

**IN THE INCOME TAX APPELLATE TRIBUNAL
MUMBAI BENCH "B" MUMBAI**

**BEFORE SHRI OM PRAKASH KANT (ACCOUNT MEMBER)
AND
MS. KAVITHA RAJAGOPAL (JUDICIAL MEMBER)**

**ITA No. 8088/MUM/2025
Assessment Year: 2018-19**

Deputy Commissioner of Income
Tax Circle 1(2)(1), Mumbai
Room No.535, Aayakar Bhavan,
Mumbai-400001

Vs.

Blend Financial Services Limited
C-404 Pramukh Plaza Cardinal
Gracious Road Chakala,
Mumbai-400099

Appellant

**PAN NO- AAACB6024C
Respondent**

Assessee by : Shri Rajesh Sanghvi
Department by : Shri Swapnil Choudhari (SR. DR)

Date of Hearing : 19/02/2026
Date of pronouncement : 13/03/2026

ORDER

PER OM PRAKASH KANT, AM

This appeal by the Revenue is directed against order dated 3rd September, 2025 passed by the Ld. Commissioner of Income Tax (Appeals) – National Faceless Appeal Centre, Delhi [in short, “the Ld. CIT(A)] for assessment year 2018-19 raising following grounds:

“1. Whether on the facts and circumstances of the case and in law the Ld. CIT(A) erred in deleting disallowance u/s. 40A(2)(b) on account of excess and unreasonable remuneration paid to directors and their relatives amounting to Rs. 1,62,10,571/-?”



2. Whether on the facts and circumstances of the case and in law, Ld. CIT(A) erred in deleting the disallowance made u/s 37 of the Act on account of foreign travel amounting to Rs. 1,11,69,620/- relying upon the additional evidence filed during the appellate proceeding without giving opportunity of being heard to AO violating the provisions of Rule 46 (A) (2) and 46A (3) of the IT Rules?

2. Briefly stated, the facts of the case are that the assessee company is engaged in providing global management and financial consulting services to corporates, financial institutions, banks and sovereign enterprises in the areas of trade finance, management consultancy and strategic advisory. The assessee also renders technology-enabled services and knowledge-based backend support to its associated enterprise, namely Blend Management Services FZCO, Dubai, United Arab Emirates, on a cost-plus basis.

2.1 For the year under consideration, the assessee filed return of income declaring total income of Rs.10,47,251/- after setting off of loss of Rs.26,13,054/-. The return of income filed by the assessee was selected for scrutiny and statutory notices under the Income Tax Act, 1961 (in short, “the Act”) were issued and supplied.

2.2 The assessment was completed under section 143(3) of the Act on 24.04.2021. In the said assessment, the Assessing Officer made two additions:(i) disallowance of ₹1,62,10,571/- under section 40A(2)(b) of the Act on the ground that payments made to directors and related persons were excessive and unreasonable; and (ii) disallowance of ₹1,11,69,620/- under section 37 of the



Act on account of foreign travelling expenses treated as not wholly and exclusively incurred for business purposes.

3 Aggrieved by the assessment order, the assessee preferred an appeal before the learned CIT(A). The learned CIT(A), after considering the submissions and material placed on record, deleted both the additions. The Revenue, being aggrieved, is now in appeal before the Tribunal raising the grounds reproduced hereinabove.

4. Before us, the learned counsel for the assessee placed on record a paper book comprising pages 1 to 371 containing the relevant documents and evidences relating to the expenses in dispute.

5. Ground No. 3 of the Revenue's appeal being general in nature does not call for any specific adjudication.

6. Ground No.1 relates to the deletion of disallowance made by the Assessing Officer under section 40A(2)(b) of the Act in respect of payments made to directors and their relatives, which were treated by the Assessing Officer as excessive and unreasonable.

6.1 Facts in brief qua the issue in dispute are that the Assessing Officer compared the revenue and expenditure of the year under consideration with those of the immediately preceding year and observed that the overall expenses had increased. He particularly focused on employee benefit expenses and noted that payments made to directors and their relatives constituted



approximately 19.26% of the total employee benefit expenses.. The Assessing Officer observed that the assessee had incurred expenditure of ₹3,82,17,740/- towards salary/remuneration, car expenses, professional fees and guest house rent paid to directors and their relatives. Though the assessee explained that the increase in expenditure corresponded with an increase in business receipts, the Assessing Officer held that the rise in remuneration to certain directors and related persons was excessive.

6.2 In particular, the Assessing Officer noted that remuneration paid to Ms. Vaibhavi Thakkar had increased substantially and that she had also been paid professional fees in addition to salary. He further observed that she held a Bachelor of Commerce degree and therefore considered the remuneration paid to her to be excessive. Similar observations were made in respect of the remuneration paid to Shri Ravi Gupta and certain other related persons.

6.3 On this basis, the Assessing Officer invoked section 40A(2)(b) of the Act. Instead of determining the fair market value of the services rendered, the Assessing Officer adopted the expenses of financial year 2016-17 as the base year and assumed a permissible annual increase of 10%. Applying this methodology, he computed such expenses for the year under consideration at Rs.1,91,49,169/- and thus the balance expenses



of Rs.1,62,10,571/- (3,53,59,740 – 1,91,49,169/-) was treated as excessive expenditure, which was disallowed.

6.4 The assessee challenged the said disallowance before the learned CIT(A) and filed detailed submissions supported by documentary evidence explaining the nature of services rendered by the directors, the commercial rationale for the remuneration paid, and the agreements relating to car rent, guest house rent and professional services. For ready reference said submission are reproduced as under :

“7. The AO stated in the Asst order that Vaibhavi Thakkar (CEO of the appellant company) being just a B.com graduate her Professional fees remuneration (& not salary) of Rs. 78 lacs was not acceptable. The Appellant submits that she is the CEO since 2007 and is well read, extremely knowledgeable in finance and international financial products, meets hundreds of clients the world over, well-travelled person and has completed work worth crores for Blend. Ideally, she ought to have been personally examined on oath by the AO, if the AO was so doubtful that she was not knowledgeable enough to earn this kind of salary/fees and we had requested for that. Besides Vaibhavi Thakkar gave residence and car (High end luxury car Range Rover) on rent to the appellant company for the first time vide Agreements which are self-explanatory. Here again the AO has treated presumably the rental amounts paid by the Appellant Blend to Vaibhavi Thakkar as excessive and unreasonable, with no basis. The Appellant had passed appropriate resolutions for the same. Without prejudice to the above Vaibhavi Thakkar is also paying highest slab taxes 30% on her income. And so is the appellant.

Both persons are paying taxes at highest rates. So there is no tax evasion on either side. As per the AO, Vaibhavi Thakkar (CEO of the appellant company) being just a B.com graduate her fees remuneration of Rs. 78 lacs was not acceptable. The AO puts more emphasis on education and fails to appreciate that education is different from experience and skill sets. In majority of the business, the person is paid higher salary by virtue of his experience and skill set in that industry.

Hence considering the above facts the payment made to Vaibhavi Thakkar is fully justified and disallowance made by the AO is incorrect. The average rental of a high end luxury new rover range car is about Rs. 2 to 2.5 lacs p.m and the house (used as Guest house by Blend) given by Vaibhavi Thakkar was a 1794 sq ft Apartment at a prime location of Goregaon, Mumbai at Rs.2 lacs p.m. These are the normal rentals in the market.
Clarification on Ravi Gupta



8. Ravi Gupta the founder director and MD of the appellant company got a salary of Rs. 84 lacs in AY 17-18 and his salary remained the same Rs. 84 lacs in AY 18-19. But the AO compared the same with salary of AY 16-17 of Rs. 48 lacs' to justify this addition. The AO did not compare his Salary with Asst year: 17-18 which was Rs. 84 Lacs. Nor did the AO even check that Mr. Ravi Gupta's qualification is Chartered Accountant. He is also well read, extremely knowledgeable in finance and international financial products, meets hundreds of clients the world over, well-travelled person and has cracked deals worth crores for Blend. We request that he also be examined on oath by the AO.

He is the Managing Director and driving force behind the appellant-company and founder director of Blend since 1997. Appropriate resolutions were passed. Without prejudice Ravi Gupta is also paying highest slab taxes 30%. Hence logic of AO in para 5.6 page 8 fails because both parties are paying 30% tax. Hence considering the above facts the payments made to Ravi Gupta is fully justified and the disallowance made by the AO is incorrect. This is especially keeping in mind that there was no change in Salary of Ravi Gupta vis-à-vis AY: 17-18.

9. Jigar Thakkar was a new appointee and his salary as Rs.28,09,440/-. There was no comparison with last year i.e Asst year 17-18. The Appellant states that as per the AO's order effectively even his salary as disallowed to some extent. The Appellant states that this is also irrational and incorrect, unjustified and without any basis.

10. The AO failed to appreciate that the directors, CEO and related parties of the companies are also paying highest slab taxes 30% on their income and so is the appellant. Both persons are paying taxes at highest rates. So there is factually no tax evasion. In fact more taxes are by Individuals. There cannot be any intention of the appellant to evade the tax by shifting profit of the Company. It is important to note that the remuneration / salary / professional fees paid to Directors CEO or any related parties are also paying taxes and filing their return. Therefore such payments are neither evasion of tax or leakage of revenue. Thus the amount of Rs. 1,62,10,571/- disallowed u/s 40A(2)(b) being payments made to Directors and other specified persons treating it as excess and unreasonable is incorrect and not legally valid.

11. The appellant had made substantial submission supported with explanation, evidences and documents as and when called for. The appellant had submitted the following detailed explanations along with evidences to justified the payment made to the related party:

- a) Financial statements along with Audit report for AY 18-19
- b) Complete details of related parties and details of payments made to related parties
- c) Complete detailed of salary for year in question and prior 2 assessment years (AY 16-17 and AY 17-18) with details such as name, designation, PAN, salary break up etc.
- d) Break up of salary, expenses and remuneration paid to related parties
- e) Education qualification proofs
- f) Car rental agreement, invoices etc
- g) Guest house rental agreement, invoices etc
- h) Professional fees expenses supporting
- i) Ledger accounts of the expenses / salary / remuneration.



j) Assessment order for prior years AY 16-17 and AY 17-18 wherein all such expenses were accepted.

12. The AO did not appreciate all the above evidences produced by the appellant nor rebutted them or proved them false and has disallowed Rs 1,62,10,571/- u/s 40A(2)(b) without bringing any material on record to demonstrate that the payments made to the related parties is excessive and unreasonable having regard to market rate for service availed

13. The AO has stated that any salary above 10% to related parties in the Appellant case was unreasonable. There is no basis for such a statement. It's a bald statement. In fact the AO has even reworked the salary for Asst year: 17-18 on the assumption of 10% increase salary, though it was not a scrutiny assessment. The AO has disregarded the actual salary of Asst year: 17-18 and made his own conclusions and then worked out for AY: 18-19. Hence the entire approach of the AO is fallacious, illogical and impracticable.

14. The AO made additions of Rs. 1,62,10,571/- on directors salary on the assumptions of an acceptable annual 10% increase in Directors salary starting from base year AY 17-18 and for AY 18-19. The AO has thus disturbed the salary expense of AY 17-18 which was assessed u/s 143(3) and no additions made on salary issue. The increase in overall salary from AY 17-18 to 18-19 was about 10%. As per the AO directors salary could go up every year only by 10% like a rule. The AO effectively does not even accept the salary of AY 17-18 which is assessed u/s 143(3). The AO fails to appreciate that the appellant had already being assessed in AY 16-17 and AY 17-18 and expenses paid to the related parties were allowed and accepted. Therefore AO erred in disallowing Rs. 1,62,10,571/- u/s 40A(2)(b) being salary to directors etc, following fallacious logic as per para 5.7 of the impugned order, thereby unsettling & ignoring the assessment order u/s 143(3) of the 2 prior years i.e Asst years: 16-17 and 17-18.

15. The reasonableness of the is to be seen from businessman point of view and not from revenue point of view. The expediency, legitimacy, and the business needs will have to be examined from the assessee's point of view and not department point of view held by Hon'ble Gujarat High court in the case of Voltamp Transformers Pvt Ltd vs CIT 129 ITR 105 (Guj). We further find that Hon'ble Rajasthan High court in the case of CIT vs. Consulting Engineering Group Ltd. Reported in 223 Taman 440 held that it is for the assesses a businessman to come to conclusion as to what remuneration or salary is paid to the employees and reasonableness of the expenses is to be judged from the angle of the businessman rather than angle of the AO.

16. The AO can disallowed under this section only portion of expenses which in his opinion is excessive or unreasonable. The onus is on AD to form the opinion that the expenditure claimed is excessive or unreasonable having regard to the fair market value for which payment is made. The AO must established that the payment made is excessive or unreasonable based on materials on record and cannot be based on merely surmises and conjectures.

17. The initial onus is on the Assessing Officer to assess fair market price and give comparable instances. Looking into the instant facts, where no such exercise was done by the Assessing Officer and no attempt was made by the Assessing Officer to establish that the salary or professional fees



paid by the assessee to the concerned parties was excessive, there was no discharge of burden by the Revenue under Section 40(A)(2)(b) of the Act and hence, no disallowance should be made.

18. *We refer and rely on the case Balani Infotech Ltd vs. ACIT, Circle 4(1), New Delhi No ITA No. 2767/Del/2019 dt: 31-05-22.*

19. *We refer and rely on the case Dy CIT Income tax circle 2(1)(1), ACIT Income tax circle 2(1)(1) vs. The Bombay Samachar Pvt Ltd no ITA No. 35/Mum/16, ITa No. 7171/Mum/2010, ITA 7141/mum/2011, 1576/Mum/2016 and ITA 3949/Mum/2041 dt: 24-10-18.*

20. *We refer and rely on the case ACIT Central Circle-1, Surat vs. J.B & Brothers Pvt Ltd ITA No. 552/SRT/2023 dt: 26-10-23*

21. *We refer and rely on the case Virbala Kiritkumar Patel vs. DCIT, Circle-5, Baroda ITA No. 1213/Ahd/2024 dt 23-6-25*

22. *We refer and rely on the case CIT vs Indo Saudi Services (Teravel) Pvt Ltd 2008(8) TMI 208 - Bombay High Court dt: 20-08-2008.*

23. *We refer and rely on the case ACIT 8 (2)(1), Mumbai vs. Piramal fund Management Pvt Ltd 2025 (4) TMI 136- ITAT Mumbai dt: 19-03-25*

24. *We refer and rely on the case Astra management Services (P) Ltd vs. DCIT 3(2), New Delhi ITA No. 8332/Del/2019 dt 31-12-24.*

25. *Therefore disallowing Rs. 1,62,10,571/- u/s 40A(2)(b) being salary to directors etc, following fallacious logic without bringing any material on record to demonstrate that the payments made to the related parties is excessive and unreasonable is legally not valid and incorrect and same should be deleted.”*

6.5. The learned CIT(A), after examining the assessment order, the submissions of the assessee and the supporting documents, held that the Assessing Officer had failed to bring any material on record to demonstrate that the payments were excessive having regard to the fair market value of the services rendered. The learned CIT(A) further observed that the Assessing Officer had adopted an arbitrary approach by applying a notional ceiling of 10% annual increase and by effectively disturbing the remuneration accepted in earlier assessment years. Accordingly,



the disallowance of ₹1,62,10,571/- was deleted. Relevant finding of Id CIT(A) is reproduced as under :

*“5.4 From the proper appreciation and evaluation of the findings of AO and reply/submission of the appellant furnished during the appellate proceedings in support of its contention. It is relevant to note that section 40A(2)(b) provides that expenses in respect of payments to specified persons which are excessive or unreasonable having regard to the service or facilities provided shall not be allowed. The jurisdictional hon'ble courts have repeatedly emphasized that the initial onus to bring forth material to establish excessiveness and unreasonableness lies on the AO. In **Astra Management Services (P) Ltd vs DCIT [Delhi ITAT 2019]** and **J.B. & Brothers Pvt Ltd vs ACIT, Surat ITA No. 552/SRT/2023**, it was held that the AO must prove the payments are above fair market, value and manifestly unreasonable. In **Voltamp Transformers Pvt Ltd vs CIT 129 ITR 105 (Guj)** and **CIT vs Consulting Engineering Group Ltd 223 Taxman 440 (Rajasthan HC)**, it was held that reasonableness has to be judged from the perspective of a prudent businessman having regard to industry norms, business exigencies, and service rendered. Further, in case of **Balani Infotech Ltd vs ACIT, Circle 4(1), Delhi ITAT 2019**, it was held that merely making additions based on arbitrary percentage increments without examining the rationale and facts or considering prior accepted returns, is unsustainable. While applying the facts of the present appeal, in the light of above judicial decisions/guidelines, it is seen that the appellant has made detailed submissions establishing prevailing salary practices, relevant qualifications, experience, and business roles of the directors. The remuneration paid is within a realistic band considering the complexity of services offered internationally. The appellant has produced valid agreements for rent payments and professional fees bearing commercial prudence. The AO's methodology of adhering to an arbitrary 10% increment ceiling and reworking prior years' assessments is not legally sustainable. No comparable market data or expert evidence was presented by the AO. The earlier assessments for AY 2016-17 and AY 2017-18 stand accepted and offer additional support for the appellant's position. Accordingly, the disallowance of Rs. 1,62,10,571/- under section 40A(2)(b) is not justified and is hereby deleted. Therefore, these grounds of appeal are allowed.”*

6.6 We have heard the rival submissions and carefully perused the material available on record. At the outset, it is pertinent to note that the disallowance has been made by invoking section 40A(2)(b) of the Act. Under the said provision, the Assessing Officer is required to form an opinion that the expenditure incurred by the assessee in respect of payments to specified persons is excessive or unreasonable having regard to the fair



market value of the services, facilities or goods for which the payment is made.

6.7 In the present case, the Assessing Officer has not undertaken any exercise to determine the fair market value of the services rendered by the directors and related persons. Instead, he has merely compared the expenditure of the year under consideration with that of the earlier year and adopted an arbitrary benchmark of a 10% annual increment. Such an approach, in our considered opinion, does not satisfy the statutory requirement under section 40A(2)(b).

6.8 Further, the comparison made by the Assessing Officer itself suffers from inherent defects. Certain payments such as guest house rent, car rent and professional fees were incurred during the year under consideration but were not part of the expenditure in the earlier year. Consequently, a mechanical comparison with the preceding year cannot form a valid basis for determining excessiveness.

6.9 It is also a matter of record that similar payments to directors and related parties had been accepted in scrutiny assessments for the immediately preceding assessment years. In the absence of any material change in facts or circumstances, the principle of consistency also supports the claim of the assessee.

6.10 Another relevant aspect noted by the assessee is that the recipients of the remuneration were subject to taxation at the



maximum marginal rate. Thus, the payments did not result in any tax avoidance or loss of revenue. Though this factor alone may not be determinative, it nevertheless reinforces the absence of any tax avoidance motive.

6.11 Significantly, the Assessing Officer has not disputed the genuineness of the payments or the rendering of services. The Assessing Officer has not disallowed the expenses on the genuineness but the disallowance has been made solely on the assumption that the expenditure was excessive, without bringing any comparable market data or other material on record to substantiate such conclusion.

6.12 In these circumstances, we find ourselves in agreement with the reasoning and conclusion arrived at by the learned CIT(A). We, therefore, see no reason to interfere with the order of the learned CIT(A) deleting the disallowance. The ground no. 1 of appeal of Revenue is accordingly dismissed.

7. The next ground of the Revenue is in relation to deleting of foreign travelling expenses amounting to Rs.1,11,69,620/-.

7.1 The learned Departmental Representative submitted that the learned CIT(A) admitted additional evidence without affording the Assessing Officer an opportunity of being heard, thereby violating Rule 46A of the Income-tax Rules. On the other hand, the learned counsel for the assessee submitted that no additional evidence was filed before the learned CIT(A) and that the



documents relied upon were already part of the assessment records.

7.2 Facts in brief are that the Assessing Officer observed that foreign travelling expenses had increased substantially compared to the preceding year. On verification, he noted that directors and employees of the assessee had undertaken foreign travel to several countries apart from Dubai. Out of the total travel expenditure of ₹1,25,01,268/-, the Assessing Officer noted that ₹39,45,489/- related to travel of directors and their relatives, while ₹72,24,132/- pertained to travel undertaken by employees. The Assessing Officer further observed that substantial travel had been undertaken to countries from which no income was directly earned by the assessee during the year. On that basis, he disallowed foreign travel expenses of ₹1,11,69,620/-. Accordingly, the Assessing Officer disallowed the said sum.

7.3 The learned CIT(A), after examining the material on record, held that the assessee had furnished documentary evidence including travel bills, correspondence with clients and proof of reimbursement by the associated enterprise in Dubai. The learned CIT(A) observed that the mere fact that no income was earned from a particular country during the year cannot by itself justify disallowance of travel expenses where the travel was undertaken for business purposes. Accordingly, the disallowance was deleted observing as under :

“5.6 I have duly considered the facts of the case, findings of the AO on this issue and reply of the appellant filed during the appellate proceedings. From



the perusal of assessment order, it is seen that the this issue and reply of the appellant filed during the appellate AO disallowed Rs. 1,11.69,620/- spent on foreign travel citing non-submission of documentary evidence for business purpose at many tour destinations where no income was earned.

5.7 The appellant has opposed the finding of AO on the disallowance of foreign travel expenses in its written submission furnished during the appellate proceedings. The appellant has contended that AO's disallowance of foreign travel expenses asserting such travels were business-related for fulfilling client requirements and were reimbursed by associated Dubai Company Blend Management Services FZCO. The Documentary evidence for the same was submitted. The appellant contended that travel was necessitated by its client business (associated company in Dubai), travel was on client instructions, expenses were reimbursed by the client, and detailed country-wise travel and client correspondence were submitted to the AO.

5.8 From the proper appreciation and evaluation of the findings of AO and reply/submission of the appellant furnished during the appellate proceedings in support of its contention. It is relevant to note travel expenses genuinely incurred for business purposes are allowable deductions. Mere absence of direct income from each country visited cannot be a sole reason for disallowance where evidence shows business nexus, client directives, and proper documentation (CIT vs Bombay Samachar Pvt Ltd ITA 35/Mum/16, Astra Management Services (P) Ltd vs DCIT). The appellant disclosed all travel bills, client communications, and proof of reimbursement forming a legitimate business expense. The AO has not specifically identified any trips with no nexus or fabricated expenses but disallowed travel on a blanket basis due to alleged insufficient evidence. Considering the global nature of the appellant's business, extensive travel cannot be summarily disallowed where substantiating evidence has been produced. Accordingly, AO is directed to delete the addition on account of foreign travel expenses to the tune of Rs. 1,11,69,620 and the same is allowable as business expenditure. Therefore, this ground of appeal is allowed.”

7.4 Having considered the rival submissions, we find that the contention of the learned Departmental Representative regarding violation of Rule 46A is not borne out from the record. The learned CIT(A) has nowhere recorded that any additional evidence was admitted during the appellate proceedings. In fact, the learned Departmental Representative himself fairly submitted that the relevant details regarding foreign travel were already furnished before the Assessing Officer.



7.5 Before us, the learned counsel for the assessee reiterated that the travel was undertaken in connection with the business activities of the assessee and largely on the instructions of its associated enterprise, Blend Management Services FZCO, Dubai. It was further submitted that a substantial portion of such expenses had been reimbursed by the said associated enterprise. These factual assertions have not been controverted by the Revenue.

7.6 Considering the nature of the assessee's business, which involves providing consultancy and advisory services to international clients, foreign travel by directors and employees cannot be regarded as unusual. The Assessing Officer has disallowed the expenditure on a blanket basis merely because no income was directly generated from certain countries during the year. Such reasoning, in our considered view, is not sufficient to disallow otherwise legitimate business expenditure.

7.7 In the absence of any specific finding that the expenses were not incurred for business purposes or that the supporting documents were unreliable, the disallowance made by the Assessing Officer cannot be sustained.

7.8 Accordingly, we find no infirmity in the order of the learned CIT(A) deleting the addition. Ground No.2 raised by the Revenue is therefore dismissed.



9. In the result, appeal of the Revenue is dismissed

Order pronounced in the open Court on 13/03/2026.

**Sd/-
(KAVITHA RAJAGOPAL)
JUDICIAL MEMBER**

**Sd/-
(OM PRAKASH KANT)
ACCOUNTANT MEMBER**

Mumbai;
Dated: 13/03/2026
Ankit, Sr. P.S.

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,
(Assistant Registrar)
ITAT, Mumbai