

Commissioner of Income Tax, Kerala v. M/s. Tara Agencies

Civil Appeal No. 3568 of 2001

[2007] 8 SCR 136 | 2007-07-09

Whether blending purchased teas of different grades and brands for export was manufacture or production qualifying this small-scale exporter for section 35B(1A) weighted deduction for AY 1979-80.

35B(1A) | 35B(2)

Two-judge bench | Ashok Bhan, J. | Dalveer Bhandari, J.

Assessment years: 1979-80

Historical section 35B(1A) tea-blending claim only

For AY 1979-80, blending purchased teas was processing and failed the manufacture-or-production condition for this section 35B(1A) weighted deduction. The result does not decide every later deduction or statutory definition. The reported text repeatedly misprints the section in paragraphs 59–61 and gives internally inconsistent descriptions of Nilgiri; the operative holding is clear in paragraphs 68–69. Comprehensive later treatment and current-law/2025-Act mapping remain unverified.

01 FACTS OF THE CASE

The registered firm bought teas of different grades and brands, blended them, and exported the mixture. For AY 1979-80 it claimed weighted deduction as a small-scale exporter. The Income Tax Officer refused the claim; the Commissioner (Appeals), Tribunal and High Court accepted it, relying on its industrial registration and authorities treating blending as processing. The Revenue appealed (paragraphs 1–7).

The assessee described sample preparation, blend sheets, bulking, hand or shovel mixing and sometimes machinery, testing against buyers' samples, and packing. Its assertion that these steps destroyed the original teas' identity and created a new product was its submission, not a factual conclusion adopted by the Supreme Court (paragraphs 47–50).

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

02 DISCUSSION BY THE HON'BLE COURT

The Court began with the actual section 35B(1A) language introduced by the Finance Act, 1978. For the route claimed here, a small-scale exporter meant a person exporting goods manufactured or produced in a small-scale industrial undertaking owned by that person. Small-scale registration alone did not answer whether the exported goods met that requirement; the definition did not include goods merely processed (paragraphs 3–8).

In the tea sequence described by the Court, growing tea was production, converting plucked leaves into tea was manufacture, and blending already purchased teas for marketability was processing. The discussion of dictionaries and authorities recognised that production may be wider than manufacture, but did not treat every processing operation as either. The commercial-identity tests and examples from excise and sales-tax cases were contextual aids, not the wholesale incorporation of those enactments' definitions into this deduction (paragraphs 9–24 and 27–46).

Chowgule's sales-tax setting expressly included processing, so a finding that blending constituted processing could support relief there without establishing entitlement under the narrower text at issue here. The Court refused to insert the omitted word into section 35B(1A). It held this assessee's blending to be processing falling short of manufacture or production for the claimed deduction (paragraphs 53–68). The source's inconsistent description of Nilgiri is separately flagged; the note does not endorse it as an independently verified account of that earlier case.

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

03 JUDICIAL DECISION

The Revenue's appeal was allowed and the impugned High Court judgment set aside. The assessee was not entitled to the section 35B(1A) weighted deduction for the identified tea-blending activity and AY 1979-80. The parties were directed to bear their own costs; no remand or quantified tax recomputation was ordered (paragraphs 68–69).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue

Revenue appeal allowed; High Court judgment set aside; parties to bear their own costs

Final on the identified AY 1979-80 section 35B(1A) weighted-deduction claim

Blending purchased teas under the historical small-scale-exporter wording was processing only. No universal ruling for all tea operations, differently worded deductions, statutory deeming definitions, later manufacture definitions or present-law treatment.

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

05 AKHB REVIEW POINT

Start with the precise incentive, year and definitional language. Industrial registration and evidence of skilled or mechanical operations did not dispense with section 35B(1A)'s manufacture-or-production requirement. A precedent recognising processing is helpful only if the provision in the later dispute gives processing the same legal consequence. Preserve the input, operation and output facts rather than treating the label "tea industry" as decisive.

Paragraph 11's statement that manufacture was not defined in the Income-tax Act is part of this historical judgment, not a present-law statement. Likewise, the Court's distinction between growing, making and blending tea should not be transplanted to a later deduction or statutory definition without checking its own language. The source repeatedly misprints the section number in paragraphs 59–61 and contains tension in its treatment of Nilgiri. The operative holding is anchored in paragraphs 2–8 and 68–69, which consistently identify the actual section 35B(1A) claim. No comprehensive later-treatment or statutory crosswalk check is claimed.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, assessment year and lower decisions

Source url: [Open cited source](#)

Pdf pages: 1; 5; 6

Paragraphs: Cover; 1–7

Source role: reported metadata and judicial text

2.

Topic: Historical section 35B(1A) text and ownership requirement

Source url: [Open cited source](#)

Pdf pages: 6; 7

Paragraphs: 8

Source role: judicial text

3.

Topic: Tea stages and contextual definitions

Source url: [Open cited source](#)

Pdf pages: 7; 8; 9; 10; 11

Paragraphs: 9–24; includes 12A

Source role: judicial text

4.

Topic: Comparative cases and the Nilgiri statutory proviso

Source url: [Open cited source](#)

Pdf pages: 11; 12; 13; 14; 15; 16

Paragraphs: 25–46; particularly 32–34

Source role: judicial text

5.

Topic: Assessee's blending and new-product submissions

Source url: [Open cited source](#)

Pdf pages: 16; 17; 18

Paragraphs: 47–50

Source role: counsel submissions

6.

Topic: Quoted precedents, Chowgule comparison and source inconsistencies

Source url: [Open cited source](#)

Pdf pages: 18; 19; 20; 21; 22

Paragraphs: 51–67; particularly 57–61

Source role: judicial text

7.

Topic: Operative deduction holding and relief

Source url: [Open cited source](#)

Pdf pages: 23

Paragraphs: 68–69

Source role: judicial text

ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS

35b(1a): Finance Act, 1978 text reproduced in paragraph 8; small-scale exporter definition required goods manufactured or produced in an undertaking owned by the exporter

35b(2): Reproduced anti-duplication provision, not a separately contested holding

32a / 80mm: Cross-references inside the reproduced definitions, not independent deductions decided

Other enactments and deduction provisions: Comparative definitions and cited authorities; not a ruling on every manufacture, processing or production provision

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Dalveer Bhandari, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

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

Identified source rendition: 23 PDF pages; SHA-256

5a32e36626540d7a702ddd3fb42c245bd5e2dc9386df38b82e0df56ea84f657c. Original bytes preserved.

Judicial paragraphs 1–69, including printed 12A, on physical pages 5–23 (SCR 140–158), fully read. Pages 1–4 and opening of page 5 are reporter/editorial material. No adjacent judgment.

Open cited source rendition

Physical pages 21–22, paragraphs 59–61, repeatedly print variants of section 35(1)(B), whereas the issue, reproduced provision and operative paragraph 68 identify section 35B(1A). This is a source-level misreference, not merely an OCR substitution; the original remains unchanged.; The source's paragraphs 32–34 and 57 explain that Chowgule rejected Nilgiri's no-processing view; paragraphs 58–59 nevertheless describe Nilgiri as a processing-benefit case. Paragraph 33 itself quotes a proviso excluding processed or altered goods from the deduction. The note flags this internal tension and does not independently attribute that benefit holding to Nilgiri.; Paragraphs 47–50 are the assessee's submissions, including claims of a new product and loss of original identity. They must not be restated as the Court's accepted conclusion.; Dictionary extracts, other enactments and quoted earlier decisions are comparative material. In particular, the excise definition and references to other income-tax deductions do not expand the actual relief decided.; The historical statement in paragraph 11 about absence of an Act definition is not a certificate of the text applicable to any later year. The source also contains imperfect precedent citations; no unverified citation repairs are supplied.

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. No comprehensive subsequent judicial or statutory audit. Any actually checked comparison is narrowly identified; no current-law or 2025-Act certification.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 23](#)

SHA-256: 5a32e36626540d7a702ddd3fb42c245bd5e2dc9386df38b82e0df56ea84f657c

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