

M/s. Polyflex (India) Pvt. Ltd. v. Commissioner of Income Tax, Karnataka

Civil Appeal No. 823 of 2001

[2002] Supp. 2 SCR 123 | 2002-09-06

Whether an actual refund of earlier deducted excise expenditure was taxable when received despite continuing litigation over the levy.

41(1)

Three-judge bench | S. Rajendra Babu, J. | K.G. Balakrishnan, J. | P. Venkatarama Reddi, J.

Assessment years: 1989-90

Actual refund of deducted expenditure; receipt check retained

Section 41(1)'s expenditure-refund limb did not require waiting for final cessation of a trading liability. The prior deduction and actual receipt remain essential; court security and mere provisions are different. The judicial AY is 1989-90 despite a contrary headnote, and the High Court's receipt-verification direction was not separately displaced. The later excise outcome and comprehensive treatment remain unverified.

01 FACTS OF THE CASE

The assessee paid excise duty in 1986, successfully challenged the levy before the appellate authority and CEGAT, and the report records a Rs 9,64,206 refund on 20 September 1988. For AY 1989-90, Revenue invoked section 41(1). The assessee argued that the pending Supreme Court challenge meant its trading liability had not finally ceased, and the first appellate authority and Tribunal accepted that argument (physical page 4).

The High Court rejected the legal exemption argument but directed the Tribunal to consider whether the amount had actually been refunded, after counsel disputed receipt. The Supreme Court examined the legal treatment of a refund of expenditure previously allowed as a deduction; the fate of the separate excise special leave petition was unknown to the Court.

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

02 DISCUSSION BY THE HON'BLE COURT

The Court distinguished two statutory limbs. Recovering an amount in respect of earlier deducted loss or expenditure is not the same inquiry as obtaining a benefit through remission or cessation of a trading liability. Where duty was actually paid, deducted and then refunded, the first limb applied; final cessation of liability was not an additional condition imported into it (physical pages 5–7 and 10).

Kesaria Tea involved only a provision and a liability still in dispute, not an actual refund of duty paid. The Court also distinguished a return of a court security deposit from reimbursement of tax expenditure, and rejected interpretations that postponed an actual refund's taxability solely because further challenge remained. If the levy were later upheld, appropriate relief could be pursued; no such later relief was quantified or awarded here (physical pages 7–12).

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

03 JUDICIAL DECISION

The assessee's appeal was dismissed without costs. The Court sustained the legal taxability of a refund of the previously deducted expenditure, while criticising the High Court's short reasoning as inaccurate. It did not separately set aside the High Court's direction for the Tribunal to verify actual receipt, nor did it order a new quantified demand (physical pages 4 and 12).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue on the section 41(1) legal issue

Assessee appeal dismissed; no costs; existing actual-receipt verification direction not separately displaced

Final legal interpretation of the refund limb; no recorded later outcome of the receipt inquiry or excise challenge

Requires the prior deduction and amount obtained. Not a universal rule taxing every refund, court security return or unpaid disputed provision.

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

05 AKHB REVIEW POINT

Trace the original payment, the assessment deduction and the actual refund. Then identify the statutory limb before asking whether the underlying liability finally ceased. Treat a security deposit, a mere provision and recovered business expenditure according to their actual character rather than the common word refund.

This is the 2002 excise-refund case, distinct from later same-party deduction litigation. The High Court's factual receipt check and the unknown later excise result should remain visible. Do not interpret the Court's reference to possible later relief as a self-executing refund order or a specified limitation route.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, judicial AY and receipt-verification direction

Source url: [Open cited source](#)

Pdf pages: 1; 3; 4

Paragraphs: Unnumbered judicial text

Source role: reported metadata and judicial text

2.

Topic: Earlier expenditure and separate statutory limbs

Source url: [Open cited source](#)

Pdf pages: 5; 6; 7

Paragraphs: Unnumbered judicial text

Source role: judicial text

3.

Topic: Liability provision, court security and refund distinctions

Source url: [Open cited source](#)

Pdf pages: 7; 8; 9; 10

Paragraphs: Unnumbered judicial text

Source role: judicial text

4.

Topic: Rejected constructions and dismissal

Source url: [Open cited source](#)

Pdf pages: 10; 11; 12

Paragraphs: Unnumbered judicial text

Source role: judicial text

5.

Topic: Kesaria historical liability/write-back limit

Source url: [Open cited source](#)

Pdf pages: 4; 5

Paragraphs: Unnumbered judicial text

Source role: bounded comparison judicial text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

P. Venkatarama Reddi, 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

3fddba33301fe92de3aad0d5985f8e8451b72a548431c91a9b952aa7fd5204c9. Original bytes preserved.

Complete unnumbered judicial text on physical pages 4–12/SCR 126–134; editorial headnote and quotations from earlier cases distinguished.

[Open cited source rendition](#)

The headnote calls the year 1988-89, but the judicial opening and repeated reasons identify AY 1989-90. The note uses the judicial year.; The judicial opening recounts a refund and counsel's later denial of actual receipt. Both the legal holding and the preserved verification direction are stated; the final factual outcome is not invented.; The separate excise SLP's fate was unknown when the judgment was delivered. This is not evidence that it remains pending today.; Dates, amounts and years in the discussion of Bharat Iron, J.K. Synthetics and other authorities belong to those quoted cases, not Polyflex.; The headnote's shorthand treatment labels are not substituted for the Court's nuanced approval of an outcome while rejecting part of its statutory reasoning.

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. Comprehensive subsequent judicial and statutory treatment has not been verified. Only the expressly identified bounded comparisons have been checked. No current-law or Income-tax Act, 2025 mapping is certified.

IDENTIFIED SOURCE LINKS

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

SHA-256: 3fddba33301fe92de3aad0d5985f8e8451b72a548431c91a9b952aa7fd5204c9

[bounded comparison judgment - PDF pages: 5](#)

SHA-256: 850bb6e265b195d5e7e442e0cd5888e5d38d1acfbfd69fa059e33d0899beaa2f

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