Pr. Commissioner of Income-tax-2, Bangalore & Anr. v. Toyota Tsusho India Private Limited

ITA No. 149 of 2025

2025:KHC:34395-DB | ITA No. 149 of 2025 (Karnataka High Court, decided 2 September 2025) | 2025-09-02

Trading-segment 3% tolerance direction sustained where wholesale-trading conditions were not cumulatively met.

Income-tax Act,1961: sections 92C(2), 92CA, 144C(5), 260A

High Court of Karnataka | 2-judge bench (Division Bench) | Chief Justice Vibhu Bakhru | Justice C.M. Joshi

Assessment years: 2013-14

01 FACTS OF THE CASE

After condoning filing delay, the Court considered Revenue's challenge to the Tribunal order of 4 September 2024 in M. P.63/Bang/2023, modifying its 2 March 2023 order in IT(TP)A 2806/Bang/2017. Toyota Tsusho traded automobile components, processed steel and provided logistics; the dispute here concerned the trading-segment tolerance band.

Source: PDF pp.2–5, paras 1–9

02 DISCUSSION BY THE HON'BLE COURT

The Tribunal initially remanded the wholesale-trader classification but later directed a 3% band. It relied on the data showing failure of the inventory condition, the TPO's description of the assessee as a trader, and the assessee's AY 2014-15 decision. The cited notification required both a finished-goods purchase-cost test and an inventory-to-sales test.

Source: PDF pp.6–10, paras 10–13

03 JUDICIAL DECISION

The Court held the two wholesale-trading conditions cumulative. Evidence that one was unmet made the controversy fact-dependent; no substantial question of law arose.

Source: PDF pp.10–11, para 14

04 OUTCOME / IN WHOSE FAVOUR

Revenue's appeal dismissed; the Tribunal direction to apply a 3% tolerance limit remained effective for the trading segment.

Source: PDF pp.10–11

05 EXPERT COMMENTS

AKHB Expert Comments — editorial analysis, distinct from the Court's findings.

Classification depends on both conditions: A high finished-goods purchase ratio alone did not establish wholesale trading. The quoted data satisfied the first condition at 93.73%, but the inventory condition was not met. A comparable analysis should test each requirement separately; commercial labels such as distributor or trader cannot replace the quantitative criteria used by the Court. (PDF pp.6–8, para 10 and quoted chart)

Retain the inventory-method qualification: The notification refers to average monthly closing inventory, while the reproduced chart calculates an average from two year-end balances. The Court accepted the factual conclusion that the condition was unmet, but did not independently explain that methodological difference. The case should not be treated as a general approval of substituting two balances for monthly inventory data. (PDF pp.7–8, 11)

Do not turn the narrow result into a universal allowance: This was a challenge to modification of the Tribunal's remand direction, not a fresh High Court computation of all transfer-pricing adjustments. The 2015 definition was applied in the reasoning concerning AY 2013-14, without a separate discussion of retrospectivity. The judgment neither grants every trader a permanent 3% band nor decides the manufacturing segment or general limits of rectification. (PDF pp.5–11, paras 9–14)

Source: PDF pp.6–8, para10 and quoted chart

SOURCE & VERIFICATION

Original High Court judgment PDF — AKHB source repository

Complete 11-page original reviewed; source bytes verified.

Full original and all five panels re-reviewed on 21 October 2026.

Open cited source rendition

Complete original source and all five note panels checked; original docket identities preserved.

STATUTORY SCOPE

Current law and subsequent treatment not independently verified.

LATER TREATMENT

Source checked 2026-10-21. Subsequent proceedings and current judicial treatment have not been independently verified.

AI DISCLOSURE

AI-assisted research checked against the identified source. Extraction, interpretation or omission errors remain possible. Source review does not mean independent approval by a practising professional. Verify every material statement against the complete original judgment.

PROFESSIONAL DISCLAIMER

General research information only; not legal or tax advice, a certified judgment or a substitute for the full order. Applicability depends on facts, assessment year, statutory version and jurisdiction. Subsequent treatment is unverified unless identified sources are expressly stated. Downloading does not create a professional engagement. Obtain case-specific advice before reliance.