

IPCA Laboratory Ltd. v. Deputy Commissioner of Income Tax, Mumbai

Civil Appeal No. 1697 of 2003

[2004] 2 SCR 1075 | 2004-03-11

Whether an export house could claim its manufactured-goods export profit while ignoring a larger trading-export loss, including by disclaiming deduction to supporting manufacturers.

80HHC(1) | 80HHC(3)(c) | 80AB | 80B(5) | 260A (appeal history)

Two-judge bench | S.N. Variava, J. | H.K. Sema, J.

Assessment years: 1996-97

Combine export results; check the later incentive-loss proviso

The assessee could not ignore trading-export losses or use a disclaimer to create the disputed deduction. The Rs 3,78,80,937 displayed calculation was rejected. The later fifth proviso, recorded in the checked historical compilation as inserted retrospectively from 1 April 1992, separately addresses loss set-off against specified export incentives; this note does not certify all later provisos or their treatment. No present section 80HHC benefit or 2025-Act counterpart is promised.

01 FACTS OF THE CASE

For AY 1996-97, the export house reported taxable income before Chapter VI-A deductions of approximately Rs 4.39 crore. It claimed approximately Rs 3.78 crore under section 80HHC from self-manufactured exports, while trading exports produced a loss of approximately Rs 6.86 crore. It had issued disclaimer certificates in favour of supporting manufacturers for the trading exports. The AO denied the deduction after combining the export results, and the appellate authorities and High Court upheld that conclusion (physical page 5).

The assessee argued that the two export streams should be separated, that the incentive's purpose justified ignoring the trading loss, and that the disclaimer could remove that turnover or mathematically reverse the loss from its computation. Those were arguments rejected by the Court.

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

02 DISCUSSION BY THE HON'BLE COURT

Section 80HHC(3)(c) governs a combination of manufactured and trading exports. Its linked clauses require both results to enter the calculation; a loss from one stream cannot be omitted simply to preserve the other stream's positive profit. Only the resulting positive eligible profit supported deduction under the statutory language then considered. The Court also applied section 80AB and the Act-based gross-total-income computation, rejecting the contrary Bombay and Kerala views discussed in the judgment (physical pages 12–14).

A disclaimer passes an available deduction to a supporting manufacturer; it does not reduce the export house's turnover or manufacture a deduction where the relevant computation produces a loss. The Court rejected the proposed negative-profit subtraction based on Form 10CCAC and the Board circular. The displayed calculation yielding Rs 3,78,80,937 was counsel's rejected calculation, not a deduction awarded by the Court (physical pages 14–17).

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

03 JUDICIAL DECISION

The assessee's appeal was dismissed with no order as to costs. The disputed deduction remained disallowed. The Court ordered no remand or new quantified tax or penalty (physical page 17).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue

Assessee appeal dismissed; no costs

Final on the identified mixed-export loss and disclaimer claim for AY 1996-97

The trading loss cannot simply be erased. Do not turn this original formula ruling into an unqualified prohibition despite every later export-incentive proviso or a ruling on each supporting manufacturer's independent assessment.

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

05 AKHB REVIEW POINT

Compute the two export streams under the governing formula before examining disclaimer relief. Distinguish overall taxable income from the export-profit measure: a positive pre-deduction total income does not itself supply positive profits for the particular export deduction. A certificate transfers available relief rather than removing the underlying transactions from the exporter's records.

Important bounded statutory comparison: the official-hosted 2011 compilation, physical pages 470–472, records the later fifth proviso to section 80HHC(3), inserted by the Taxation Laws (Amendment) Act, 2005 retrospectively from 1 April 1992. It addresses set-off of a computed loss against specified proportionate export-incentive amounts. That later machinery must be considered before applying the 2004 opinion's broad no-deduction language to a different incentive claim. This note does not decide eligibility under every later proviso, certify its subsequent litigation or recompute IPCA's closed appeal. Page 469 records the deduction phase-out from AY 2005-06.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity and actual AY figures

Source url: [Open cited source](#)

Pdf pages: 1; 4; 5

Paragraphs: Unnumbered judicial text

Source role: reported metadata and judicial text

2.

Topic: Quoted statutory scheme

Source url: [Open cited source](#)

Pdf pages: 5; 6; 7; 8

Paragraphs: Unnumbered judicial text

Source role: judicial text

3.

Topic: Submissions and distinguished precedent

Source url: [Open cited source](#)

Pdf pages: 8; 9; 10; 11; 12

Paragraphs: Unnumbered judicial text

Source role: judicial text

4.

Topic: Combined profit/loss and section 80AB reasoning

Source url: [Open cited source](#)

Pdf pages: 12; 13; 14

Paragraphs: Unnumbered judicial text

Source role: judicial text

5.

Topic: Disclaimer and rejected calculation; dismissal

Source url: [Open cited source](#)

Pdf pages: 14; 15; 16; 17

Paragraphs: Unnumbered judicial text

Source role: judicial text

6.

Topic: Later loss/incentive proviso and historical sunset

Source url: [Open cited source](#)

Pdf pages: 469; 470; 471; 472

Paragraphs: Section 80HHC(1B), (3); footnotes 26–27

Source role: bounded historical statutory text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

S.N. Variava, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

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

Identified source rendition: 17 PDF pages; SHA-256

82c19daffe734e1ef42e072d3973b010e688c9142ae0d29a0ebf652ab0223967. Original bytes preserved.

Complete unnumbered judicial text physical pages 5–17/SCR 1079–1091; earlier headnote and embedded submissions/statutes distinguished.

[Open cited source rendition](#)

The wording positive profit in both exports is read with the surrounding express direction to combine profits and losses. It does not require each stream to be individually profitable where the net eligible figure is positive.; Physical page 13 prints Sub-section (1) of Section 80HHC(3), a malformed reference. The note distinguishes subsection (1), the mixed-export computation in subsection (3)(c), and section 80AB from the text as a whole.; The long statutory quotation includes subsection (1B) terminology enacted later than AY 1996-97; it is not certified as a verbatim historical consolidation for that year.; The Rs 3,78,80,937 calculation on pages 16–17 is the assessee's rejected submission. The rounded opening figures are not reconciled into a new demand.; Other deduction provisions and the older Sea Pearl formula appear in submissions and quotations; they are not additional IPCA holdings.

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: 17](#)

SHA-256: 82c19daffe734e1ef42e072d3973b010e688c9142ae0d29a0ebf652ab0223967

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

SHA-256: 1ec6e4c38dc1d524d1d40b1fd35d13ac1336c8fc549cef2af1bf723a999c822b

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