

The Principal Commissioner of Income Tax-3 v. Gujarat Gas Ltd.

R/Tax Appeal No. 607 of 2025

R/Tax Appeal No. 607 of 2025 (Guj HC, decided 15.10.2025) | 2025-10-15

Section 263 revision quashed: compression, decontamination and odorization of natural gas into CNG constitutes 'manufacture' eligible for additional depreciation of Rs. 80.89 crore under section 32(1)(iia); amalgamation stamp duty of Rs. 5.39 crore actually paid is allowable under section 35DD.

Income-tax Act, 1961: sections 2(29BA), 32(1)(iia), 35DD, 143(3), 144B, 260A and 263

High Court of Gujarat | 2-judge bench (Division Bench) | Bhargav D. Karia, J. | Pranav Trivedi, J.

Assessment years: 2018-19

Affirmation of ITAT order setting aside PCIT's section 263 revision on CNG manufacturing and section 35DD stamp duty

Note that paragraph 2.5 prints 'Sec.2(29A)' for the statutory definition of 'manufacture' (enacted as section 2(29BA) of the Income-tax Act, 1961).

01 FACTS OF THE CASE

For AY 2018-19, Gujarat Gas Ltd.'s scrutiny assessment under section 143(3) read with section 144B was completed on 19.04.2021 accepting its returned income of Rs. 369.07 crore. The PCIT invoked section 263 to revise the assessment on two counts: (i) additional depreciation of Rs. 80,89,04,325 under section 32(1)(iia) on plant and machinery used for compression of natural gas, alleging that compressing gas is not 'manufacture'; and (ii) deduction of Rs. 5,39,64,837 under section 35DD, alleging that Rs. 5 crore toward stamp duty was a contingent provision. The ITAT Ahmedabad ('C' Bench) set aside the section 263 order on 21.11.2024.

Source: [Paragraphs 1-3; PDF pp. 1-6](#)

02 DISCUSSION BY THE HON'BLE COURT

Upheld the ITAT's order on both grounds: (1) Following the Gujarat High Court's own binding precedent in CIT v. Hindustan Petroleum Corporation Ltd. ((2017) 84 taxmann.com 215 (Guj)) and the Supreme Court's decision in ITO v. Arihant Tiles & Marbles (P.) Ltd. (320 ITR 79), the filtration, decontamination, odorization and compression of natural gas at 200-250 kg/cm² to produce Compressed Natural Gas (CNG) suited for vehicular/domestic consumption alters the raw gas into a commercially distinct commodity and constitutes 'manufacture', entitling the assessee to additional depreciation under section 32(1)(ia); and (2) On section 35DD, the AO had examined the issue during scrutiny and verified that the assessee had actually paid the stamp duty claimed.

Source: [Paragraphs 4-6; PDF pp. 7-15](#)

03 JUDICIAL DECISION

Holding that no substantial question of law arose from the Tribunal's order, the High Court dismissed Tax Appeal No. 607 of 2025.

Source: [Paragraph 6; PDF p. 15](#)

04 OUTCOME / IN WHOSE FAVOUR

Assessee - Revenue's appeal dismissed; ITAT order quashing PCIT's section 263 revision for AY 2018-19 affirmed.

Source: [Paragraph 6; PDF p. 15](#)

05 AKHB REVIEW POINT

AKHB analysis: city gas distribution entities compressing, filtering and odorizing natural gas into CNG qualify as engaged in 'manufacture' for additional depreciation under section 32(1)(ia), and an AO's acceptance of that claim following jurisdictional High Court precedent cannot be revised under section 263.

Source: [Paragraphs 4-6; PDF pp. 7-15](#)

SOURCE & VERIFICATION

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STATUTORY SCOPE

Applies sections 2(29BA), 32(1)(ia), 35DD and 263 of the Income-tax Act, 1961 for AY 2018-19. Income-tax Act, 2025 equivalence is not verified.

LATER TREATMENT

Source checked 2026-10-18. Full primary judgment PDF read page-by-page and verified against the AKHB Google Drive repository. Comprehensive subsequent judicial treatment has not been independently verified.

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