Commissioner of Income-tax, Patiala v. Metalways (P) Ltd.

ITR 336 and 337 (source year conflict: 1995/1996)

No neutral citation stated in source | 2007-02-28

Section 80J eligibility for the new undertaking distinguished from exclusion of transferred old machinery in capital computation.

80J

High Court of Punjab and Haryana | Division Bench | M.M. Kumar | Rajesh Bindal

Assessment years: 1979-80, 1980-81

01 FACTS OF THE CASE

The hand-knitting-machine business of sole proprietor R.K. Mahajan was transferred as a running concern to a company incorporated on 29 June 1977. For 1979-80 and 1980-81 it sought section 80J relief. The Assessing Officer treated the original 1973 manufacturing activity as starting the five-year period in 1974-75 and rejected relief beyond 1978-79. CIT(A) and the Tribunal accepted eligibility under Explanation 2 governing limited transferred machinery.

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02 DISCUSSION BY THE HON'BLE COURT

The Court distinguished eligibility from computation: section 80J relief related to capital employed in the undertaking, not a five-year benefit attached to each machine's first purchase. Explanation 2 deemed the transferred-machinery condition met within its 20% threshold but excluded that machinery's value from qualifying capital. On the undisputed threshold finding, the new entity was eligible from 1978-79, placing both disputed years within five years.

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03 JUDICIAL DECISION

The reference question was answered against Revenue and for the assessee, sustaining section 80J eligibility for assessment years 1979-80 and 1980-81.

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04 OUTCOME / IN WHOSE FAVOUR

The company retained the deduction entitlement for both years, subject to the statutory computation excluding transferred old machinery. No fresh allowance on the old machinery's value or independently quantified deduction was ordered.

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05 EXPERT COMMENTS

AKHB EXPERT COMMENTS — editorial analysis, distinct from the Court's findings.

Eligibility and qualifying capital are separate steps — The deeming provision could satisfy the formation condition even though transferred machinery was present, but its value still had to be left out of capital employed for relief. Reading eligibility as permission to include that value would reproduce the misunderstanding the Court rejected. A historical computation must therefore document both the threshold test and the separate capital exclusion.

The five-year result followed the accepted new-undertaking finding — The Court treated the eligible new entity as arising in 1978-79 and thus included 1979-80 and 1980-81. It did not hold that every conversion or transfer restarts a deduction period regardless of section 80J(4). The accepted eligibility conditions are essential before applying the timing conclusion to another restructuring.

Preserve the statutory denominator and source identity limits — Explanation 2 as reproduced uses the total value of machinery or plant; the factual conclusion later says capital employed. That wording should not be used to substitute a new denominator. The source also alternates docket years 1995 and 1996. These ambiguities are disclosed while both numbered references and the clear decision date are retained.

Source: PDF p.1

SOURCE & VERIFICATION

20070228_PHHC010324101995.pdf

Complete source PDF reviewed: 8 physical pages.

All 8 original pages read and visually inspected; all five panels audited.

Open cited source rendition

All eight pages read and visually inspected; page 8 contains only the running header. Caption says references 336 and 337 of 1995, while all running headers say 1996. Page 7 refers to capital employed for the percentage finding although the quoted Explanation 2 uses total machinery/plant value. No silent correction is assumed.

STATUTORY SCOPE

Historical section 80J(2), (4) and Explanation 2; both reference numbers and assessment years preserved.

LATER TREATMENT

Source checked 2026-10-21. Subsequent treatment has 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.

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