

M/s. Sahney Steel and Press Works Ltd., Hyderabad etc. etc. v. Commissioner of Income Tax, Andhra Pradesh-I, Hyderabad

Civil Appeal No. 2193 of 1985 / Civil Appeal No. 10091 of 1995 / Civil Appeal No. 5279 of 1996 / Civil Appeal No. 2008 of 1988 / Civil Appeal No. 425 of 1985 / Civil Appeal Nos. 1664-1665 of 1997

[1997] Supp. 4 SCR 189 | 1997-09-19

Whether incentives paid under the Andhra Pradesh industrial scheme were capital receipts or taxable trading receipts, including the component measured by sales tax on machinery.

Two-judge bench | Suhas C. Sen, J. | D. P. Wadhwa, J.

Assessment years: 1974-75

Historical subsidy classification; later statutory inclusion

The purpose test is reviewed in the historical scheme and assessment-year setting. Finance Act, 2015 inserted section 2(24)(xviii) with effect from 1 April 2016 to include specified government assistance in income, subject to the exception then stated for assistance accounted for in actual cost under Explanation 10 to section 43(1). The verified extract is historical; later versions and the relevant year must be checked. A capital-purpose finding alone is not certified as a present-day exemption.

[paragraphs 14-17 / PDF pages 8, 9, 10, 11 / judicial text](#); [paragraphs Section 2\(24\)\(xviii\), insertion by Finance Act, 2015 effective 1 April 2016; original actual-cost exclusion / PDF pages 7 / statutory text](#)

01 FACTS OF THE CASE

Sahney Steel's Patancheru factory commenced production in 1973. For assessment year 1974-75 it received Rs. 14,665.70, the aggregate stated in the judgment, under G.O. Ms. No. 455. The scheme offered sales-tax refunds and relief for production power and water costs for five years after production began. The Assessing Officer and Commissioner (Appeals) included the receipt in income; the Tribunal treated it as a capital development subsidy and also rejected section 41(1) treatment. The assessee challenged the adverse High Court decision (SCR 191-194).

Source: [reported judgment / paragraphs SCR 191-194; scheme, assessment year, aggregate receipt and proceedings / PDF pages 3, 4, 5, 6 / judicial text](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court examined what the scheme assisted, rather than its general industrial-development ambition. It made no payment to set up the industry: the benefits supported production and helped the newly established business operate profitably and competitively. They were operational subsidies (SCR 192-197).

The source, computation and payment mechanism did not determine character. A refund measured by sales tax on machinery did not become capital merely because the original expenditure concerned a capital asset. The controlling inquiry was the purpose for which the government paid the assistance. A scheme directed to establishing a business, completing a project or acquiring plant for expansion could have a capital purpose; this scheme supported trading operations and left the assessee free to use the money in its business (SCR 197-199).

The Court distinguished project-creation and replanting assistance, applied the trading-receipt principle, and rejected the contrary approach in Dusad Industries on the scheme there considered. It expressly found discussion of section 41(1) unnecessary (SCR 199-203).

Source: [reported judgment / paragraphs SCR 192-203; operating assistance, purpose, contrasting schemes and section 41\(1\) reservation / PDF pages 4, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15 / judicial text](#)

03 JUDICIAL DECISION

The subsidies were revenue receipts and taxable accordingly. Civil Appeal No. 2193 of 1985 and Civil Appeal Nos. 10091 of 1995, 5279 of 1996, 2008 of 1988 and 425 of 1985 were dismissed. Revenue's Civil Appeal Nos. 1664-1665 of 1997 were allowed. All were disposed of without costs (SCR 202-203).

Source: [reported judgment / paragraphs SCR 202 B-C; SCR 203 C-E / PDF pages 14, 15 / judicial text](#)

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue

Five numbered assessee appeals dismissed; Revenue Civil Appeal Nos. 1664-1665 of 1997 allowed; no costs

Final revenue-character determination for the subsidies considered

Section 41(1) was not decided. Neither post-production payment nor a sales-tax-refund label is a freestanding universal classification rule.

Source: [reported judgment / paragraphs SCR 203 C-E / PDF pages 15 / judicial text](#)

05 AKHB REVIEW POINT

Read the actual scheme, its conditions and the use it finances. A capital-investment ceiling or machinery-tax component cannot replace that inquiry. Ponni Sugars later applied Sahney's purpose test but reached a capital result where the scheme required repayment of term loans for new units or substantial expansion; it expressly treated timing and payment form as immaterial.

These historical classifications do not establish a blanket present-day capital-subsidy exemption. Section 2(24)(xviii), inserted by the Finance Act, 2015 with effect from 1 April 2016, brought specified government assistance within income, subject to the statutory exception then stated for assistance included in asset actual cost under Explanation 10 to section 43(1). Application requires the relevant year's text and any later changes to be checked; this note does not certify current tax treatment.

Source: [reported judgment / paragraphs SCR 197 B-C; SCR 198 A-F / PDF pages 9, 10 / judicial text; reported judgment / paragraphs 14-17 / PDF pages 9, 10, 11 / judicial text; official statutory extract / paragraphs Section 2\(24\)\(xviii\), insertion by Finance Act, 2015 effective 1 April 2016; original actual-cost exclusion / PDF pages 7 / statutory text](#)

DETAILED DISPOSITION AND CONNECTED GROUPS

Issue results

1.

Issue: Character of the industrial incentives

Result: Revenue receipts taxable in the recipient's business

In whose favour: Revenue

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 14; 15

Paragraphs: SCR 202 B-C and 203 C-E

Source role: judicial text

2.

Issue: Section 41(1)

Result: Expressly unnecessary to discuss

In whose favour: Not separately decided

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 15

Paragraphs: SCR 203 C

Source role: judicial text

ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS

41(1)

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Suhas C. Sen, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

VERIFIED RELATIONSHIPS BETWEEN SPECIFIED JUDGMENTS

1.

Earlier case id: sc-1997-09-19-sahney-steel**Later case id:** sc-2008-09-16-ponni-sugars**Relationship:** purpose test applied with different result due to scheme purpose and binding use conditions**Evidence**

1.

Source url: [Open cited source](#)**Pdf pages:** 8; 9; 10; 11**Paragraphs:** 14-17**Source role:** judicial text**Scope limit:** Ponni follows the purpose test and distinguishes the operating-assistance facts; it does not overrule Sahney Steel.**SOURCE & VERIFICATION**[Hon'ble Supreme Court source PDF \(reported judgment\)](#)

Identified source rendition: 15 PDF pages; SHA-256

d5e56bf903e30bc65a94420e47d719df70046953d78cc866da68813a873d22a0. Original bytes preserved.

Unnumbered judgment begins on physical page 3 (SCR 191) and ends on page 15 (SCR 203); pages 1-2 are editorial headnote and identity material.

[Open cited source rendition](#)

The lead Sahney Steel dispute identifies 1974-75. Separate assessment years are not supplied for the companion appeals.

Section 41(1) was raised but expressly left unnecessary to decide. Section 28 appears in the editorial headnote, not as a separately numbered provision interpreted in the judicial reasons; it is not treated as an independently decided section.

The preserved reported rendition is the primary source; no separately retrieved signed original or original-PDF hash is claimed.; The unnumbered judicial text is cited by SCR page and letter or physical PDF page; paragraph numbers are not invented.; The judgment states aggregate Rs. 14,665.70, but the three printed components do not arithmetically reconcile. The note preserves the stated aggregate without reproducing or silently correcting the component table.; Ponni Sugars paragraph 14 summarizes the earlier procedural history imprecisely; Sahney's own judicial text controls the Tribunal history recorded here.; The official section 2 extract is a historical 2015 statutory version used only to verify the subsequent inclusion and its original exception, not a current-law certificate.

STATUTORY SCOPE

Historical subsidy-character decisions. A separately verified 2015 amendment is identified as a limitation; no automatic mapping to the Income-tax Act, 2025.

LATER TREATMENT

Source checked 2026-10-04. The bounded relationship between Sahney Steel and Ponni Sugars is checked against both judgments. No comprehensive later-treatment or present-law audit has been performed.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 15](#)

SHA-256: d5e56bf903e30bc65a94420e47d719df70046953d78cc866da68813a873d22a0

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

SHA-256: 7e822bac79d516b3dc23f33de8eb76fb12a69aa55db282c9b6c3dd2993c88451

[official statutory extract - PDF pages: 12](#)

SHA-256: 41e71b6e3c6d3a0a8e2d4570f84cd706bdeb7a613617ff66751e0c1f9cafe403

[Related note: Commissioner of Income Tax, Madras v. Ponni Sugars & Chemicals Ltd.](#)

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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