

Commissioner of Income Tax, Madras v. Ponni Sugars & Chemicals Ltd.

Civil Appeal No. 5694 of 2008 and connected appeals / Civil appeal arising from SLP (C) No. 12355 of 2006 / Civil appeal arising from SLP (C) No. 573 of 2007

[2008] 13 SCR 570 | 2008-09-16

Whether the sugar incentive was capital; whether qualifying co-operative societies could deduct member-interest income under section 80P(2)(a)(i); and, in the Dharampuri companion, whether area-development-fund collections were trading receipts.

80P(1) | 80P(2)(a)(i)

Two-judge bench | S. H. Kapadia, J. | B. Sudershan Reddy, J.

Assessment years: 1986-87

Historical subsidy classification; later statutory inclusion

The purpose test is reviewed in the historical scheme and assessment-year setting. Finance Act, 2015 inserted section 2(24)(xviii) with effect from 1 April 2016 to include specified government assistance in income, subject to the exception then stated for assistance accounted for in actual cost under Explanation 10 to section 43(1). The verified extract is historical; later versions and the relevant year must be checked. A capital-purpose finding alone is not certified as a present-day exemption.

[paragraphs 14-17 / PDF pages 8, 9, 10, 11 / judicial text](#); [paragraphs Section 2\(24\)\(xviii\), insertion by Finance Act, 2015 effective 1 April 2016; original actual-cost exclusion / PDF pages 7 / statutory text](#)

01 FACTS OF THE CASE

The batch concerned the 1980, 1987, 1988 and 1993 sugar incentive schemes. The Court used Salem Cooperative Sugar Mills Ltd.'s assessment year 1986-87 under the 1980 scheme as the factual example. Incentives included a larger free-sale sugar quota; the 1980 and 1987 schemes also offered an excise-duty differential. Benefits were confined to new or substantially expanded units, and surplus incentive funds had to repay term loans, with annual utilization certification and sanctions for non-compliance. Separate claims concerned interest from members and area-development-fund collections (paragraphs 2-6, 10-12, 18 and 20).

Source: [reported judgment / paragraphs 2-6, 10-12, 18 and 20 / PDF pages 4, 5, 7, 8, 11, 12 / judicial text](#)

02 DISCUSSION BY THE HON'BLE COURT

Applying Sahney Steel, the Court held that the scheme's purpose determines the receipt's character. Neither payment timing, source nor form is decisive. Assistance to run a business more profitably is revenue; assistance to establish or expand a unit is capital. Here the binding obligation to repay term loans for new units or expansion, rather than unrestricted use in ongoing operations, established the capital purpose. Price and duty differentials were only the payment mechanism (paragraphs 13-17).

For member-interest relief, a co-operative society had to establish that it carried on the relevant business of banking or providing credit facilities to members. The lower authorities had not examined the societies' constitutive documents, returns and stated business. The Court therefore required fresh Tribunal examination, leaving both sides' contentions open (paragraphs 18-19).

The separate area-development-fund question in Revenue's Dharampuri appeal was also remitted for fresh consideration, in accordance with law and the directions referred to in CIT v. Chhatrapati Sahakari Sakhar Karkhana Ltd., (2000) 245 ITR 498 (paragraphs 20-21).

Source: [reported judgment / paragraphs 13-21 / PDF pages 8, 9, 10, 11, 12 / judicial text](#)

03 JUDICIAL DECISION

The incentive subsidy question was answered for the assessee: the receipts were capital on the schemes' purposes and mandatory use conditions. The member-interest issue was remitted to the Tribunal after setting aside the impugned High Court judgments on that issue, with all contentions open. The Dharampuri area-development-fund question was separately remitted. Revenue's appeals were accordingly partly allowed, without costs (paragraphs 17-22).

Source: [reported judgment / paragraphs 17-22 / PDF pages 11, 12 / judicial text](#)

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee on subsidy character; remands on the other issues; Revenue appeals partly allowed overall

Subsidy treated as capital; member-interest and separate area-development-fund issues remitted to the Tribunal; no costs

Final subsidy classification; no final allowance or denial on the two remitted issues

The section 80P outcome is a fact-finding remand, not a general exemption for co-operative interest. The fund-collection merits also remain undecided. Assessment year 1986-87 is identified only for Salem.

Source: [reported judgment / paragraphs 17-22 / PDF pages 11, 12 / judicial text](#)

05 AKHB REVIEW POINT

The useful distinction is a scheme-imposed capital purpose, not the mere fact that the recipient subsequently repaid a loan. Obtain the eligibility, investment and mandatory-use provisions and the utilization evidence. Keep the favourable subsidy holding separate from the unresolved member-interest and fund-collection issues.

These historical classifications do not establish a blanket present-day capital-subsidy exemption. Section 2(24)(xviii), inserted by the Finance Act, 2015 with effect from 1 April 2016, brought specified government assistance within income, subject to the statutory exception then stated for assistance included in asset actual cost under Explanation 10 to section 43(1). Application requires the relevant year's text and any later changes to be checked; this note does not certify current tax treatment.

Source: [reported judgment / paragraphs Clause 7 quoted in paragraph 5; 11-19 and 20-22 / PDF pages 5, 7, 8, 9, 10, 11, 12 / judicial text; official statutory extract / paragraphs Section 2\(24\)\(xviii\), insertion by Finance Act, 2015 effective 1 April 2016; original actual-cost exclusion / PDF pages 7 / statutory text](#)

DETAILED DISPOSITION AND CONNECTED GROUPS

Issue results

1.

Issue: Incentive subsidy

Result: Capital receipt; first question answered for assessees

In whose favour: Assesseees

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 11

Paragraphs: 16-17

Source role: judicial text

2.

Issue: Section 80P member-interest deduction

Result: De novo Tribunal determination; all contentions open

In whose favour: No final merits winner; Revenue obtains remand

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 11; 12

Paragraphs: 18-19

Source role: judicial text

3.

Issue: Dharampuri area-development-fund collections

Result: De novo Tribunal consideration following the directions referred to in Chhatrapati

In whose favour: No final merits winner; Revenue obtains remand

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 12

Paragraphs: 20-21

Source role: judicial text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

S. H. Kapadia, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

VERIFIED RELATIONSHIPS BETWEEN SPECIFIED JUDGMENTS

1.

Earlier case id: sc-1997-09-19-sahney-steel

Later case id: sc-2008-09-16-ponni-sugars

Relationship: purpose test applied with different result due to scheme purpose and binding use conditions

Evidence

1.

Source url: [Open cited source](#)

Pdf pages: 8; 9; 10; 11

Paragraphs: 14-17

Source role: judicial text

Scope limit: Ponni follows the purpose test and distinguishes the operating-assistance facts; it does not overrule Sahney Steel.

SOURCE & VERIFICATION

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

Identified source rendition: 12 PDF pages; SHA-256

7e822bac79d516b3dc23f33de8eb76fb12a69aa55db282c9b6c3dd2993c88451. Original bytes preserved.

Judgment paragraphs 1-22 on physical pages 4-12 (SCR 573-581); pages 1-3 are editorial headnote, identity and appearance material.

[Open cited source rendition](#)

Paragraph 5 assigns 1986-87 to Salem Cooperative Sugar Mills Ltd., used as the representative factual case. It is not attributed to Ponni or every companion appeal.

The reported title identifies Civil Appeal No. 5694 of 2008 etc. Paragraph 4 identifies the Salem companion by SLP No. 12355/06; paragraph 20 identifies the Dharampuri companion by SLP No. 573/07. A complete numbered companion schedule is not supplied.

Section 80P(1) and (2)(a)(i) concern the separate member-interest claim. The subsidy-character holding does not expressly identify a numbered charging provision. Section 2(24)(xviii) appears only in the separately labelled later-statutory caution.

The preserved reported rendition is the primary source; no separately retrieved signed original or original-PDF hash is claimed.; The case caption is Ponni Sugars, but the representative assessment-year facts are Salem's and the additional fund issue is Dharampuri's; these are not conflated.; Paragraph 19 is read with the member-interest question in paragraph 18 and the distinct final subsidy answer in paragraph 17; the entire subsidy holding is not labelled remanded.; The official section 2 extract verifies the historical 2015 insertion only; any present application requires the relevant statutory version and later changes.

STATUTORY SCOPE

Historical subsidy-character decisions. A separately verified 2015 amendment is identified as a limitation; no automatic mapping to the Income-tax Act, 2025.

LATER TREATMENT

Source checked 2026-10-04. The bounded relationship between Sahney Steel and Ponni Sugars is checked against both judgments. No comprehensive later-treatment or present-law audit has been performed.

IDENTIFIED SOURCE LINKS

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

SHA-256: 7e822bac79d516b3dc23f33de8eb76fb12a69aa55db282c9b6c3dd2993c88451

[reported judgment - PDF pages: 15](#)

SHA-256: d5e56bf903e30bc65a94420e47d719df70046953d78cc866da68813a873d22a0

[official statutory extract - PDF pages: 12](#)

SHA-256: 41e71b6e3c6d3a0a8e2d4570f84cd706bdeb7a613617ff66751e0c1f9cafe403

[Related note: M/s. Sahney Steel and Press Works Ltd., Hyderabad etc. etc. v. Commissioner of Income Tax, Andhra Pradesh-I, Hyderabad](#)

AI DISCLOSURE

AI-assisted research checked against the identified source. Extraction, interpretation or omission errors remain possible. Source review does not mean independent approval by a practising professional. Verify every material statement against the complete original judgment.

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