

आयकर अपीलीय अधिकरण, अहमदाबाद न्यायपीठ 'B' अहमदाबाद।
IN THE INCOME TAX APPELLATE TRIBUNAL
“B” BENCH, AHMEDABAD
BEFORE S/SHRI T.R. SENTHIL KUMAR, JUDICIAL MEMBER
AND
MAKARAND V.MAHADEOKAR, ACCOUNTANT MEMBER
ITA No.796/Ahd/2025
Asstt.Year : 2014-2015

M/s.Roomag Motors & Controls P.Ltd.[Rotomag Enertec Ltd.) 2102/3&4, GIDC Estate Vithal Udyognagar Anand 388 121. PAN : AAACR 9061 K	Vs.	Dy.CIT, Anand Circle Anand.
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(Applicant)		(Responent)
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Assessee by :	Shri Tushar Hemani, Sr.Advocate, & Shri Kushal Fofaria, AR
Revenue by :	Shri Abhijit, Sr.DR

सुनवाई की तारीख/Date of Hearing : 01/09/2025
घोषणा की तारीख /Date of Pronouncement: 09/09/2025

आदेश/O R D E R

PER MAKARAND V.MAHADEOKAR, AM:

This appeal by the assessee is directed against the order dated 25.02.2025, passed by the National Faceless Appeal Centre (NFAC), Delhi [hereinafter referred to as “CIT(A)”] arising out of the assessment order passed under section 143(3) of the Income-tax Act, 1961 [hereinafter referred to as “the Act”] by the Deputy Commissioner of Income-tax, Anand Circle, Anand [hereinafter referred to as “Assessing Officer or AO”], dated 27.12.2016, for the Assessment Year 2014-15.

2. Facts in Brief

2.1 The assessee, **Rotomag Entrtec Ltd. (formerly known as Rotomag Motors & Controls (P) Ltd.)**, a company engaged in the business of

In our considered view, the disallowance sustained by the CIT(A) does not stand in light of the above settled judicial position. The DTAA between India and Germany further supports the assessee's case, as business profits of a non-resident are taxable in India only if the non-resident has a permanent establishment in India.

6.1.7 In the totality of facts and in light of binding precedents, we hold that the commission payment of Rs.1,42,197/- made to Octacom Antriebstechnik, Germany, is not chargeable to tax in India. Consequently, there was no obligation on the assessee to deduct tax u/s 195, and the disallowance made u/s 40(a)(i) is directed to be deleted. **These grounds of the assessee are allowed.**

6.2 Issue No. 2 – Disallowance of Employees' Contribution to PF (Rs. 20,250/-) – Ground No. 3

6.2.1 At the time of hearing, the learned Authorised Representative fairly submitted that this ground is not pressed in view of the settled position of law against the assessee. The same is therefore **dismissed as not pressed.**

6.3 Issue No. 3 – Disallowance of Medical Expenses of Director (Rs.1,00,901/-) – Ground No. 4

6.3.1 The assessee claimed an amount of Rs.1,00,901/- as business expenditure towards reimbursement of medical expenses of one of its directors. The Assessing Officer held that such expenditure was personal in nature and not incurred wholly and exclusively for the purpose of business. Invoking section 37(1), the AO disallowed the claim.

6.3.2 Before the CIT(A), the assessee submitted that the Directors are employees of the company, and reimbursement of medical expenses constitutes part of their remuneration, which is contractually authorizing. It was also submitted that the Board of Directors had passed a resolution (Pg. 175 of PB-2) authorizing such reimbursement. IT was further submitted that the expenditure was incurred on grounds of commercial expediency

since the director was a key managerial person and a driving force behind the company's business. It was argued that a company, being a juristic person, cannot incur "personal expenses"; therefore, disallowance on that ground was misconceived. Reliance was placed on several judicial precedents before CIT(A).

6.3.3 The learned CIT(A), however, concurred with the AO's findings, holding that personal medical expenses of directors do not fall within the ambit of section 37(1) unless covered under a contractual or statutory obligation.

6.3.3 The learned AR reiterated the submissions before the CIT(A) and also placed reliance on decision of Co-ordinate Bench in case of Paradeep Oxygen (P) Ltd. v. DCIT [2001] 71 TTJ 662 (CTK), wherein the Co-ordinate Bench held that reimbursement of medical expenses to the managing director, duly authorized by a bona fide Board Resolution, is allowable u/s 37(1) as expenditure wholly and exclusively for business purposes.

6.3.4 We have carefully considered the rival submissions, perused the orders of the authorities below, and examined the material placed on record including the Board Resolution dated 12.04.2011 (Pg. 175 of PB-2). On consideration, we note that the assessee has indeed placed on record the copy of the Board Resolution dated 12.04.2011, authorized reimbursement of actual medical expenses incurred by directors. The company, being a juristic person, cannot have personal needs of its own, and once the expenditure is incurred pursuant to a valid resolution of the Board and in discharge of contractual obligation, the same partakes the character of business expenditure. The CordOnate Bench in Paradeep Oxygen (P) Ltd. **(supra)** has also held that reimbursement of medical expenses of a managing director, when duly authorized by Board resolution, is allowable u/s 37(1) as expenditure incurred wholly and exclusively for business purposes.

6.3.5 In light of these binding precedents and the factual position of authorisation by the Board Resolution, we are of the considered view that the disallowance sustained by the authorities below is not justified. We, accordingly, direct deletion of the addition of Rs.1,00,901/-. **This ground of appeal is allowed.**

6.4 Issue No. 4 – Disallowance u/s 14A r.w. Rule 8D (Rs.11,97,333/-) – Ground No. 5 to 9

6.4.1 The Assessing Officer observed that the assessee had investments in shares and mutual funds aggregating to Rs.4,23,83,696/- as on 31.03.2014, and had debited finance cost of Rs.1,01,98,358/- in the Profit & Loss Account. Holding that part of this interest expenditure was attributable to investments yielding exempt income, the AO invoked Rule 8D and computed disallowance of Rs. 13,58,171/-, of which Rs.11,97,333/- was attributed to interest and Rs. 1,60,838/- to administrative expenses (0.5% of average investments). Since the assessee had already disallowed Rs.1,60,838/- *suo motu*, the AO sustained the balance disallowance of Rs.11,97,333/-.

6.4.2 Before CIT(A) the assessee contended that the exempt dividend income earned during the year was only Rs.1,68,932/- and the assessee had substantial interest-free funds (capital and reserves of Rs.15.48 crore) which were much higher than the investments of Rs.4.23 crore. Hence, no borrowed funds were utilised for making such investments. The assessee also submitted that the AO had not recorded the mandatory dissatisfaction under section 14A(2) with respect to the *suo motu* disallowance offered by the assessee. The assessee further submitted that no part of interest expenditure was incurred in relation to exempt income, as the loans were availed for specific business purposes (term loans for fixed assets, cash credit against hypothecation of stock and book debts).

6.4.3 The assessee argued that disallowance u/s 14A cannot exceed exempt income, as held in several judicial pronouncements. The assessee also