

Commissioner of Income Tax, Hyderabad v. M/s. P.J. Chemicals Ltd. etc.

Civil Appeal No. 2474 of 1991 / Civil Appeal No. 3699 of 1990 / Connected appeals and SLP-derived appeals; full roster not enumerated in the judicial text

[1994] Supp. 3 SCR 561 | 1994-09-14

Whether the industrial-incentive subsidies in this batch, quantified by reference to capital cost, reduced actual cost for depreciation under the historical section 43(1).

43(1), historical actual-cost definition | 32 | 256

2-judge bench | M.N. Venkatachaliah, C.J. | S.C. Agrawal, J.

Assessment years: 1983-84, 1978-79

Scheme-specific historical result; later subsidy provisions matter

The subsidies considered were industrial incentives rather than payments to meet asset cost. A capital-cost percentage alone did not decide their character. Explanation 10 to section 43(1) from 1999 and the separately checked 2015 income-inclusion amendment require year-specific attention. This is not a blanket exemption for subsidies, and comprehensive later treatment remains unverified.

01 FACTS OF THE CASE

The Court considered two groups: Revenue appeals against High Courts holding that the subsidy did not reduce actual cost, and assessee appeals against the contrary Punjab and Haryana view. It condoned filing delays where present and granted leave in the special-leave matters (physical pages 2–3, paragraphs 1–2).

The lead P.J. Chemicals appeal concerned AY 1983-84 and a central subsidy of Rs 9,97,085. The assessee had returned a loss of Rs 6,90,643 and capitalised pre-operative expenditure of Rs 25,64,395. A separate 80:20 capitalisation adjustment was expressly outside the present controversy. The Tribunal and High Court allowed depreciation without deducting the subsidy from actual cost (physical pages 3–4, paragraphs 3–5).

The contrasting assessee appeal, Civil Appeal No. 3699 of 1990, concerned AY 1978-79 and subsidy of Rs 7,58,000. Its High Court had required a reduction in asset value. The Court described the nature and incidents of the batch's subsidies as broadly similar, but supplied detailed facts only for these two examples, not for every connected matter (physical pages 4–6, paragraphs 6–9).

Source: See the proposition-specific paragraph and PDF-page references below.

02 DISCUSSION BY THE HON'BLE COURT

Section 43(1) already required reduction where another person or authority had met part of the asset cost directly or indirectly. The Court did not deny that rule. The decisive inquiry was whether the subsidy actually had that cost-meeting character, or was an incentive to establish industry in backward areas, with the percentage of capital cost used merely to measure the aid (physical pages 6 and 9, paragraphs 10 and 13).

The Court considered the statutory history and earlier actual-cost authorities, then preferred the reasoning of the High Courts distinguishing the grant's purpose from its quantification. A figure calculated by reference to fixed investment did not by itself establish that the grant was intended to reimburse a particular asset cost. The quoted Godavari Plywoods reasoning also examined the scheme's freedom of use; it was not a Supreme Court finding that every subsidy scheme permits unrestricted use (physical pages 7–11, paragraphs 12–15).

For the subsidies before it, the Court accepted the incentive character and held that they did not meet the statutory conditions for reduction from actual cost. Its reference to a liberal construction was attached to that inquiry, not a general exemption of all government grants or rejection of the express cost-reduction rule (physical pages 11–12, paragraphs 15–16).

Source: See the proposition-specific paragraph and PDF-page references below.

03 JUDICIAL DECISION

The Court affirmed the High Court decisions against Revenue and dismissed the first group of appeals. It allowed the assessee group and reversed the contrary High Court opinions, answering the referred question against Revenue. There was no order as to costs and no new batch-wide numerical depreciation computation (physical page 12, paragraph 16).

Source: See the proposition-specific paragraph and PDF-page references below.

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assesseees on the historical actual-cost issue

Revenue group dismissed; assessee group allowed; no costs

Final historical subsidy-purpose/actual-cost ruling

Applies to subsidies of the nature considered; does not decide all subsidies' income character, unrestricted asset-cost treatment after later amendments, or the separately excluded capitalisation adjustment.

Source: See the proposition-specific paragraph and PDF-page references below.

05 AKHB REVIEW POINT

Read the scheme, sanction terms and permitted uses before equating a capital-cost percentage with reimbursement of asset cost. The judgment asks what the assistance is meant to accomplish, not merely how its amount is calculated. Keep the actual-cost question separate from the question whether the receipt itself enters taxable income.

Later legislation must be addressed expressly. The checked 2011 compilation contains Explanation 10 to section 43(1), inserted from 1 April 1999, dealing with cost met through subsidy, grant or reimbursement and including a proportionate rule where the assistance cannot be directly related to a particular asset. The separately checked original Finance Act 2015 insertion notice for section 2(24)(xviii), effective 1 April 2016, addresses specified governmental assistance as income and excludes assistance taken into account under that Explanation. These are bounded historical amendment checks, not a declaration that every later grant is taxable or that P.J. Chemicals has been wholly overruled. Match the relevant statutory version and scheme; no current-law or 2025 Act equivalence is certified.

Source: See the proposition-specific paragraph and PDF-page references below.

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, two groups and illustrative case facts

Source url: [Open cited source](#)

Pdf pages: 1; 2; 3; 4; 5; 6

Paragraphs: Paragraphs 1–9 and identified report metadata

Source role: report metadata and judicial text

2.

Topic: Existing cost-meeting rule and decisive purpose question

Source url: [Open cited source](#)

Pdf pages: 6; 9

Paragraphs: Paragraphs 10 and 13

Source role: judicial text

3.

Topic: Adopted reasoning and limited subsidy character

Source url: [Open cited source](#)

Pdf pages: 9; 10; 11; 12

Paragraphs: Paragraphs 13–16

Source role: judicial text

4.

Topic: Separate group dispositions and no costs

Source url: [Open cited source](#)

Pdf pages: 12

Paragraphs: Paragraph 16

Source role: judicial text

5.

Topic: Later asset-cost explanation

Source url: [Open cited source](#)

Pdf pages: 313; 314

Paragraphs: Section 43(1), Explanation 10 and footnote 4

Source role: bounded historical statutory text

6.

Topic: Original 2015 subsidy-income insertion

Source url: [Open cited source](#)

Pdf pages: 7

Paragraphs: Finance Act 2015 insertion notice, section 2(24)(xviii)

Source role: bounded historical statutory text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

M.N. Venkatachaliah, C.J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

[Hon'ble Supreme Court source PDF \(reported judgment\)](#)

Identified source rendition: 12 PDF pages; SHA-256

9771637438f838afcd6cb5ffdbcc9be92db9045a79e32fa27d35424290be1982. Original bytes preserved.

Complete judicial text physical pages 2–12 / SCR 562–572, paragraphs 1–16; earlier editorial synopsis distinguished. No adjoining judgment.

[Open cited source rendition](#)

Only Ays 1983-84 and 1978-79 are specified for the two illustrative appeals. Other case years and amounts are not inferred.; The representation list mentions appeals 3420/1991 and 1660/1992, but the report does not enumerate the whole batch. Those isolated mentions are not represented as a complete operative roster.; The 80:20 capitalisation adjustment is expressly outside the appeal's subsidy question.; The judicial text alternates Godavari Plywoods citation volumes 168 and 169; no parallel-reporter correction is certified.; Subsidy-purpose and freedom-of-use passages include quotations from High Courts. The Court adopts their reasoning for the broadly similar schemes before it, not a factual finding about every grant.; Later statutory explanations and income-inclusion provisions require separate application. This note does not assert blanket non-taxability of grants or automatic survival of the old result in every later year.

STATUTORY SCOPE

No automatic mapping to the Income-tax Act, 2025 or present-law certification. Apply the statutory text for the relevant year.

LATER TREATMENT

Source checked 2026-10-04. No comprehensive later-treatment search is certified. Any actually checked later judgment or statute is expressly identified in this note.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 12](#)

SHA-256: 9771637438f838afcd6cb5ffdbcc9be92db9045a79e32fa27d35424290be1982

[official department hosted historical statutory compilation - PDF pages: 1251](#)

SHA-256: 1ec6e4c38dc1d524d1d40b1fd35d13ac1336c8fc549cef2af1bf723a999c822b

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