

## **Section 14A Disallowance not maintainable merely on failure to Maintain Separate Accounts for Expenditures Incurred for Tax-Free Income: SC grants relief to South Indian Bank**

### **Fact of the Case**

1. The assessee, South Indian Bank are scheduled banks and in course of their banking business, they also engage in the business of investments in bonds, securities, and shares which earn the assessee, interests from such securities and bonds as also dividend income on investments in shares of companies and from units of UTI, etc. which are tax-free.
2. The assessee clarified that none of the assessee banks amongst the appellants, maintained separate accounts for the investments made in bonds, securities and shares wherefrom the tax-free income is earned so that disallowances could be limited to the actual expenditure incurred by the assessee.
3. The question raised was whether Section 14A enables the Department to make disallowance on expenditure incurred for earning tax-free income in cases where assessee like the present appellant, do not maintain separate accounts for the investments and other expenditures incurred for earning the tax-free income.

### **Decision of the Case**

1. The division bench of Justice Sanjay Kishan Kaul and Justice Hrishikesh Roy concluded that the proportionate disallowance of interest is not warranted, under Section 14A of Income Tax Act for investments made in tax-free bonds/ securities which yield tax-free dividend and interest to Assessee Banks in those situations where, interest-free own funds available with the Assessee, exceeded their investments.
2. The tax an individual or a corporate is required to pay is a matter of planning for a taxpayer and the Government should endeavor to keep it convenient and simple to achieve the maximization of compliance.
3. In a relief to South Indian Bank, the Apex Court held that the Section 14A Disallowance is not maintainable merely on the failure of Assessee to Maintain Separate Accounts For Expenditures Incurred For Tax-Free Income.