlling interests, supporting the growth of group companies, facilitating new businesses and promoting the group's brand. The assessee's activities therefore extend beyond the passive holding of shares for the receipt of dividend. The taxable brand subscription or royalty income and interest income identified in the written submission are relevant to understanding the commercial setting in which the investments were made and the several purposes those investments serve. Although those receipts do not, by themselves, establish that every borrowing or every component of finance cost is deductible, they reinforce the assessee's contention that its investment activity is an integral part of its business and is not undertaken solely to earn exempt dividend.

8. Section 36(1)(iii) allows interest paid in respect of capital borrowed for the purposes of business or profession. The

relevant enquiry is whether the borrowing was made for the purposes of the assessee's business and deployed in furtherance of that business. The assessee does not contend that the businesses of its subsidiaries automatically become its own business. Its case is that, in its capacity as the group's investment-holding promoter, it acquires and maintains interests in those companies to exercise control, facilitate their growth, promote new ventures and develop the group's brand. The findings of the learned CIT(A), read with the material referred to in the written submission, support the assessee's description of the investments as part of an organised business activity. The Tribunal has considered the nature of Tata Sons' activities in its own cases for A.Ys. 2009-10 to 2012-13, namely, Tata Sons Ltd. v. ACIT, ITA Nos. 4630 and 4637/Mum/2016, order dated 7 August 2020 (A.Y. 2009-10); ITA Nos. 6418 and 6402/Mum/2016, order dated 21 January 2022 (A.Y. 2010-11); ITA Nos. 4323 and 4221/Mum/2017, order dated 16 August 2022 (A.Y. 2011-12); and Tata Sons Pvt. Ltd. v. JCIT, ITA Nos. 1093 and 1349/Mum/2019, order dated 15 March 2024 (A.Y. 2012-13). In those orders, the Tribunal held that the assessee's activities are not confined to earning dividend and recognised that the investments serve commercial purposes, including controlling, managing, administering and financing group companies, developing the group's brand, facilitating new enterprises and undertaking business-development activity.

The Tribunal accordingly held that interest on borrowings used for such investments was allowable under section 36(1)(iii), subject to section 14A to the extent the expenditure related to exempt income. The learned CIT(A) followed those decisions for the year under appeal. No material has been brought to our notice to show that the nature of the assessee's business or the commercial purpose of its investments materially changed in the relevant year. In the absence of such a distinguishing feature, and having regard to the consistent view taken by the Tribunal in the assessee's own case, we see no reason to depart from the approach adopted by the learned CIT(A).

9. The authorities relied upon by the assessee reinforce this conclusion. In CIT v. Phil Corporation Ltd., (2011) 244 CTR 226 (Bom), also reported at (2011) 202 Taxman 368 (Bom) and (2011) 14 taxmann.com 58 (Bom), the business character of systematic investment and the exercise of controlling interests were recognised in the context of the facts considered therein. In S.A. Builders Ltd. v. CIT (Appeals), (2007) 288 ITR 1 (SC), also reported at (2007) 158 Taxman 74 (SC), the Supreme Court explained that commercial expediency is to be examined from the standpoint of the assessee's business purpose and is not confined to whether a deployment immediately produces income. In Sharp Business System v. CIT, 2025 INSC 1481, reported at (2026) 484 ITR

509 (SC), and L.K. Trust v. CIT & Anr., 2026 INSC 474, also reported at [2026] 5 SCR 567, the Supreme Court considered interest on borrowed funds deployed in or through group concerns and applied the test of commercial expediency. These authorities, read with the Tribunal's decisions in the assessee's own case, support the conclusion that the use of borrowed funds to acquire or maintain controlling interests in group companies may constitute deployment for business purposes where that purpose is supported by the nature of the assessee's activities and the findings on record. The Assessing Officer's conclusion that the investment activity could not constitute the assessee's business does not give due effect to those findings or to the commercial functions performed by the assessee as promoter and investment-holding company.

10. We are unable to accept the Revenue's contention that the presence of exempt dividend income renders the entire interest expenditure inadmissible. Section 36(1)(iii) addresses the purpose for which capital was borrowed; section 14A addresses expenditure incurred in relation to income which does not form part of total income. The application of section 14A to expenditure relatable to exempt income does not, by itself, negate the business purpose of the borrowing or foreclose deduction of the balance expenditure. Conversely, the assessee's strategic or controlling purpose does not

exclude the operation of section 14A. As explained by the Supreme Court in Maxopp Investment Ltd. v. CIT, (2018) 402 ITR 640 (SC), section 14A remains applicable even where shares are held for strategic purposes, but the disallowance remains confined to expenditure relatable to exempt income. In the present case, the assessee made a disallowance under section 14A and furnished a revised computation during the assessment proceedings. The learned CIT(A), following the Tribunal's decisions in the assessee's own case and the principles governing Rule 8D, directed that the disallowance be restricted to ₹ 578.56 crore in accordance with the revised working. The Revenue has not demonstrated why, after the disallowance directed by the learned CIT(A), the balance interest expenditure should nevertheless be denied on the ground that the assessee's investment activity is not a business.

11. We have also considered the assessee's submissions concerning the use of net interest expenditure under Rule 8D(2)(ii), the exclusion of investments which yielded no exempt income during the year, the interest said to have a direct nexus with taxable interest income and the treatment of the section 14A disallowance under section 115JB. The learned CIT(A) followed the Tribunal's decisions in the assessee's own case and the principles stated in ACIT v. Vireet Investment (P.) Ltd., (2017) 165 ITD 27 (Delhi) (Special

Bench), in directing the revised computation and in rejecting the mechanical importation of the Rule 8D disallowance into the book-profit computation. These matters govern the extent and statutory treatment of the disallowance attributable to exempt income; they do not alter the business character of the borrowing. On the grounds and material placed before us, the Revenue has not shown why the learned CIT(A)'s application of the Tribunal's earlier decisions should be disturbed. We accordingly uphold the relief granted by the learned CIT(A) on the connected section 14A and section 115JB issues arising in the Revenue's appeal. Our conclusion is confined to interest expenditure on capital borrowed and used for the assessee's investment-holding business, allowable under section 36(1)(iii) subject to the section 14A disallowance as determined in accordance with the directions of the learned CIT(A). It is not a finding that every component of finance cost is allowable without verification or statutory adjustment. The Assessing Officer shall give effect to the impugned order on the basis of the relevant schedules and revised computation, without reopening the question of the business character of the assessee's investment activity.

12. In view of the foregoing discussion, the Revenue has not brought any cogent reason to depart from the consistent view taken by the Tribunal in the assessee's own case for A.Ys. 2009-10 to 2012-13, as reflected in the orders identified in

paragraphs 4 and 8 above. The learned CIT(A) was justified in holding that the assessee's investment-holding activity formed part of its business and that interest on borrowings used for that activity was allowable under section 36(1)(iii), subject to section 14A. The Revenue's grounds challenging the allowance of interest and the connected relief granted by the learned CIT(A) under sections 14A and 115JB are, accordingly, dismissed. The assessee's alternative claim under section 37(1) was advanced only in the event that the interest expenditure was not allowable under section 36(1)(iii). Since we have upheld the allowance under the specific provision of section 36(1)(iii), that alternative claim does not survive for adjudication. It is treated as academic and is left open; no adverse finding is recorded against the assessee on that alternative claim.

13. As regards the assessee's ground challenging the disallowance of ₹24,49,007 paid to Rediffusion, learned counsel stated during the hearing that the ground was not pressed solely having regard to the smallness of the amount and not because the assessee lacked merit. In view of that statement, the ground is dismissed as not pressed. It is not rejected on merits, and no finding is recorded by us on the allowability of the expenditure or on the reasoning of the learned CIT(A) concerning that disallowance.

14. The assessee's ground challenging the assessment as barred by limitation under section 153 was requested to be kept open if the Revenue's appeal were dismissed. Since we have dismissed the Revenue's appeal on the issues considered herein, we accept that request. The limitation ground is treated as academic for the present disposal and is left open; it is neither allowed nor dismissed on merits, and we express no opinion on whether the assessment was barred by limitation.

15. In the result, the appeal filed by the Revenue is dismissed. The appeal filed by the assessee is disposed of by dismissing the Rediffusion ground as not pressed and by treating the limitation ground as academic and leaving it open, in the terms stated above. The assessee's alternative claim under section 37(1) is also left open as academic, no decision on its merits being necessary in view of the allowance under section 36(1)(iii).

Order pronounced on 29th October, 2026.

Sd/-	**Sd/-**
(G.M. DOSS)	**(AMIT SHUKLA)**
ACCOUNTANT MEMBER	**JUDICIAL MEMBER**

Mumbai; Dated 29/10/2026
KARUNA, *sr.ps*

Copy of the Order forwarded to :

1. The Appellant
2. The Respondent.
3. CIT
4. DR, ITAT, Mumbai
5. Guard file.

//True Copy//

BY ORDER,

MANISH V PALAV
Digitally signed by MANISH V PALAV
Date: 2026.11.18 17:34:19 +05'30'

(Asstt. Registrar)
ITAT, Mumbai