Sarla Handicrafts Private Limited v. Additional Commissioner of Income Tax

ITA 118/2007

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Stock-shortage surrender cannot be presumed export income for section 80HHC.

80HHC | 133A

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

Assessment years: 1998-99

01 FACTS OF THE CASE

For AY 1998-99, the company returned Rs.20,51,900. A March 1998 survey found stock short by Rs.12,77,906 and a short declaration of factory-shed investment. It surrendered Rs.13 lakh for stock and Rs.6 lakh for construction and sought section 80HHC benefit. The Assessing Officer rejected the claim, CIT(A) allowed it, and the Tribunal reversed relief on the Rs.13 lakh stock component.

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02 DISCUSSION BY THE HON'BLE COURT

The company argued that, as a 100% export-oriented unit with no other income source, missing stock must represent exports. Applying National Legguard Works, ITA 302/2005 decided 22 September 2006, the Court held that section 80HHC requires fulfilment of its statutory conditions. Survey surrender for a stock discrepancy carries no presumption that the income arose from exports.

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03 JUDICIAL DECISION

The Court rejected inclusion of the surrendered stock income for the claimed section 80HHC calculation and dismissed the appeal.

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04 OUTCOME / IN WHOSE FAVOUR

The Tribunal's denial of deduction on the Rs.13 lakh stock surrender stood. This judgment did not separately adjudicate the Rs.6 lakh building component.

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05 EXPERT COMMENTS

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

Business profile did not establish the receipt's qualifying character — The crucial failed inference ran from exclusive export activity to the conclusion that the missing stock necessarily produced export income. The Court required the statutory conditions to be satisfied for the surrendered amount itself. For a comparable historical claim, evidence connecting the particular receipt to qualifying exports matters; the company's general export status cannot supply that missing connection.

The label argument was not the decisive test — One proposed question challenged reliance on the description miscellaneous income. The Court's reasoning instead rejected a presumption of export income and applied the statutory conditions. The decision should therefore not be reduced to a rule that an accounting label alone determines entitlement, or to an exhaustive statement of which documents would prove a different claim.

Separate the surveyed amounts and appellate issue — The factual surrender total was Rs.19 lakh, but the Tribunal issue and questions before the High Court addressed Rs.13 lakh for stock shortage. Extending the holding into an independent decision on the building investment would enlarge the judgment. Its practical force is the rejection of this unsupported export-income inference under the historical provision.

Source: PDF p.1

SOURCE & VERIFICATION

20070416_PHHC010727892007.pdf

Complete source PDF reviewed: 3 physical pages.

All 3 original pages read and visually inspected; all five panels audited.

Open cited source rendition

All three source pages read and visually inspected. The Rs.6 lakh building surrender is background; the questions and High Court ruling concern the Rs.13 lakh stock surrender.

STATUTORY SCOPE

Historical section 80HHC dispute; no current-law clearance.

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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