आयकर अपीलीय अधिकरण,चण्डीगढ़ न्यायपीठ, चण्डीगढ़

IN THE INCOME TAX APPELLATE TRIBUNAL
DIVISION BENCH, 'A' CHANDIGARH

BEFORE SHRI LALIET KUMAR, JUDICIAL MEMBER AND
SHRI VIJAY VARMA, ACCOUNTANT MEMBER

आयकर अपील सं./ ITA No. 243/CHD/2026
निर्धारण वर्ष / Assessment Year: 2022-26

Indian Institute of Management, MDU, Delhi Road, Rohtak.	Vs	The CIT (Exemptions), Chandigarh.
स्थायी लेखा सं./PAN NO: AAAAI3547D		
अपीलार्थी/Appellant		प्रत्यर्थी/Respondent

Assessee by : Shri Sauresh Batia, Advocate & Manuj Bansal, CA
Revenue by : Smt. Jaishree Sharma, CIT DR

Date of Hearing : 12.10.2026
Date of Pronouncement : 12.10.2026

VIRTUAL HEARING

O R D E R

PER LALIET KUMAR, JM

This appeal has been filed by the assessee, Indian Institute of Management, Rohtak (hereinafter referred to as "the assessee"), against the order dated 10.12.2025 passed by the learned Commissioner of Income Tax (Exemptions), Chandigarh [hereinafter referred to as "the learned CIT(E)"], rejecting the application filed by the assessee in Form No. 10AB under section

12A(1)(ac)(ii) of the Income-tax Act, 1961 (hereinafter referred to as "the Act").

2. The brief facts of the case are that the assessee is an educational institution established under the Indian Institutes of Management Act, 2017, and is engaged in imparting management education and conducting management courses. The assessee filed an application for registration under section 12A(1)(ac)(ii) of the Act on 20.09.2025. During the course of the proceedings, the learned CIT(E) issued a questionnaire-cum-show-cause notice dated 09.11.2025, requiring the assessee to furnish details regarding its objects, activities, financial statements, income-tax returns, bank accounts, expenditure incurred towards charitable activities and other relevant particulars. The assessee furnished its response on 21.11.2025.

3. The learned CIT(E), upon examination of the response and the financial statements, observed that the assessee was generating substantial revenue from fees collected from students and had been wholly or substantially financed by the Government up to financial year 2018-19. Thereafter, pursuant to the directions of the Ministry of Human Resource Development, the assessee was required to become self-sustaining by generating resources internally through educational fees.

4. The learned CIT(E) observed that the assessee had generated substantial surpluses from its activities. The impugned order records profit margins of 66.96% for financial year 2023-24 and 69.10% for financial year 2024-25, computed without depreciation. The learned CIT(E) also examined the fee structure of the various educational programmes and observed that the fees charged were substantially high and beyond the reach of a considerable section of the student community. It was further observed that the assessee had accumulated substantial funds over the years and that the infrastructure of the institution had already been established when it was substantially financed by the Government.

5. The learned CIT(E) held that the generation of such substantial surpluses was not merely incidental to the pursuit of educational objectives but represented systematic and scalable profit-making. Reliance was placed on judicial pronouncements, including *T.M.A. Pai Foundation v. State of Karnataka (2002) 8 SCC 481*, *Islamic Academy of Education v. State of Karnataka* (2003) 6 SCC 697, *P.A. Inamdar v. State of Maharashtra* and the decision referred to in the impugned order as *Union of India* Vs *Baba Banda Bahadur Singh 454 ITR 273 (2023) 150 Taxman.com 40*, concerning the distinction between a reasonable surplus for the advancement of education and profiteering in the conduct of educational activities.

6. The learned CIT(E) concluded that the assessee's status as a Government institution and an Institute of National Importance did not automatically entitle it to registration as a charitable institution. According to the learned CIT(E), the assessee had failed to demonstrate that its activities satisfied the requirements of section 2(15) of the Act. The learned CIT(E) further observed that the exemption available to charitable institutions was intended to facilitate the application of resources towards charitable objects, whereas the assessee had accumulated substantial surpluses without extending the benefit of the same to students by way of reduced fees. Accordingly, the application filed under section 12A(1)(ac)(ii) of the Act was rejected.

7. The learned Authorised Representative (AR), appearing on behalf of the assessee, submitted that the assessee was engaged in imparting education and management training and had been established under the Indian Institutes of Management Act, 2017, enacted by the Government of India. It was contended that the fee structure adopted by the assessee was identical or comparable to that of other Institutes of Management imparting similar management courses and training programmes. Therefore, according to the learned AR, the fee charged by the assessee could not be considered exorbitant merely because the aggregate receipts were substantial.

8. The learned AR further submitted that the assessee had ceased to receive grants from the Government of India with effect from 2021 and had thereafter been functioning as a self-governing and self-sustaining institution. It was submitted that the surplus generated by the assessee was not distributed among its members or diverted for any private benefit but was retained and utilised for the development of infrastructure, construction of buildings and other institutional facilities. According to the learned AR, the generation of a substantial surplus, stated to be approximately Rs.77 crore, could not by itself be treated as evidence of profiteering when the funds were being accumulated for the development and advancement of educational activities.

9. The learned AR also submitted that the assessee had incurred expenditure of approximately Rs.56 crore against total receipts of approximately Rs.114 crore during the relevant financial year. It was contended that the difference between the receipts and expenditure represented the surplus available for the development of the institution and its educational infrastructure. During the course of hearing, the learned AR, along with the Chartered Accountant present before the Bench, further submitted that the surplus was intended to be utilised for the development of another Indian Institute of Management at Gurugram. It was, accordingly, argued that the collection of higher fees was justified in view of the legitimate requirement of funds for the development of

educational infrastructure and expansion of the institution. The learned AR thus prayed that the impugned order be set aside and the application for registration be allowed.

10. Per contra, the learned Departmental Representative (DR) supported the impugned order and submitted that the issue was not confined to the fact that the assessee was imparting education or had been established under an Act of Parliament. According to the learned DR, the manner in which the institution generated and applied its funds, the magnitude of the surplus and the financial discipline followed by it were equally relevant in determining whether its activities satisfied the requirements of a charitable institution under the Act.

11. The learned DR drew the attention of the Bench to the Comptroller and Auditor General (CAG) audit report concerning the subsequent period, stated to have been issued in August 2026 for financial year 2025-26. It was submitted that the report had flagged various discrepancies and financial irregularities, including issues concerning the grant of degrees in accordance with the applicable University Grants Commission (UGC) guidelines and alleged financial benefits accruing to teachers and the Director through the application of expenditure. The learned DR relied upon these observations to contend that the assessee's activities and financial administration required closer scrutiny and that its claim to charitable status could not be accepted

merely on the basis of its statutory establishment and educational objects.

12. The learned DR further submitted that, against total receipts of approximately Rs.114 crore and expenditure of approximately Rs.56 crore, the assessee had accumulated a substantial surplus of approximately Rs.77 crore. It was contended that, instead of charging high fees from students and accumulating substantial surpluses, the assessee ought to have rationalised its fee structure or provided concessions to students. The learned DR argued that the development of infrastructure through the accumulation of fees collected from students could not automatically be regarded as sufficient justification for charging high fees, particularly when the expenditure was directed towards expansion and construction rather than an identifiable immediate benefit to the students from whom the fees had been collected.

13. The learned DR submitted that the assessee had not made adequate budgeting provisions at the commencement of the academic session and that the absence of appropriate financial planning and discipline made it difficult to ascertain whether the collection and application of funds were genuinely directed towards the advancement of education. It was argued that the mere description of expenditure as infrastructure development could not, by itself, establish the charitable character of the

activities. The learned DR, accordingly, prayed that the appeal be dismissed.

14. We have considered the rival submissions advanced by the learned Authorised Representative (AR) for the assessee and the learned Departmental Representative (DR), perused the impugned order passed by the learned Commissioner of Income Tax (Exemption) [CIT(E)], and examined the material available on record. The principal issue for our consideration is whether the assessee has established its entitlement to registration under section 12A(1)(ac)(ii) of the Income-tax Act, 1961, having regard to the nature of its educational activities, the fee structure adopted, the substantial and recurring surplus generated, the accumulation of funds and the explanation that such funds are intended to be utilised for educational infrastructure and future expansion.

15. There is no dispute that the assessee is an institution established under the Indian Institutes of Management Act, 2017, and is engaged in imparting management education. The learned AR submitted that the assessee is self-governing and self-sustaining and has ceased to receive Government grants with effect from 2021. It was further submitted that the fee structure is comparable to that of other Institutes of Management and that the surplus generated is intended to be utilised for institutional development, including the proposed establishment of another IIM at Gurugram. The learned DR, on the other hand, supported the

findings of the learned CIT(E), drawing our attention to the high surplus margins, substantial accumulation of funds, fee structure and other financial and administrative circumstances referred to in the impugned order.

16. At the outset, we consider it necessary to clarify that the assessee's status as an institution established under a Central enactment and its importance in the field of management education are relevant circumstances. However, such status does not, by itself, conclude the question of its eligibility for registration under the Income-tax Act. The statutory requirements governing registration must be independently examined with reference to the assessee's objects, the genuineness and character of its activities, and the financial and other material available on record.

17. We have considered the assessee's explanation that, following the discontinuance of Government grants, it has to generate adequate internal resources to meet its expenditure and maintain and develop its infrastructure. This explanation is relevant, as an educational institution may legitimately require funds for faculty development, research, modernisation, construction, maintenance and future expansion. Nevertheless, the need to achieve financial self-sufficiency does not, by itself, establish the reasonableness of the fee structure or the charitable character of the activities. The fee collections, expenditure, accumulated funds and proposed

utilisation of the surplus must be considered cumulatively in the context of the statutory requirements.

18. The financial figures referred to by the parties assume considerable significance. Against total receipts of approximately Rs.114 crore, the assessee is stated to have incurred expenditure of approximately Rs.56 crore, resulting in a substantial surplus. The learned CIT(E) has also referred to surplus margins of 66.96% for financial year 2023-24 and 69.10% for financial year 2024-25, computed without depreciation. The learned AR has explained that the surplus is retained for infrastructure development and the proposed establishment of another IIM at Gurugram, whereas the learned DR has contended that the magnitude and recurring nature of the surplus, considered alongside the fee structure, warrant closer scrutiny.

19. In the light of the financial of the assessee stated herein above, we are required to examine the case laws relied upon by the ld. CIT(E) in the case of Baba Banda Singh Bahadur. In our view three features of Baba Banda Singh Bahadur are significant for decision. First, it arose from this very jurisdiction namely, Punjab & Haryana High Court and reversed a line of reasoning, rooted in Pinegrove, that the quantum of surplus is irrelevant at the stage of approval. Second, the Court specifically referred to clause (iiiab) of Section 10(23), the clause under which this assessee enjoyed exemption while it was Government-financed. Third, the Court treated a

consistent, high margin as a legitimate finding of fact on which a Commissioner may conclude that the activity is for profit.

20. If we compare the facts of the present case with Baba Banda (supra , then we may summaries it in the following:

Margin on total income	**Baba Banda Singh Bahadur (AY 2006-07)**	**Assessee, FY 2024-25**
Before depreciation	67.81%	69.10%
After depreciation	44.48%	63.15%

21. The assessee's margin after depreciation exceeds that in Baba Banda Singh Bahadur by nearly 19 percentage points.

22. On the deeper analysis, audited figures for FY 2024-25 speak for themselves:

1. Fee receipts of Rs. 141.50 crore are 2.12 times the institution's entire expenditure of Rs. 66.86 crore, including depreciation. Fees alone exceed total cost by Rs. 74.64 crore.
2. Put differently, about 53 paise of every rupee of fee collected is not spent on education in that year at all.
3. Interest of Rs. 36.49 crore earned on accumulated funds by itself meets 55% of total expenditure, and is more than twice the entire staff cost of Rs. 17.47 crore.
4. The surplus is not a single-year event. It was 60.64% (after depreciation) in FY 2023-24 and rose to 63.15% in FY 2024-25. The learned CIT(E) records that margins were equally high in earlier years.
5. The Corpus Fund grew from Rs. 402.09 crore to Rs. 616.86 crore in two years, an increase of 53%.

23. We have given these facts just to demonstrate the financial status and health of the assessee. It is not provided by the Statute about the either the ceiling of the fees to be charged by the assessee or the profit which can be earned by the assessee. However, in view of para 81 of New Noble Education Society 2022 SCC online SC 1458, The Hon'ble Supreme Court had laid down the principle that a systematic and non-incidental profit negates charity applies equally to sections 11 and 12AB. In our considered view, the mere generation of a reasonable surplus cannot, in isolation, be regarded as sufficient to deny registration to an educational institution. Equally, the fact that the surplus is retained within the institution and is not distributed among private people does not, by itself, establish the charitable character of the activities. The relevant inquiry is not confined to the ultimate destination of the funds; it also extends to the circumstances in which the surplus arises, the basis on which fees are fixed, the institution's actual financial requirements and the manner in which its resources are applied towards its educational objects. The surplus margins recorded in the impugned order, referred herein above are (more than 63%) substantial and constitute relevant circumstances, though no fixed percentage can be treated as an automatic statutory ceiling for determining eligibility for registration, however, by any stretch of reasoning,

the surplus of more than 63% cannot be justified or termed as a charitable activity by the assessee.

24. We have also considered the submission that the fee structure adopted by the assessee is identical or comparable to that of other Institutes of Management. Such comparison may be relevant while examining the reasonableness of the fees charged. However, the fee structures of other institutions cannot, by themselves, establish the reasonableness of the assessee's own fee structure. The comparison must be considered alongside the assessee's expenditure, financial position, accumulated resources, proposed development activities and the concessions, if any, extended to students. The programme fee is stated to be Rs.17.90 lakh, apart from other charges. In the absence of adequate particulars explaining the methodology of fee fixation, the cost of providing education and the concessions available to students who may be unable to afford the prescribed fees, the submission regarding comparability does not satisfactorily explain the substantial and recurring surplus. We fail to appreciate as to why the assessee is charging such a huge fees when it is having surplus of more than Rs.70 crores and corpus fund of more than Rs. 610 Cr. In the present case, the land and infrastructure were provided by the Government prior to 2021 and there was no tiring pressure on the assessee to develop the infrastructure in the existing

institution to charge huge fees which result into generation of surplus.

25. We now turn to the assessee's explanation that the accumulated funds are intended to be utilised for establishing another IIM at Gurugram. We recognise that the creation of educational infrastructure and the expansion of educational opportunities may constitute legitimate educational purposes. However, the assertion that the surplus will be used for a future project must be supported by material demonstrating the nature, necessity, scale and implementation of the proposed expenditure. In the present case, no Board resolution, approved project report, detailed cost estimate, Government sanction or definite implementation schedule evidencing the proposed project has been placed on record. It has also not been established whether the proposed institution would form part of the assessee's existing institutional structure or would be established as a separate entity.

26. In these circumstances, the proposed establishment of another IIM at Gurugram explains the stated intention regarding the future utilisation of funds but does not adequately establish the necessity for, or reasonableness of, the existing fee structure. The legitimate objective of institutional expansion must be distinguished from an unsupported assertion regarding the future

application of accumulated funds. Where substantial and recurring surpluses are generated, the explanation for their accumulation must be examined with reference to the supporting financial and institutional records. The absence of evidence regarding the proposed project assumes significance when the magnitude of the surplus is considered alongside the other circumstances recorded in the impugned order.

27. The element of public benefit and accessibility to education also merits consideration. The material placed before us does not disclose sufficient particulars regarding the quantum of need-based scholarships, fee waivers or freeships provided during the relevant period. Nor has adequate material been furnished to demonstrate the extent to which concessions are available to students who may otherwise be unable to afford the prescribed fees. We do not hold that the absence of scholarships or fee concessions, by itself, defeats a claim for charitable registration. However, in the present factual setting, the absence of such particulars assumes relevance while examining the justification for the fee structure and the relationship between the substantial surplus generated and the educational objectives relied upon by the assessee.

28. We have also considered the submission of the learned DR concerning the CAG audit report stated to have been issued in

August 2026 for financial year 2025-26. The observations referred to by the learned DR concerning alleged financial irregularities, compliance with UGC guidelines and possible financial benefits to the Director or teachers are serious matters. However, allegations or audit observations cannot be treated as established findings without examining the relevant report, the precise observations, the assessee's explanation and the status of any corrective or consequential proceedings. Further, observations pertaining to a subsequent financial year cannot, without a demonstrated factual nexus, be treated as conclusive evidence of the character of the assessee's activities during an earlier period. We, therefore, do not treat the allegations referred to by the learned DR as independently established facts for deciding the present appeal.

29. The argument concerning the absence of budgeting provisions at the commencement of the academic session has also been considered. Proper budgeting and financial discipline are relevant to institutional governance and may assist in determining whether the collection and application of funds are planned in furtherance of the educational objects. Nevertheless, the absence of a particular budgeting practice cannot, without examining its significance under the applicable legal and institutional framework, independently establish that the assessee is not engaged in charitable educational activity. Our decision, therefore, does not rest upon this circumstance in isolation.

30. On a cumulative consideration of the material, we find that the assessee has not adequately substantiated its explanation for the substantial and recurring surplus generated from its fee structure. The surplus margins recorded by the learned CIT(E), the accumulation of funds, the interest income earned on accumulated funds and the continuing increase in the Corpus Fund are relevant circumstances which require consideration together. These circumstances assume greater significance in the absence of adequate supporting material explaining the methodology of fee fixation, the necessity and scale of accumulation, the particulars of student concessions and the definite requirements of the proposed expansion project.

31. We are conscious that the generation of a surplus, the accumulation of reserves and the development of infrastructure are not, in themselves, inconsistent with educational or charitable objects. However, generating a surplus of 65% may not be consistent with the spirit of charity. Charging higher fees to students who are financially vulnerable and eager to join a prestigious institution, and then using the surplus to develop another institution without any contribution from the management, the Government or the governing body, raises a question about the charitable nature of the activity. This resembles the mythological character, whereby resources are taken from one section of society and given to another. Whether

such an approach can be regarded as charity requires careful consideration.

32. We have not expressed any opinion that an educational institution is required to maintain a particular ratio between its receipts and expenditure or to provide scholarships in any prescribed proportion as a condition automatically governing registration. The question is whether, on the facts of the particular case and on the material placed on record, the assessee has sufficiently demonstrated that the financial arrangements and the activities carried on are consistent with the charitable character claimed by it. In the present case, the explanation that the surplus is retained for institutional development does not, without supporting particulars establishing the necessity, scale and intended application of the accumulated funds, satisfactorily displace the concerns arising from the financial figures recorded in the impugned order.

33. The fact that the assessee is an Institute of National Importance and performs a significant public function in the field of management education commands due regard. However, its statutory status and its eligibility for registration under section 12AB are distinct matters. Registration must be determined in accordance with the statutory requirements applicable to the provision invoked. The importance of the institution, its

educational activities and the absence of an established diversion of funds for private benefit are relevant considerations, but they do not dispense with the requirement of examining the objects, activities and supporting material placed before the competent authority.

34. Having regard to the foregoing discussion, we find no sufficient basis to interfere with the conclusion reached by the learned CIT(E). The assessee's establishment under the Indian Institutes of Management Act, 2017, its engagement in management education, its financial self-sufficiency and its stated intention to utilise the surplus for infrastructure development have been duly considered. Nevertheless, the substantial and recurring surplus, viewed cumulatively with the fee structure, accumulation of funds and absence of adequate supporting material regarding the proposed expansion and the justification for the scale of accumulation, does not warrant interference with the impugned order on the material presently available.

35. We clarify that our conclusion does not mean that an educational institution is prohibited from charging fees, generating a surplus, building reserves or expanding its infrastructure. Nor do we prescribe any fixed percentage of surplus as a statutory limit for the purposes of registration. Our conclusion is confined to the facts and material of the present

case, in which the assessee has not sufficiently substantiated its explanation for the substantial and recurring surplus generated from its existing fee structure.

36. It is, however, clarified that this order shall not preclude the assessee from making a fresh application, if so advised and if permissible under the applicable statutory provisions, on the basis of materially changed circumstances and supporting evidence. Such material may include a properly documented fee policy, particulars of need-based concessions, a detailed and supported plan for the application of accumulated funds towards identified educational objectives and relevant approvals or project documents. Any such application shall be considered independently by the competent authority in accordance with law and on the material placed before it.

37. In the result, the order dated 10.12.2025 passed by the learned CIT(E), rejecting the assessee's application in Form No.10AB for registration under section 12A(1)(ac)(ii) of the Act, is upheld. The grounds raised by the assessee are dismissed.

38. In the result, the appeal of the assessee is dismissed.

Order pronounced on 12th October,2026.

Sd/- Sd/-

(VIJAY VARMA)
ACCOUNTANT MEMBER

(LALIET KUMAR)
JUDICIAL MEMBER

"Poonam"

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

1. अपीलार्थी/ The Appellant
2. प्रत्यर्थी/ The Respondent
3. आयकर आयुक्त/ CIT
4. विभागीय प्रतिनिधि, आयकर अपीलीय आधिकरण, चण्डीगढ़/ DR, ITAT, CHANDIGARH
5. गार्ड फाईल/ Guard File

Assistant Registrar
Income Tax Appellate Tribunal
Kendriya Sadan, Sector 9-A,
Chandigarh.