आयकर अपीलीय अधिकरण, चेन्नई पीठें, चेन्नई
INCOME TAX APPELLATE TRIBUNAL, CHENNAI BENCHES, CHENNAI BENCH: D

SHRI INTURI RAMA RAO, ACCOUNTANT MEMBER AND SHRI SS VISWANETHRA RAVI, JUDICIAL MEMBER

ITA No.3001/CHNY/2026 निर्धारण वर्ष/Assessment Year: **2023-24**		
Deputy Commissioner of Income Tax, Central Circle-2(2), Chennai.	**Vs.**	Jayapriya Company, 37, Sivavishnu Complex, II F, Thygarayanagar H.O Thyagaraya Nagar, Chennai – 600017
अपीलार्थी Appellant		प्रत्यर्थी **Respondent**
Permanent Account Number of Assessee:		AAHFJ0958M
अपीलार्थी द्वारा/Appellant represented by:		Mr.G.Baskar – Advocate
प्रत्यर्थी द्वारा/Respondent represented by:		Ms.D.Nithya – Addl.CIT

सुनवाई की तारीख / Date of conclusion of hearing:	09.09.2026
घोषणा की तारीख / Date of pronouncement:	09.10.2026

आदेश / ORDER

PER INTURI RAMA RAO, ACCOUNTANT MEMBER :

This appeal filed by the Revenue directed against the order passed by the order of Learned Commissioner of Income Tax(Appeal), Chennai-19 dated 23.02.2026 passed u/s.250 of the Income Tax Act, 1961 for the Assessment Year 2023-24.

2. The Revenue raised the following grounds of appeal :

"1. The order of the learned Commissioner of Income Tax (Appeals) is erroneous on facts of the case and in law.

2. The Ld.CIT(A) erred in not making any finding of fact, on the fact that there was such surplus lying in Reserves & Surplus of the assessee's Balance sheet to warrant such advances to related parties such as M/s. Jayapriya Food Products Pvt Ltd., M/s. Jayapriya Property Developers Pvt Ltd., M/s. Jayapriya Trading Company, M/s. Jayapriya Hotel, Thirupayar, M/s. Jayapriya Life Investment Growth Pvt. Ltd., M/s. Jayapriya Nagar. M/s. Jayapriya Sands Pvt Ltd etc. thereby giving relief to the assessee on issue of Disallowance of Interest expenses on these advances to those related parties.

3. The Ld.CIT(A) erred in deleting the addition of Rs.9.34.13.683/- on account of interest leviable for advances to related parties.

4. The order of the learned CIT(A) is erroneous and contrary to the facts and provisions of law, and therefore the order of the Assessing Officer deserves to be restored.

5. For these grounds and any other ground including amendment of grounds that may be raised during the course of the appeal proceedings, the order of learned CIT(Appeals) may be set aside and that of the Assessing Officer be restored."

3. Briefly, the facts of the case are that the respondent-assessee is a partnership-firm duly incorporated under the provisions of Partnership Act. It is engaged in the business of real estate. The Return of Income for the Assessment Year 2023-24 was filed on 30.10.2023 disclosing total income of Rs.22,98,030/-. Against the said Return of Income, the assessment was completed by the DCIT, Central Circle-(2), Chennai(hereinafter called 'AO') vide order dated 19.03.2025 passed u/s.143(3) of the Income Tax Act, 1961 at a total income of Rs.9,57,28,730/-. While doing so, the Assessing Officer made addition of Rs.49,34,30,683/- by imputing notional interest on the loans advanced to various parties, who were alleged to be related parties. The factual background leading to the above addition is as under :

4. During the course of assessment proceedings, the Assessing Officer observed that the respondent-assessee company received loans from various parties which were outstanding as on 31.03.2023 to the tune of Rs.777,55,17,152/- out of which a sum of Rs.759,25,17,152/- represents the

advance received against land on which respondent-assessee company paid interest. The respondent-assessee also made claim for deduction of interest expenditure of Rs.91,36,80,758/- which works out to 12% per annum. The Assessing Officer also observed that out of the loans borrowed of Rs.777,55,17,152/-, the respondent-assessee company advanced loans to related parties during the previous year relevant to assessment year under consideration, to the tune of Rs.195,00,82,871/-. The details of loans and advances made were as follows :

Name of concern	*Loans given*
APJ Abdul Kalam Educational Trust	*6,62,57,251*
Jayapriya Charitable Trust	*125,21,32,330*
Jayapriya Food products private limited	*9,89,64,034*
Jayapriya Hotel Thirupayar	*19,24,748*
Jayapriya property developers private limited	*7,54,57,287*
Jayapriya Trading Company	*4,49,71,109*
Jayapriya Life Investment Growth Pvt Ltd	*16,65,944*
Jayapriya Nagar	*24,25,977*
Jayapriya Sanda (P) Ltd	*6,03,06,061*
Jayapriya Educational Trust	*23,4,69,973*
Loan to Sun Traders	*11,55,08,157*
Total	*195,00,82,871*

5. The Assessing Officer also noticed that the respondent-assessee company offered/shown interest from above related parties to the extent of Rs.14,05,79,082/- which works out to 7.2% per annum. According to the Assessing Officer, this differential amount of interest should be brought to tax as the loans were advanced to related parties as the respondent-assessee company should have charged interest @12% on the loans advanced to related parties. Accordingly, the Assessing Officer had called upon the respondent-assessee company to explain why such differential amount should not be brought to tax. The respondent-assessee company submitted details of interest received from the related parties and also submitted that the loans were advanced to the related parties out of the own funds i.e.capital and reserves, therefore, no addition is called-for. However, the Assessing Officer brought to tax the differential amount of interest Rs.9,34,30,683/-.

6. Being aggrieved by the above assessment order, an appeal was filed before the Learned CIT(A), raising following contentions:

i) Loans were advanced to the related parties out of the firm's own fund in the form of capital and reserves.

ii) The Assessing Officer had erroneously treated an amount of Rs.777,55,00,000/- as loan outstanding and Rs.759,25,17,152/- as advance received against the land on which the respondent-assessee firm paid interest.

It is submitted that the advance received against land and unsecured loans are considered together, the total funds available with the appellant firm for advancing such loans aggregates to Rs.893,74,15,462/-. It is, thus contended that the total interest expenditure shown in the financial statements works out to Rs.91,36,80,758/- on the total borrowings of Rs.893,74,15,462/- effective rate of interest works out at 10.22%. Thus, it is contended that the conclusion drawn by the Assessing Officer that the interest was paid on the borrowings @12% per annum is incorrect. Further, it was contended that the assessee advanced loans to APJ Abdul Kalam Trust at 12% per annum and therefore, the presumption drawn by the Assessing Officer that the firm charged interest only at 7.2% is incorrect. It is further contended that the amount of loan

outstanding from Trusts i.e. M/s.Jayapriya Charitable Trust and M/s.Jayapriya Educational Trust, which are sister concerns of the respondent-assessee is inclusive of accrued interest. It is thus submitted that the interest charged on the loans advanced to above trusts was Rs.10,58,43,579/- which works out to 10.4%. Thus, it was contended that findings of the Assessing Officer that respondent-assessee company charged lower interest rate is erroneous. As regards to loans advanced to i) Jayapriya Food Products Pvt Ltd; ii) Jayapriya property Developers Pvt Ltd and iii) Jayapriya Trading Company, it is contended that the amounts of loans advanced to the above concerns are not in the nature of loans, but investments made in terms of Memorandum of Understanding(MoU) entered with those entities in order to earn the profits. It is further submitted that the Tribunal in the earlier years for the Assessment Year 2022-23 accepted the contention of the appellant. As regards, the amount of loans advanced to the entities i.e. i) M/s.Jayapriya Hotel Thirupayar; ii) M/s.Jayapriya Life Investment Growth (P) Ltd and iii) M/s.Jayapriya Nagar and iv) M/s.Jayapriya Sands (P) Ltd, it is

submitted that the above entities were sister concerns of the respondent-assessee company and the appellant had contributed the above sum as a capital contribution and the question of charging interest does not arise. Regarding the amount advanced to Sun Traders, it is submitted that the amount was advanced as a business loan. The Learned CIT(A) undertook the exercise of analysis of the transactions of the loans and advances made to each party. Thus, the Learned CIT(A) after duly considering the submissions made, and also taking into consideration, the order passed by the Tribunal in respondent-assessee's own case for the earlier years A.Y.2021-22 in ITA Nos.1251 & 1252/CHNY/2025 dated 12.09.2025 for the A.Ys.2021-22 and 2022-23 held that the Assessing Officer had disregarded the availability of non-interest bearing funds and the approach of the Assessing Officer by adopting @12% as a notional income is purely based on the presumptions and surmises, accordingly directed the Assessing Officer to delete the addition made.

7. Being aggrieved by the order of the Learned CIT(A), the Revenue is in appeal before us in the present appeal challenging the correctness of the findings of the Learned CIT(A). The Learned Sr.DR submits that the Learned CIT(A) without returning finding on the submissions made by the respondent-assessee that the loans and advances made to the related parties were out of reserves and surpluses gave relief. He further submits that the Learned CIT(A) ought not have granted relief without discussing the facts of the each transaction of loans and advances.

8. On the other hand, the Learned Counsel submits that the Learned CIT(A) granted relief after undertaking the exercise of analyzing each transaction of loans and advances made to related party.

9. Without prejudice to the above, he submits that the findings of the Assessing Officer that the respondent-assessee charged interest only at 7.2% is erroneous and had no basis. In fact, the respondent-assessee company charged interest at 12% per

annum on loans and advances granted to APJ Abdul Kalam Trust and charged interest at 10.4% on loan advance granted to Jayapriya Charitable Trust, Jayapriya Educational Trust. With regard to the advances made to Jayapriya Foods Products P Ltd, Jayapriya Property Developers P Ltd and Jayapriya Trading Company, the Counsel submits that the advances were given out of business expediency and in terms of MoU entered by the respondent-assessee company with those companies. When loans were advanced out of business expediency, no interest can be charged. He also placed reliance on the decision of the Hon'ble Supreme Court in the case of S.A.Builders Ltd vs. CIT 288 ITR 1 and decision of this Tribunal in assessee's own case for the immediate preceding year in ITA Nos.1251 & 1252/CHNY/2025. With regard to loans advanced to Jayapriya Hotel Thirupayar, Jayapriya Life Investment Growth Private Ltd, Jayapriya Nagar and Jayapriya Sand (P) Ltd, the Counsel submits that the loans were advanced to the above firms as a capital contribution and therefore, the question of charging interest does not arise. Regarding the loan advance to Sun Traders, the

Learned Counsel submits that the loan was advanced out of business expediency for the purpose of business, therefore, question of interest does not arise.

10. We heard rival submissions and perused the material available on record. The question that arises for our determination is whether the Learned CIT(A) was correct in law on the facts of the case in deleting the addition made by the Assessing Officer on account of lower rate of interest charged or no interest charged on loans and advances made to the related parties. During the previous year relevant to assessment year under consideration, the Assessing Officer noticed that the respondent-assessee company made loans and advances to the related parties which are extracted(supra). According to the Assessing Officer, the respondent-assessee company ought to have charged interest at 12% on the amounts of loans and advances made to the related parties, as the appellant had paid interest @12% on the loans borrowed by it. This finding of the Assessing Officer was disputed by the respondent-assessee by stating that the appellant had not paid interest @12% on loans

and advances borrowed from them. It was stated that effective rate of interest paid on borrowings works out to 10.22%. It is stated that the appellant charged interest, wherever the terms of agreement provides for charging of interest at 12% in respect of loans and advances made to APJ Abdul Kalm Educational Trust. Thus, it is contended that the findings of the Assessing Officer that it charged lower interest on loans and advances made to the related parties is incorrect. Even in respect of loans and advances made to M/s.Jayapriya Charitable Trust and Jayapriya Educational Trust, it is submitted that the findings of the Assessing Officer are erroneous for the reason that the outstanding amount is inclusive of accrued interest whereas the respondent-assessee already charged interest at 10.4%. In respect of the party Jayapriya Company, it is contended that the respondent-assessee made loans and advances made only out of business expediency in terms of MoU entered by respondent-assessee. With regard to the parties, it was stated that the loans and advances were advanced out of his own capital and capital reserves. Therefore, the question of charging interest does not

arise. As regards loans and advances made to Sun Traders, it was stated that the advances are made in the course of the business carried on by the respondent-assessee. On mere reading of the assessment order, it would reveal that the Assessing Officer had not made disallowance of interest u/s.36(1)(iii) of the Act. He only made addition by imputing the notional interest on the amount of loans and advances made to the related parties. According to the Assessing Officer, the respondent-assessee ought to have charged more interest than what was charged by the respondent-assessee company. The submissions made by the respondent-assessee that it had not charged lower rate of interest, wherever it had charged remains uncontroverted by the Learned Sr.DR. Where it had not charged interest, the respondent-assessee made submissions that the advances were made out of consideration of business expediency or that the advances were made out of interest free funds in the form of free reserves and capital. Therefore, submissions made by the respondent-assessee company remain uncontroverted by the Learned Sr.DR. The Learned CIT(A) after duly analyzing the

each transaction of loans and advances made to related parties, reached a conclusion that the respondent-assessee had not charged lower rate of interest. No material was shown to us to show that the conclusion reached by the Learned CIT(A) is erroneous and perverse. Therefore, we do not find any illegality or perversity in the findings of the Learned CIT(A) in deleting the addition made by the Assessing Officer.

11. There is yet another reason as to why, we are not inclined to interfere with the order of the Learned CIT(A), there is no provision under the provisions of the Income Tax Act enabling the Assessing Officer to impute notional income. It is not the case of the Assessing Officer that the income had actually accrued in terms of agreement / MoU entered by the respondent-assessee with related party, but not offered to tax nor was the case of the Assessing Officer that the interest should be disallowed under the provisions of section 36(1)(iii) of the Act. Therefore, we do not find any merit in the grounds of appeal filed by the Revenue. Accordingly, appeal filed by the Revenue stands dismissed.

12. In the result, appeal filed by the Revenue stands dismissed.

Order pronounced in the open Court on 9th October, 2026.

Sd/-	**Sd/-**
(SS VISWANETHRA RAVI)	**(INTURI RAMA RAO)**
JUDICIAL MEMBER	**ACCOUNTANT MEMBER**

Chennai; दिनांक / Dated : 9th Oct, 2026

SGR, Sr.PS

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

1. अपीलार्थी / The Appellant.
2. प्रत्यर्थी / The Respondent.
3. The CIT Chennai/Madurai/Coimbatore/Salem.
4. विभागीय प्रतिनिधि, आयकर अपीलीय अधिकरण, "डी" बेंच, चेन्नई / DR, ITAT Chennai.
5. गार्ड फ़ाइल / Guard File.