

Commissioner of Income Tax, Karnataka v. Sterling Foods, Mangalore

Civil Appeal Nos. 2390-2391 of 1996

[1999] 2 SCR 699 | 1999-04-15

Whether receipts from sale of import entitlements qualified as profits derived from the seafood-processing industrial undertaking for deduction under section 80HH.

80HH | 28(iia) | 28(iib)

Two-judge bench | S. P. Bharucha, J. | R. C. Lahoti, J.

Assessment years: 1979-80

01 FACTS OF THE CASE

The assessee processed prawns and other seafood for export and sold import entitlements granted under the Central Government's export-promotion scheme. An earlier Karnataka High Court decision concerning the same assessee had denied section 80HH relief on such receipts. When the question arose again for assessment year 1979-80, a later Division Bench departed from that decision because retrospective amendments to section 28 classified licence-sale profits and export assistance as business income. The Revenue appealed (printed SCR pp. 701-703).

Source: [reported judgment / paragraphs Unnumbered factual and prior-litigation discussion; SCR pp. 701-703 / PDF pages 3, 4, 5 / judicial text](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court separated chargeability as business income from the narrower deduction requirement. The section 28 amendments did not alter whether the receipts were derived from the industrial undertaking; they therefore supplied no basis for the later Division Bench to disregard the earlier binding decision (pp. 701, 703-704).

For section 80HH, the undertaking had to be the direct source of the profit. A commercial or incidental connection was insufficient. Processing and exporting seafood made the scheme applicable, but the immediate source of the import entitlements was the Central Government's scheme. The proceeds of selling those entitlements consequently lacked the required direct nexus with the undertaking (pp. 702-705). The Court considered the assessee's authorities and rejected the claimed deduction; it did not need to decide whether the assessee could otherwise reopen the correctness of the earlier-year ruling in this later-year appeal (p. 704).

Source: [reported judgment / paragraphs Unnumbered reasoning; SCR pp. 701-705 / PDF pages 3, 4, 5, 6, 7 / judicial text](#)

03 JUDICIAL DECISION

The Revenue's appeals were allowed and the High Court judgment set aside. The reference question, framed as whether the Tribunal was justified in excluding these receipts for section 80HH relief, was answered in the affirmative and in favour of the Revenue. There was no order as to costs (p. 705).

Source: [reported judgment / paragraphs Final two judicial paragraphs; SCR p. 705 / PDF pages 7 / judicial text](#)

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue

Appeals allowed; High Court reversed; reference answered affirmatively for Revenue; no costs

Final rejection of section 80HH deduction on the identified import-entitlement sale receipts

Business-income classification under section 28 is not a universal deduction entitlement. The ratio addresses these scheme-derived receipts and the statutory phrase derived from; it does not quantify tax or decide every kind of subsidy.

Source: [reported judgment / paragraphs Operative disposition; SCR p. 705 / PDF pages 7 / judicial text](#)

05 AKHB REVIEW POINT

Identify the legal source of each receipt before applying the deduction provision. Evidence that an incentive arose because exports occurred establishes a commercial link, but does not itself make the undertaking the direct source required by section 80HH. Also check the wording of the referred question: the affirmative answer here favoured the Revenue because the question asked whether exclusion was justified.

Liberty India later applied the same source-based distinction to DEPB and duty drawback under the then sections 80-I/80-IA/80-IB. That bounded comparison does not convert either case into a rule governing every export deduction formula.

Source: [reported judgment / paragraphs Source, direct nexus, question and disposition; SCR pp. 703-705 / PDF pages 5, 6, 7 / judicial text; reported judgment / paragraphs 5-6; 14-18 / PDF pages 8, 9, 22, 23, 24 / judicial text](#)

ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS

Section 80HH(1): profits and gains derived from an industrial undertaking; Finance Act, 1990 retrospective amendments to section 28: business-income classification did not settle section 80HH eligibility

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

S. P. Bharucha, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

VERIFIED RELATIONSHIPS BETWEEN SPECIFIED JUDGMENTS

1.

Earlier case id: sc-1999-04-15-sterling-foods

Later case id: sc-2009-08-31-liberty-india

Relationship: direct-source distinction applied to DEPB and duty drawback under the then sections 80-I/80-IA/80-IB

Evidence

1.

Source url: [Open cited source](#)

Pdf pages: 8; 9; 22; 23; 24

Paragraphs: 5-6; 14-18

Source role: judicial text

Scope: These two judgments only; not a comprehensive citator result.

SOURCE & VERIFICATION

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

Identified source rendition: 7 PDF pages; SHA-256

eadb3e1e97ec93af891a53073154d3d9bc66a3d3a7e5293f018ddddea344bf6b. Original bytes preserved.

Cover/headnote and jurisdiction on physical pages 1-2; complete unnumbered judgment on physical pages 3-7, printed SCR pages 701-705; no adjacent judgment.

[Open cited source rendition](#)

The later-year reference is expressly identified as 1979-80 (printed p. 703). The narrative also recounts earlier litigation for 1975-76 and 1976-77; those are not silently substituted as the years of the present later-year dispute. Separate year allocation to both appeal numbers is not stated.

Primary source is the preserved reported rendition, not a separately retrieved signed original.; Paragraph numbers are not printed in this rendition; use physical-PDF and printed-SCR page pinpoints.; The narrative distinguishes the earlier assessment years from 1979-80; it does not allocate a separate year to each appeal.

STATUTORY SCOPE

Historical provisions and assessment years only; no automatic mapping to the Income-tax Act, 2025.

LATER TREATMENT

Source checked 2026-10-04. No comprehensive later-treatment or current-law audit. Any particular relationship checked from a later judgment is identified separately.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 7](#)

SHA-256: eadb3e1e97ec93af891a53073154d3d9bc66a3d3a7e5293f018ddddea344bf6b

[reported judgment - PDF pages: 26](#)

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[Related note: M/s Liberty India v. Commissioner of Income Tax](#)

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