

Income Tax Officer, Bangalore v. M/s. Induflex Products (P) Ltd.

Civil Appeal No. 7307 of 2005

[2005] Supp. 5 SCR 693 | 2005-12-08

Whether an export deduction under historical section 80HHC could be allowed despite a negative computation, and whether the existing record established the positive aggregate export profit required by that provision.

80HHC(1) | 80HHC(3) | 143(3) (assessment history) | 263 (revision history) | 260A (High Court appeal)

Two-judge bench | S.B. Sinha, J. | R.V. Raveendran, J.

Assessment years: 1994-95

Revenue-success remand; final export deduction unresolved

This is a remand, not a final deduction disallowance. Positive export profit must reflect the relevant profits and losses; the nil-plus-incentives approach is only the assessee's quoted argument. The closing reference to the Appellant's profit conflicts with the party alignment and is preserved as a source-label caution. IPCA's figures are not this assessee's figures. AY 1994-95 is historical; comprehensive later treatment and current-law/2025 Act mapping remain unverified. The checked later fifth proviso addresses specified loss/incentive set-off retrospectively from 1 April 1992; the remand's eventual outcome remains unverified.

01 FACTS OF THE CASE

The respondent exporter claimed a section 80HHC deduction while declaring a negative result from exports of trading goods. The AO allowed the deduction in an assessment under section 143(3). On 3 March 1999, the Commissioner exercised section 263 jurisdiction and directed withdrawal of the relief as erroneous and prejudicial to Revenue. The Tribunal allowed the assessee's appeal on 19 August 2002, following a Cochin Bench decision in A.M. Mossa. The Karnataka High Court dismissed Revenue's section 260A appeal in limine (physical pages 2-3/SCR 694-695).

The Supreme Court record did not yield a clear finding of the necessary positive profit. Revenue's own list of dates said that the respondent had earned export-business profit for AY 1994-95. The Commissioner's order recorded the assessee's argument that the statutory computation nevertheless produced a negative figure, which it wished to treat as nil before allowing relief by reference to export incentives, including advance licences. Those are competing record statements and the assessee's submission, not a Supreme Court finding of final deduction entitlement (physical page 6/SCR 698).

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

02 DISCUSSION BY THE HON'BLE COURT

The Court read the incentive provision as requiring positive profit. The purpose of encouraging exports did not entitle an assessee with a loss to claim the deduction merely because the legislation was beneficial (physical page 5/SCR 697C-E).

Applying IPCA Laboratory Ltd. v. Deputy Commissioner of Income Tax, [2004] 12 SCC 742, as discussed in this judgment, the Court explained that the result had to take account of profits and losses from both self-manufactured exports and trading-goods exports. A trading loss could not simply be ignored in calculating the qualifying positive export profit. The amounts Rs 4.39 crore, Rs 3.78 crore and Rs 6.86 crore in this discussion belong to IPCA Laboratory, not Induflex (physical pages 5-6/SCR 697F-698B).

The Court then separated that legal rule from its application. It could not tell whether the necessary exercise had been undertaken, and the High Court had not reached a clear finding on positive profit. It therefore required reconsideration rather than finally allowing or disallowing the respondent's deduction (physical page 6/SCR 698C-G).

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

03 JUDICIAL DECISION

The Revenue's civil appeal was allowed and the matter remitted to the Karnataka High Court for fresh consideration in light of the Court's observations. The Supreme Court did not quantify taxable income or the deduction, and the operative passage contains no express costs direction (physical page 6/SCR 698F-H).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue on the appeal; underlying deduction entitlement left open on remand

Appeal allowed; matter remitted to the High Court

Positive-profit rule stated, but its application to the assessee's computation remained unresolved

Not a final disallowance, not permission to set a negative computation to nil and then add incentives, and not a present-law statement about export incentives or every later amendment to section 80HHC.

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

05 AKHB REVIEW POINT

Keep the legal and factual stages separate. Reconstruct the historical section 80HHC computation using the relevant year's statutory version, identifying manufactured-export results, trading-export results, allocated costs and the asserted incentive component. Do not rely on a bare description of commercial export profit to establish the positive statutory result.

For litigation, identify the missing finding that justified remand. This decision does not itself restore the Commissioner's withdrawal order as a final tax determination, certify the full ingredients of section 263 in all circumstances, or approve the assessee's proposed nil-plus-incentives method. Its cited-authority discussion is not an independent review of IPCA Laboratory or subsequent legislative treatment.

Bounded later statutory check: the Department-hosted 2011 compilation, page 472 and footnote 27, records a fifth proviso inserted in 2005 retrospectively from 1 April 1992 for set-off of computed losses against specified export-incentive amounts. Do not apply the original judgment's general language without that applicable statutory machinery. Its later litigation and Induflex's eventual remand result remain unverified.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, leave, revision and appellate history

Source url: [Open cited source](#)

Pdf pages: 1; 2; 3

Paragraphs: Cover; unnumbered judicial opening, SCR 694E–695C

Source role: reported metadata and judicial text

2.

Topic: Historical section 80HHC quotation

Source url: [Open cited source](#)

Pdf pages: 3; 4; 5

Paragraphs: Unnumbered statutory extract, SCR 695C–697C

Source role: quoted historical statute

3.

Topic: Positive profit and the Court's account of IPCA Laboratory

Source url: [Open cited source](#)

Pdf pages: 5; 6

Paragraphs: Unnumbered reasoning, SCR 697C–698B

Source role: judicial text with attributed precedent discussion

4.

Topic: AY, competing record statements, quoted assessee submission and remand

Source url: [Open cited source](#)

PDF pages: 6

Paragraphs: Unnumbered final passages, SCR 698C-H

Source role: judicial text with attributed submission

5.

Topic: Later loss/incentive statutory proviso

Source url: [Open cited source](#)

PDF pages: 472

Paragraphs: Section 80HHC(3), fifth proviso; footnote 27

Source role: bounded historical statutory text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

S.B. Sinha, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

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

Identified source rendition: 6 PDF pages; SHA-256

be6a2a0bce5fb34d98f74a66d5b00beed76de95c58ee57a45d2245229cdd9825. Original bytes preserved.

Complete unnumbered judicial text from S.B. Sinha, J., Leave granted, physical page 2/SCR 694 through the remand on physical page 6/SCR 698. Headnotes on physical page 1 and the upper part of page 2 excluded. Statutory extract on pages 3–5, account of IPCA Laboratory on pages 5–6 and the assessee's submission quoted on page 6 distinguished. No adjacent judgment.

[Open cited source rendition](#)

The final reasoning on physical page 6 says whether the Appellant had shown any positive profit, although the exporter/assessee is the respondent and the appellant is the Income Tax Officer. That party-label slip is not used to invert the appeal or invent a second taxpayer.; AY 1994–95 is expressly identified through Revenue's list of dates on physical page 6; it is not inferred from the judgment date.; The nil-plus-export-incentives argument is quoted from the Commissioner's record of the assessee's submission; it is not the Court's holding.; The report's section 80HHC quotation and its occasional exemption terminology are historical source text; the relief at issue is a deduction and the excerpt is not certified as a complete statute for any present year.; The report contains no final deduction amount and no express costs order. The IPCA amounts are not Induflex transaction figures.

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. No independent later-judgment comparison was conducted for this note; authorities discussed in the judgment are attributed to that source only. No current-law or Income-tax Act, 2025 mapping is certified.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 6](#)

SHA-256: be6a2a0bce5fb34d98f74a66d5b00beed76de95c58ee57a45d2245229cdd9825

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

SHA-256: 1ec6e4c38dc1d524d1d40b1fd35d13ac1336c8fc549cef2af1bf723a999c822b

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