

Commissioner of Income Tax v. M/s. Meghalaya Steels Ltd.

Civil Appeal No. 7622 of 2014 and connected proceedings (full list below)

[2016] 1 SCR 952 | 2016-03-09

Whether transport, interest, power and insurance subsidies reimbursing actual manufacturing or selling costs formed profits and gains derived from the eligible business for sections 80-IB/80-IC, rather than income from other sources or an independent incentive source.

80-IB | 80-IC | 28(iib) | 56

Two-judge bench | Kurian Joseph, J. | Rohinton Fali Nariman, J.

Assessment years: 2004-05

Historical cost-reimbursement nexus; later statutory inclusion

Meghalaya addresses actual manufacturing/selling cost reimbursements of undisputed eligible businesses, with AY 2004-05 narrated as the lead case. It does not make every subsidy deductible. Section 2(24)(xviii), effective 1 April 2016, separately affects income inclusion; the preserved extract states its original actual-cost exception. Relevant-year eligibility, statutory changes and subsequent treatment require checking. No current-law or 2025-Act certification is supplied.

[paragraphs 20 / PDF pages 17 / judicial text](#); [paragraphs 14-24 / PDF pages 22, 23, 24, 25, 26 / judicial text](#); [paragraphs 7.7-8 / PDF pages 33, 34, 35, 36 / judicial text](#)

01 FACTS OF THE CASE

The group arose from Meghalaya industrial undertakings; their eligible-business status was undisputed. Civil Appeal No. 7622/2014 was the lead matter. Its High Court proceedings concerned section 80-IB in ITA No. 7/2010 and section 80-IC in ITA No. 16/2011. The Court narrated the former: a manufacturer of steel and ferro-silicon claimed deduction for AY 2004-05 on transport subsidy of Rs. 2,64,94,817, interest subsidy of Rs. 2,14,569 and power subsidy of Rs. 7,00,000, totalling Rs. 2,74,09,386. The Assessing Officer accepted revenue character but excluded the amounts from section 80-IB(4) deduction. The Commissioner (Appeals) agreed, while the Tribunal and Gauhati High Court allowed the deduction. The wider batch and reasons also covered insurance subsidy. Revenue argued that government, rather than the undertaking, was the immediate source and that the receipts belonged to the residual income head (paragraphs 3-10).

Source: [reported judgment / paragraphs 3-10; lead facts and undisputed underlying eligibility / PDF pages 4, 5, 6, 7, 10 / judicial text](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court retained the distinction between income attributable to a business and income derived from it. Sterling Foods supplied the direct, rather than incidental, nexus test. Applied to the actual reimbursements, that test favoured the assessee: transport, power, interest and insurance assistance recouped all or part of costs actually incurred in manufacture or sale. Net profits necessarily reflect those costs; payment by government did not itself break the business nexus (paragraphs 13-18).

Pandian Chemicals concerned interest earned on an electricity deposit, a step removed from undertaking profits. Liberty India concerned DEPB/duty-drawback export incentives arising only after export and flowing from the incentive scheme, rather than the cost reimbursements here. The Court distinguished those decisions without abandoning the direct-nexus requirement. It approved the relevant Calcutta reasoning in Merino Ply and Cement Manufacturing, and used the transport-scheme purpose and Sahney Steel discussion as supporting context (paragraphs 19-25).

The Court found it unnecessary to add a separate netting-principle rationale. It rejected income-from-other-sources treatment: a residual head cannot replace the business head for subsidies reimbursing business costs. Section 28(iib), governing export cash assistance, supported that head-of-income reasoning, but business-income classification and the separate deduction nexus remained distinct steps (paragraphs 26-28).

Source: [reported judgment / paragraphs 12-29; interpretation, actual-cost nexus, distinctions and income head / PDF pages 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21 / judicial text](#)

03 JUDICIAL DECISION

The cost-reimbursement subsidies had the required direct nexus and qualified for the sections 80-IB/80-IC deductions in these cases. The Gauhati, Calcutta and Delhi constructions were approved; the contrary Himachal Pradesh approach was held wrongly decided. All 26 listed civil appeals were dismissed without costs. No remand was ordered (paragraphs 18, 28-30).

Source: [reported judgment / paragraphs 18, 29-30 / PDF pages 16, 21 / judicial text](#)

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee

All 26 listed Revenue civil appeals dismissed; no costs

Final determination of the subsidy nexus and income-head issues for the group

Eligibility of the underlying businesses was undisputed. The result rests on actual manufacturing/selling cost reimbursement, not the word subsidy alone. Separate reliance on the netting principle was unnecessary; there is no remand or current universal eligibility holding.

Source: [reported judgment / paragraphs Reported appeal list: 30 / PDF pages 4, 21 / judicial text](#)

05 AKHB REVIEW POINT

Map the payment to an incurred manufacturing or selling cost and verify the undertaking, year and scheme conditions before applying the deduction nexus. Do not treat every government payment as either automatically excluded or automatically eligible. Liberty India remains a distinct export-incentive rule: its original paragraphs 14-24 were checked. Saraf Exports later expressly explained in paragraph 7.7 that Meghalaya did not disapprove Liberty India and maintained the cost-reimbursement/export-incentive distinction. That is a bounded comparison, not a comprehensive treatment certification.

The historical AY 2004-05 lead holding must also be separated from later legislation. The preserved official extract records Finance Act, 2015 insertion of section 2(24)(xviii), effective 1 April 2016, including specified government assistance in income subject to the original actual-cost exception under Explanation 10 to section 43(1). That income-inclusion provision does not itself answer eligibility under sections 80-IB/80-IC. Check the relevant statutory version and later changes; this note does not certify current eligibility or map the result to the Income-tax Act, 2025.

Source: [reported judgment / paragraphs 10, 18-20, 26, 28-30 / PDF pages 10, 16, 17, 20, 21 / judicial text](#); [reported judgment / paragraphs 14-25 / PDF pages 22, 23, 24, 25, 26 / judicial text](#); [official signed judgment / paragraphs 7.6-7.7 and 8; bounded later comparison / PDF pages 33, 34, 35, 36 / judicial text](#); [official statutory extract / paragraphs Historical insertion notice and original section 2\(24\)\(xviii\) / PDF pages 7 / statutory text](#)

APPEAL AND PROCEEDING NUMBERS

Civil Appeal No. 7622 of 2014 / Civil Appeal No. 8493 of 2012 / Civil Appeal No. 8494 of 2012 / Civil Appeal No. 8496 of 2012 / Civil Appeal No. 7623 of 2014 / Civil Appeal No. 7624 of 2014 / Civil Appeal No. 3624 of 2015 / Civil Appeal No. 3623 of 2015 / Civil Appeal No. 5238 of 2015 / Civil Appeal No. 5239 of 2015 / Civil Appeal No. 5236 of 2015 / Civil Appeal No. 6040 of 2015 / Civil Appeal No. 6039 of 2015 / Civil Appeal No. 2560 of 2016 / Civil Appeal No. 2561 of 2016 / Civil Appeal No. 2562 of 2016 / Civil Appeal No. 2563 of 2016 / Civil Appeal No. 2564 of 2016 / Civil Appeal No. 2565 of 2016 / Civil Appeal No. 2566 of 2016 / Civil Appeal No. 2567 of 2016 / Civil Appeal No. 2568 of 2016 / Civil Appeal No. 2569 of 2016 / Civil Appeal No. 2570 of 2016 / Civil Appeal No. 2571 of 2016 / Civil Appeal No. 2572 of 2016

DETAILED DISPOSITION AND CONNECTED GROUPS

Issue results

1.

Issue: Deduction nexus for the four cost-reimbursement subsidy categories

Result: Directly derived from the eligible business for sections 80-IB/80-IC on the facts considered

In whose favour: Assesseees

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 16; 17

Paragraphs: 18-20

Source role: judicial text

2.

Issue: Business-income versus residual-head treatment

Result: The business-cost reimbursements belonged under profits and gains of business, not income from other sources

In whose favour: Assesseees

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 20; 21

Paragraphs: 28

Source role: judicial text

3.

Issue: Independent netting-principle ground

Result: Unnecessary to further substantiate the decision on this basis

In whose favour: Not separately decided

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 20

Paragraphs: 26

Source role: judicial text

ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS

14; 57(iii); 80A; 80AB; 260A

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

R. F. Nariman, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

VERIFIED RELATIONSHIPS BETWEEN SPECIFIED JUDGMENTS

1.

Earlier case id: sc-2009-08-31-liberty-india

Later case id: sc-2016-03-09-meghalaya-steels

Relationship: distinguished export incentives from actual business cost reimbursements

Evidence

1.

Source url: [Open cited source](#)

Pdf pages: 17

Paragraphs: 20

Source role: judicial text

2.

Source url: [Open cited source](#)

Pdf pages: 22; 23; 24; 25; 26

Paragraphs: 14-24

Source role: judicial text

Scope limit: Liberty India was distinguished, not overruled.

2.

Earlier case id: sc-2016-03-09-meghalaya-steels

Later case id: sc-2023-04-10-saraf-exports

Relationship: explained as consistent with liberty india and distinguished on subsidy nature

Evidence

1.

Source url: [Open cited source](#)

Pdf pages: 33; 34; 35; 36

Paragraphs: 7.7-8

Source role: judicial text

Scope limit: Bounded reading of one later decision only; comprehensive later_treatment remains not_verified.

SOURCE & VERIFICATION

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

Identified source rendition: 21 PDF pages; SHA-256

d7169832370149c303a9e20917eebb1fc7e917650921fca0d82a55e5bd5774f1. Original bytes preserved.

Judgment paragraphs 1-30 on physical pages 4-21 (SCR 955-972), fully read. Pages 1-3 and opening of page 4 are editorial headnote, references, jurisdiction and appearances. No adjacent judgment.

[Open cited source rendition](#)

Paragraph 5 identifies 2004-05 for the narrated section 80-IB lead facts. Paragraph 4 also identifies the section 80-IC High Court appeal ITA No. 16/2011, but supplies no separate assessment year; companion appeal years are not inferred.

The deduction dispute concerns sections 80-IB and 80-IC. Section 28(iiiib), printed as 28(iii)(b), is used by analogy in rejecting the section 56 residual-head argument. Sections 80A, 80AB and 57(iii) are submissions/context, not separate relief adjudications. The subsequent section 2(24)(xviii) extract supports only the editorial historical-law caveat.

The preserved reported eSCR rendition is the primary source; no separately retrieved signed original or original-PDF hash is claimed. Public URLs are cached acquisition URLs, not newly live-validated links.; Paragraph 5 prints a return date of 9.10.2014 for AY 2004-05, although paragraph 6 gives the assessment order as 7.12.2006. This internal chronology inconsistency was visually confirmed; no replacement return date is invented.; The lead monetary table has three subsidies, while paragraphs 8 and 18-20 discuss four, including insurance. The note distinguishes the lead table from the wider batch holding.; Paragraph 11 uses a broad introductory legislative-date statement after quoting both deduction sections. It is not used here as an independent section 80-IC enactment-history finding.; Quoted paragraph numbers within authorities differ from the numbering of the original reported Liberty India rendition. Pinpoints here follow each cited source, not the embedded quotation numbering.; Saraf paragraph 7.7 says Meghalaya did not consider Sterling Foods, but Meghalaya paragraphs 14 and 18 expressly discuss and apply it. The earlier judgment itself controls this factual description; the bounded Saraf comparison relies on its express non-overruling/distinction analysis.; Section 28(iiiib) is printed as 28(iii)(b). The official section 2 extract is a historical 2015 version, used only for its stated insertion and original exception, not a current-law consolidation.

The report lists 26 civil appeals. Paragraph 1 condones delay in filing the special-leave petitions. Paragraph 2 grants leave in SLP(C) Nos. 36578, 36579, 36581, 37831, 37833 and 37834 of 2013; matters identified by CC Nos. 224 and 1543 of 2014; SLP(C) Nos. 11094, 11095, 12710 and 24620 of 2014; and SLP(C) No. 11319 of 2015. No individual SLP-to-civil-appeal matching is invented.

STATUTORY SCOPE

Historical Income-tax Act, 1961 provisions and assessment years only. No automatic mapping to the Income-tax Act, 2025.

LATER TREATMENT

Source checked 2026-10-04. No comprehensive later-treatment or present-law audit has been performed. Any source-checked comparison is expressly bounded.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 21](#)

SHA-256: d7169832370149c303a9e20917eebb1fc7e917650921fca0d82a55e5bd5774f1

[reported judgment - PDF pages: 26](#)

SHA-256: 5db8633102fd24ac85be84b344745e5bc679791cd8c15a21e444788a02ec121a

[official signed judgment - PDF pages: 36](#)

SHA-256: 8e61373c58870423bcde67c555526d800f036085a992cd811cd87ad8464bf932

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

SHA-256: 41e71b6e3c6d3a0a8e2d4570f84cd706bdeb7a613617ff66751e0c1f9cafe403

[Related note: M/s Liberty India v. Commissioner of Income Tax](#)

[Related note: M/s. Saraf Exports v. Commissioner of Income Tax, Jaipur-III](#)

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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