

Ramnath & Co. v. The Commissioner of Income Tax (with M/s Laxmi Agencies)

Civil Appeal Nos. 2506-2509 of 2020 / Civil Appeal No. 2510 of 2020

[2020] 6 SCR 719 | 2020-06-05

Whether foreign-exchange service charges earned by the two marine-product procurement firms qualified for deduction under the historical section 80-O; how to distinguish qualifying services rendered from India from services rendered in India; what proof and attribution are needed under a composite agreement; and whether an incentive provision or the Tribunal's findings required acceptance of the claims.

80-O | 80-O Explanation (iii)

Two-judge bench | A. M. Khanwilkar, J. | Dinesh Maheshwari, J.

Assessment years: 1993-94, 1994-95, 1995-96, 1996-97, 1997-98

01 FACTS OF THE CASE

Ramnath & Co. provided services to foreign buyers of Indian marine products. For AY 1993-94, its return declared taxable income of Rs. 6,21,710 and claimed a 50% section 80-O deduction of Rs. 22,39,825 against service charges of Rs. 44,79,649. It said that it identified reliable suppliers, liaised over organoleptic/bacteriological inspection, analysed supply and prices, communicated market and regulatory information, and negotiated purchases. Its agreements with HOKO Fishing Co. and GELAZUR also required quality assurance, supervision and assistance in procuring suitable goods (paragraphs 5-5.4).

The quoted remuneration schedules included HOKO's 0.7% of the C&F invoice amount plus US\$ 2,000 monthly commission, and GELAZUR's product-based invoice percentages or per-kilogram rate. Both agreements relieved the principal from paying the agent's fee if goods or packaging failed the stipulated satisfaction test after inspection abroad. The Assessing Officer regarded the activities as procurement-agency services performed in India. The appellate authority and Tribunal allowed relief; the Tribunal's order for AY 1993-94 was followed for Ramnath's AYs 1994-95, 1995-96 and 1996-97 (paragraphs 5.4-6).

Laxmi Agencies separately claimed Rs. 21,84,302 for AY 1997-98, being 50% of net service-charge income of Rs. 43,68,604; it declared total income of Rs. 31,81,180. Its similar agreements included one with Neptune Fisheries in the USA. The Assessing Officer denied relief. The appellate authority excluded 20% of the charges as relating to services in India and allowed relief on net income arising from the balance. On cross-appeals the Tribunal, following Ramnath, allowed the full claim. The Supreme Court expressly did not find that Laxmi's agreements necessarily contained Ramnath's default clauses (paragraphs 38-38.5).

The Kerala High Court's common judgment of 9 June 2016 reversed the Tribunal and accepted Revenue's case. The assessee appealed, relying on the incentive's purpose, the foreign recipients' use of information, Circular 700, favourable authorities and the asserted finality of the Tribunal's findings. Revenue disputed the nature and location of the services and the absence of evidence identifying qualifying work and the consideration attributable to it (paragraphs 2-4 and 7-11.3).

Source: [reported judgment / paragraphs 2-6, including 5.1-5.10 and footnotes 4-10 / PDF pages 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22 / judgment](#); [reported judgment / paragraphs 8-11.3: High Court reasoning and competing submissions, not independent Supreme Court holdings / PDF pages 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39 / judgment](#); [reported judgment / paragraphs 38-38.4: distinct Laxmi Agencies facts and appellate history / PDF pages 79, 80, 81 / judgment](#); [official signed judgment / paragraphs 5.4: quoted remuneration schedules / PDF pages 7, 8 / judgment](#)

02 DISCUSSION BY THE HON'BLE COURT

Historical statutory framework: the Court applied the section 80-O text relevant to these assessment years. It covered specified royalty, commission, fees or similar receipts from a foreign Government or enterprise for the use outside India of listed rights or information concerning industrial, commercial or scientific knowledge, experience or skill, or for technical or professional services rendered outside India, with the prescribed convertible-foreign-exchange receipt requirement. The relevant deduction was 50%. Explanation (iii) included services rendered from India but excluded services rendered in India. The Finance (No. 2) Act, 1991 changes, applicable from AY 1992-93, extended the provision to resident non-company persons and professional services, removed prior-approval requirements and inserted that explanation. Earlier approval arrangements and Circulars 187/253 were historical context; the Court did not reimpose approval on these appellants (paragraphs 13-14.7).

Interpretation and burden: applying Dilip Kumar & Co. and the distinction in Wood Papers, the Court held that the assessee must establish eligibility for an incentive deduction and cannot use ambiguity at that stage to enlarge its scope. After eligibility is established, liberal construction may apply to formal or directory requirements. The generalised liberal-interpretation observations in Baby Marine Exports were not a sound statement of the governing approach; the Court explained that the actual result in that case rested on the plain construction of section 80HHC(1A). B. Suresh concerned a different issue. The Court also rejected the objection to using dictionary meanings: language, statutory context and purpose must be read together, and the High Court had considered both the words and the object (paragraphs 15-22.2).

The cited comparators did not eliminate the eligibility inquiry. J.B. Boda concerned the mode of receiving convertible foreign exchange where the reinsurance activity's eligibility had been accepted; its rejection of pointless outward-and-return remittance did not establish that all commercial agency commissions qualified. E.P.W. Da Costa involved analysed statistical research for the BBC, not merely unprocessed information. B.L. Passi illustrated the need to produce the alleged technical material and prove its use and the payment basis. The Court also considered Thomas Kurian and Khursheed Anwar as illustrations of why an agency description, foreign contract and foreign-exchange receipt cannot replace proof of qualifying services (paragraphs 24-29).

Composite agreements and receipts: Continental Construction was a binding three-judge precedent even though the appellants no longer relied upon it. Labels such as royalty, fee or commission do not determine eligibility either way. Where a contract contains qualifying and non-qualifying obligations, the consideration can be apportioned; only receipts properly attributable to the statutory information or services qualify. That requires concrete material from the assessee so that the Assessing Officer can examine and quantify the correlation. The Court did not hold that every composite contract must be rejected or that a separate contractual price is indispensable in every case (paragraphs 28.2-30).

02 DISCUSSION BY THE HON'BLE COURT

Ramnath's actual functions: reading the agreements as a whole, the Court found procurement of adequate quantities of satisfactory goods, properly packed and competitively priced, to be the firm's essential function. Expressions such as expert advice, analysis and technical guidance did not change the substance of the arrangement. Other tasks were incidental to procurement in India; no specific remuneration for the alleged technical information was identified. The Court's emphasis was on goods-linked remuneration and the lack of demonstrated consideration for qualifying expertise, not on the mere label commission. The default clauses reinforced that conclusion because payment depended on the principals' satisfaction with the goods rather than completion of a distinct professional information service (paragraphs 31-33.1).

There was an additional evidentiary failure. Even if some tasks could satisfy section 80-O, Ramnath did not identify the particular specialised information, prove how the foreign enterprises used it or show how much consideration was attributable to it. Its assertion that every service qualified simply because the recipient was abroad did not satisfy the statute. Circular 700 of 23 March 1995 preserves relief where qualifying services rendered from India are received abroad although the foreign recipient ultimately uses their benefit in India; it does not transform domestic procurement services into qualifying services. Accordingly, the Court did not impose an absolute prohibition merely because ultimate benefit arose in India (paragraphs 34-35).

The Tribunal's and appellate authority's conclusions were not binding on this question because they proceeded on irrelevant considerations, assumed qualifying information without cogent supporting material, and omitted the necessary attribution inquiry. The High Court's reversal was upheld (paragraphs 36-37). Laxmi Agencies failed separately on the materially similar procurement functions and absence of evidence of specific consideration for section 80-O activities. Its appeal was dismissed without assuming that it had Ramnath's default clauses or restoring the appellate authority's 80% allocation (paragraphs 38.3-38.5).

Source: [reported judgment / paragraphs 13-14.7: relevant statutory version and historical circulars / PDF pages 39, 40, 41, 42, 43, 44, 45, 46, 47, 48 / judgment](#); [reported judgment / paragraphs 15-21: construction of deduction eligibility, including treatment of Baby Marine Exports and Dilip Kumar & Co. / PDF pages 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58 / judgment](#); [reported judgment / paragraphs 22-22.2: literal construction and dictionary/context argument / PDF pages 58, 59, 60 / judgment](#); [reported judgment / paragraphs 24-25.4: J.B. Boda and E.P.W. Da Costa distinguished / PDF pages 61, 62, 63, 64, 65, 66 / judgment](#); [reported judgment / paragraphs 26-30: evidence, attribution and composite-contract principles / PDF pages 66, 67, 68, 69, 70, 71, 72, 73, 74, 75 / judgment](#); [reported judgment / paragraphs 31-37: procuring-agent functions, default clauses, absence of proof/apportionment, Circular 700 and appellate findings / PDF pages 75, 76, 77, 78, 79 / judgment](#); [reported judgment / paragraphs 38.5: separate Laxmi Agencies application / PDF pages 81, 82 / judgment](#); [official signed judgment / paragraphs 19-21: strict eligibility; formal/directory requirements / PDF pages 65, 66 / judgment](#); [official signed judgment / paragraphs 30-36: attribution, service character and Circular 700 / PDF pages 87, 88, 89, 90, 91, 92, 93 / judgment](#)

03 JUDICIAL DECISION

The Court upheld the Kerala High Court's denial of section 80-O deductions to both appellants. Ramnath's four appeals for AYs 1993-94 to 1996-97 and Laxmi Agencies' appeal for AY 1997-98 were dismissed. The activities proved were procurement-agency services in India, and neither appellant established receipt of consideration attributable to qualifying statutory information or services. All five civil appeals were dismissed with no order as to costs; there was no remand or apportionment relief (paragraphs 35-39).

Source: [reported judgment / paragraphs 35-39 / PDF pages 78, 79, 80, 81, 82 / judgment](#); [official signed judgment / paragraphs 37-39 / PDF pages 94, 95, 96, 97 / judgment](#)

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue

All five assessee civil appeals dismissed; High Court denial of section 80-O deductions upheld; no costs

Final merits determination of the historical section 80-O eligibility claims and related interpretation/evidentiary issues

Confined to the two appellants, five appeals and historical statutory version examined. No general ban on every commission receipt or composite contract; no rule that ultimate use in India alone defeats qualifying services rendered from India. The Supreme Court did not decide the High Court batch's low-tax-effect maintainability issue (footnote 10), award alternative section 80HHC relief, or certify present law.

Source: [reported judgment / paragraphs 39 / PDF pages 82 / judgment](#); [official signed judgment / paragraphs 39 / PDF pages 97 / judgment](#)

05 AKHB REVIEW POINT

For a legacy section 80-O claim, build the evidence around the actual contractual performance. Preserve the agreement, deliverables, technical or analytical material, correspondence showing foreign receipt and use, payment computation, and foreign-exchange records. Identify what differentiates a qualifying information or professional service from locating suppliers, negotiating prices, inspection and supervising domestic procurement. Descriptive words in an agreement and a foreign customer do not by themselves establish entitlement.

Analyse mixed contracts service by service and connect the claimed receipt to qualifying work. A consolidated fee can be apportioned where the evidence supports it; neither an invoice label nor an unsupported percentage allocation substitutes for that evidence. Conversely, the decision should not be cited as excluding every commission or every service whose ultimate benefit is used in India. Circular 700's distinction remains part of the Court's own reasoning.

Keep the two appellants' facts separate: Ramnath's quality-default clauses were important corroboration, while the Court did not find equivalent clauses proved for Laxmi. Likewise, retain the distinction between strict eligibility and potentially liberal treatment of formal or directory requirements after eligibility. Apply the judgment only after checking the relevant assessment-year text, later judicial treatment and any later legislation afresh; no Income-tax Act, 2025 equivalence or current deduction entitlement is assumed.

Source: [reported judgment / paragraphs 13-14.7; 20-21; 24.2-24.3; 26.3; 28.2-30; 31-38.5 / PDF pages 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 57, 58, 61, 62, 63, 64, 69, 71, 72, 73, 74, 75, 76, 77, 78, 79, 80, 81, 82 / judgment](#)

DETAILED DISPOSITION AND CONNECTED GROUPS

Party outcomes

1.

Party: Ramnath & Co.

Case numbers: Civil Appeal Nos. 2506-2509 of 2020

Assessment years: 1993-94; 1994-95; 1995-96; 1996-97

Result: Deduction claims rejected; assessee appeals dismissed

2.

Party: M/s Laxmi Agencies

Case numbers: Civil Appeal No. 2510 of 2020

Assessment years: 1997-98

Result: Deduction claim rejected; assessee appeal dismissed; appellate authority's partial allocation not restored

ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS

85-C; 80HHC; 80HHB; 80TTB; 80U

PROVISION-SPECIFIC SCOPE

1.

Act: Income-tax Act, 1961

Section: 80-O; Explanation (iii)

Role: principal deduction and service-location provision

Basis: Eligibility of foreign-exchange service charges for the historical 50% deduction; qualifying services rendered from India are included, services rendered in India are excluded.

2.

Act: Income-tax Act, 1961

Section: 85-C

Role: repealed historical predecessor

Basis: Section 14 traces the origin and purpose of the incentive. Its earlier approval and relief provisions do not independently govern these appeals.

3.

Act: Income-tax Act, 1961

Section: 80HHC

Role: prior assessee practice and cited-authority comparison

Basis: Ramnath had claimed export-profit relief through AY 1992-93; Baby Marine Exports and B. Suresh are discussed as authorities. No separate section 80HHC entitlement or computation is adjudicated here.

4.

Act: Income-tax Act, 1961

Section: 80HHB

Role: background to Continental Construction

Basis: The section appears in the account of a cited precedent, not as an alternative claim decided in these appeals.

5.

Act: Income-tax Act, 1961

Section: 80TTB; 80U

Role: illustrative footnote only

Basis: Footnote 16 illustrates other objectives of tax incentives; neither provision concerns the appellants or assessment years.

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Dinesh Maheshwari, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

ORIGINATING PROCEEDINGS

SLP (Civil) Nos. 23535-23538 of 2016; SLP (Civil) No. 23699 of 2016

SOURCE & VERIFICATION

Hon'ble Supreme Court source PDF (official signed judgment)

Identified source rendition: 97 PDF pages; SHA-256

612106999b39f15bc8c5983d03f4329c252506b934e01c49cc774560f62ad8b9. Original bytes preserved. Official judicial text paragraphs 1-39, including decimal subparagraphs and footnotes, on physical pages 1-97; signatures and date on page 97.

Official cover, signatures/date, remuneration clauses, relevant statutory text, interpretation holding, selected authority/circular passages, application to both appellants and final disposition checked against the fully read reported judicial text; not an independent full reread of every page of this separate rendition.

Open cited source rendition

The case includes four Ramnath assessment years and one distinct Laxmi Agencies assessment year; the combined 1993-94 to 1997-98 range must not be attributed to each firm.

Ramnath's default clauses were not shown to be present in Laxmi's contracts; paragraph 38.5 expressly preserves that limitation.

The fuller remuneration schedules include a monthly commission and a per-kilogram rate, despite the Court's shorthand references to invoice-based payment. The note preserves the actual schedules and the holding that no specific qualifying-service consideration was established.

Circular 700's date is inconsistent in paragraph 9.6; the reproduced heading and operative paragraph 35 use 23 March 1995. Circular 731 similarly has an isolated 20 April 1995 reference, while its reproduced heading and the earlier sentence use 20 December 1995. Both inconsistencies are also present in the official PDF.

Strict interpretation concerns eligibility; the judgment separately preserves possible liberal construction of formal/directory conditions after eligibility.

The Supreme Court expressly permits ultimate use in India under Circular 700 when the underlying service qualifies as rendered from India; quoted submissions or High Court language must not be substituted for that holding.

Low-tax-effect maintainability of the High Court appeals is expressly outside the Supreme Court's consideration in footnote 10.

Reported headnote and case-reference material are separated from judicial text; no neutral citation is treated as independently PDF-verified on catalogue metadata alone.

The reported citation, date and bench are verified on the reported cover. The official first and final pages confirm the appeals, author, judges and date. A neutral citation in catalogue metadata is not promoted to a PDF-verified citation.

Ramnath & Co.: AYs 1993-94, 1994-95, 1995-96 and 1996-97 (paragraphs 5-6). M/s Laxmi Agencies: AY 1997-98 (paragraph 38). The combined range in paragraph 2 is not a finding that each appellant was assessed for all five years. AY 1992-93 is mentioned in the statutory history and prior section 80HHC background, not as an assessment disposed of here.

STATUTORY SCOPE

Section 80-O and Explanation (iii) as applicable to AYs 1993-94 through 1997-98, including the post-Finance (No. 2) Act, 1991 framework. Historical versions of section 85-C/80-O and circulars are discussed only as the judgment does; they are not applied as concurrent requirements for the appeals.

No automatic Income-tax Act, 2025 crosswalk, present-law certification or comprehensive later-treatment audit.

LATER TREATMENT

Source checked 2026-10-04. Subsequent judicial treatment and later statutory changes have not been comprehensively verified. Statements about cited cases record how this judgment treated those authorities, not their independently audited present status.

IDENTIFIED SOURCE LINKS

[official signed judgment - PDF pages: 97](#)

SHA-256: 612106999b39f15bc8c5983d03f4329c252506b934e01c49cc774560f62ad8b9

[reported judgment - PDF pages: 82](#)

SHA-256: ea415de3b0da9ced6a165731f5789545932da15e307111f80b72f0e1f96c8cd7

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