

Deputy Commissioner of Income-tax, Circle 11(1), Bangalore v. M/s. Ace Multi Axes Systems Ltd.

Civil Appeal No. 20854 of 2017 (arising from SLP (C) No. 4565 of 2015) and connected proceedings (full list below)
[2017] 12 SCR 21 | 2017-12-05

Whether a deduction initially allowed to a small-scale industrial undertaking under section 80-IB(3) must continue throughout ten consecutive assessment years even after the undertaking loses its small-scale status.

80-IB(2) | 80-IB(3) | 80-IB(14)(c) | 80-IB(14)(g)

Three-judge bench | Ranjan Gogoi, J. | Adarsh Kumar Goel, J. | Navin Sinha, J.

Assessment years: 2005-06

Historical category-specific annual eligibility

This section 80-IB decision concerns continuing small-scale eligibility under the historical scheme, with AY 2005-06 specified for the lead appeal. It preserves the distinction between initial formation requirements and recurring conditions. The stated investment threshold is not certified for any other year or successor law; companion assessments require individual compliance.

01 FACTS OF THE CASE

Ace manufactured and sold components or parts of CNC lathes and similar machines. Its AY 2005-06 income had been assessed at Rs. 1,79,82,653. The Commissioner's section 263 order required reconsideration of the section 80-IB(3) deduction, after which the Assessing Officer disallowed Rs. 75,81,910. The Commissioner (Appeals) and Tribunal upheld the disallowance, but the Karnataka High Court restored the claim on the view that initial eligibility secured the ten-year incentive notwithstanding later expansion out of small-scale status (paragraphs 1-3 and 6-9).

The appellate order reproduced by the Court recorded plant-and-machinery investment of Rs. 4,05,21,730 on 31 March 2005, beyond the stated Rs. 1 crore limit for that year. Small-scale status was to be tested as at the last day of the previous year under section 80-IB(14)(g), by reference to section 11B of the Industries (Development and Regulation) Act, 1951. These were the historical facts and threshold before the Court, not a current eligibility limit (paragraphs 4 and 7).

Source: [reported judgment / paragraphs 1-4 / PDF pages 4, 5 / judicial text](#); [reported judgment / paragraphs 4 \(definition\), 6-7 / PDF pages 9, 10 / judicial text](#); [reported judgment / paragraphs 8-9 / PDF pages 13, 14 / judicial text](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court read section 80-IB's duration together with its conditions. The ten-consecutive-year period did not make eligibility unconditional: applicability of the incentive remained tied to membership of the category for which Parliament provided it. Under the relevant scheme, a company's percentage deduction from eligible industrial profits did not continue merely because the first year had qualified (paragraphs 10-13).

The Court distinguished formation conditions, which by their nature concern the initial establishment of the undertaking, from conditions that must continue, such as the requisite workforce and small-scale status. Each assessment year is a separate unit. The incentive's encouragement of industrial growth did not justify extending a category-specific benefit to an undertaking after it ceased to belong to that category (paragraphs 12-14 and 16).

Bajaj Tempo's liberal-construction principle did not permit ignoring clear statutory eligibility conditions. The Court examined further tax-incentive authorities and concluded that the interpretative position is the same where an undertaking never qualifies and where it qualifies initially but later loses the relevant status. Granting the small-scale incentive after loss of that status would defeat, rather than advance, the scheme's defined purpose (paragraphs 15-23).

Source: [reported judgment / paragraphs 10-23 / PDF pages 14, 15, 16, 17, 18, 19, 20, 21, 22 / judicial text](#)

03 JUDICIAL DECISION

The assessee was not entitled to the incentive for a particular assessment year in which it lost its small-scale industrial-undertaking eligibility, even though it had qualified initially. Civil Appeal No. 20854 of 2017 was disposed of on that basis. The three companion appeals were disposed of in the same terms. The assessing authority was permitted to pass compliance orders applying the principle to each individual case (paragraphs 23-25).

Source: [reported judgment / paragraphs 23-25 / PDF pages 22, 23 / judicial text](#)

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue on the continuing-eligibility issue

Lead appeal and three companion appeals disposed of in the stated terms; assessing authority may pass individual compliance orders

Legal eligibility issue finally resolved; case-specific compliance remains with the assessing authority

No unconditional ten-year holiday. Initial formation conditions and recurring eligibility conditions are distinguished. The Court does not quantify tax/refund outcomes for the three companion appeals or announce a universal annual reopening of every first-year finding.

Source: [reported judgment / paragraphs 23-25 / PDF pages 22, 23 / judicial text](#)

05 AKHB REVIEW POINT

A multi-year incentive period states the possible duration of relief, not a promise that annual category requirements disappear. Separate the facts fixed at formation from requirements the statutory scheme measures in the relevant year; here, the last-day-of-previous-year small-scale definition is material. Keep evidence of the applicable historical investment limit and qualification at that date.

Do not turn this ruling into a licence to reopen every settled formation fact, or apply its Rs. 1 crore figure to another year or a different statutory scheme. The companion appeals require individual compliance rather than an assumed identical assessment amount. Later statutory thresholds, successor provisions and subsequent judicial treatment remain unverified.

Source: [reported judgment / paragraphs 4, quoted section 80-IB\(14\)\(g\) / PDF pages 9 / judicial text](#); [reported judgment / paragraphs 12-13 / PDF pages 15 / judicial text](#); [reported judgment / paragraphs 24-25 / PDF pages 23 / judicial text](#)

APPEAL AND PROCEEDING NUMBERS

Civil Appeal No. 20854 of 2017 (arising from SLP (C) No. 4565 of 2015) / Civil Appeal No. 20856 of 2017 (arising from SLP (C) No. 8331 of 2016) / Civil Appeal No. 20857 of 2017 (arising from SLP (C) No. 3323 of 2016) / Civil Appeal No. 20855 of 2017 (arising from SLP (C) No. 148 of 2016)

DETAILED DISPOSITION AND CONNECTED GROUPS

Issue results

1.

Issue: Continuation of section 80-IB incentive after loss of small-scale status

Result: Not available in the assessment year in which small-scale eligibility is lost, despite initial-year qualification

In whose favour: Revenue

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 15

Paragraphs: 11-13

Source role: judicial text

2.

Source url: [Open cited source](#)

Pdf pages: 22

Paragraphs: 21-23

Source role: judicial text

2.

Issue: Initial versus continuing statutory conditions

Result: Initial constitution requirements are distinguished from continuing requirements; liberal interpretation cannot remove clear category eligibility

In whose favour: Revenue on the disputed continuing requirement

Pinpoints**1.****Source url:** [Open cited source](#)**Pdf pages:** 15; 16**Paragraphs:** 12-16**Source role:** judicial text**2.****Source url:** [Open cited source](#)**Pdf pages:** 18**Paragraphs:** 16**Source role:** judicial text**3.****Issue:** Three companion appeals and implementation**Result:** Civil Appeal Nos. 20856, 20857 and 20855 of 2017 disposed of in the same terms; assessing authority may apply the principle to individual facts**In whose favour:** Revenue on the legal principle; individual compliance not quantified**Pinpoints****1.****Source url:** [Open cited source](#)**Pdf pages:** 22; 23**Paragraphs:** 23-25 and companion appeal headings**Source role:** judicial text**ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS**

263 [procedural history]; 80-IA [contrast with the relevant section 80-IB incentive]; 80-P [discussion of cited authority only]

OTHER LEGISLATION CONSIDERED

Industries (Development and Regulation) Act, 1951, section 11B [incorporated small-scale-undertaking criterion]; Income-tax Act, 1922, section 15C [Bajaj Tempo comparison only]

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Adarsh Kumar Goel, 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

4da854d881921623cfb660351d2dee3c67ffaed1a3b2bb70c08382a2ee200de3. Original bytes preserved.

Judgment paragraphs 1-25 on physical pages 4-23 (SCR 24-43), including the lead appeal, three companion appeals and individual compliance direction; all text read. Pages 1-3 and opening of page 4 contain report/editorial identity or appearance material.

Open cited source rendition

AY 2005-06 is specified for the lead Ace Multi Axes appeal. The initial eligibility year and separate assessment years/facts of the companion appeals are not supplied in the bounded judgment.

The decided provision is the historical section 80-IB small-scale industrial-undertaking incentive. Section 263 describes how the assessment was reopened for decision on the deduction; no separate revision-jurisdiction holding is made. The lengthy statutory and precedent quotations do not make every referenced provision an independently decided issue.

The preserved eSCR-reported PDF is the reviewed rendition. No independently retrieved signed original is claimed.; Paragraphs 11-12 on physical page 15 print references to the 8th Schedule; the statutory text quoted in paragraph 4 refers to the Eleventh Schedule. The note does not silently correct the judicial wording or create an independent holding on the schedule.; Much of physical pages 10-14 reproduces lower-court reasoning. The Supreme Court's own analysis begins at paragraph 10; the contrary High Court quotation is not presented as its holding.; The exact operative language is disposed of in the stated terms, followed by individual compliance permission. It is not recast as a quantified final assessment or a blanket dismissal of the Revenue appeals.; The Rs. 1 crore threshold and Rs. 4,05,21,730 investment are historical facts reproduced from the appellate order; no present-day small-enterprise threshold or calculation rule is certified.; The judgment distinguishes initial conditions from continuing ones. A statement that all original conditions must be newly proved every year would overstate it.

STATUTORY SCOPE

Historical statutory setting 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. Authorities discussed or quoted in this judgment are described only within its own reasons; no independently verified cross-judgment treatment link is claimed.

IDENTIFIED SOURCE LINKS

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

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