

M/s. Saraf Exports v. Commissioner of Income Tax, Jaipur-III

Civil Appeal No. 4822 of 2022 / Arising out of SLP (Civil) No. 17539 of 2016

[2023] 4 S.C.R. 338 | 2023-04-10

Whether DEPB and duty-drawback receipts or profits qualify for deduction under section 80-IB as income derived from an industrial undertaking, including whether Meghalaya Steels displaced the rule in Liberty India.

80-IB | 28(iiib) | 28(iiic) | 28(iiid) | 28(iiie)

Two-judge bench | M.R. Shah, J. | B.V. Nagarathna, J.

Assessment years: 2008-09

01 FACTS OF THE CASE

The appellant, a partnership firm manufacturing and exporting wooden handicraft items, filed its AY 2008-09 return on 30 September 2008 declaring nil income. It claimed section 80-IB deductions in respect of Rs 70,197 from DEPB and Rs 76,27,636 from duty drawback, crediting the receipts to its profit and loss account as business income. The Deputy Commissioner disallowed the claims on 24 November 2010, and CIT(A) upheld that decision. On 17 December 2013 the ITAT allowed the claims, treating Liberty India as per incuriam. The Rajasthan High Court, Jaipur, allowed the Revenue's D.B. Income Tax Appeal No. 7 of 2014 on 4 February 2016, followed Liberty India and Sterling Foods and restored the disallowance. The assessee appealed to the Supreme Court.

Source: [official signed judgment / paragraphs 1-2.4 / PDF pages 1, 2, 3 / judgment](#); [reported alternate rendition / paragraphs 1-2.4 / PDF pages 3, 4 / judgment](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court treated chargeability as business income under section 28 and eligibility for a profit-linked deduction under section 80-IB as distinct questions. Following Liberty India and Sterling Foods, it held that the relevant income must have a direct, first-degree connection with the eligible industrial undertaking. DEPB and duty-drawback incentives flow from government schemes or the customs-law framework and constitute ancillary profits from an independent source. They cannot be credited against manufacturing cost to convert them into eligible undertaking profits for section 80-IB. The Court distinguished Meghalaya Steels: the transport, interest and power subsidies discussed there directly affected manufacturing cost, whereas DEPB entitlement depends on export and is one step removed from manufacturing or domestic sale. Meghalaya Steels had not disapproved Liberty India; its discussion of export incentives supported the Revenue on this issue.

Source: [official signed judgment / paragraphs 7.1-7.4 \(opening analysis, before the extended Liberty India quotation\) / PDF pages 23, 24, 25 / judgment](#); [official signed judgment / paragraphs 7.5-7.7 / PDF pages 30, 31, 32, 33, 34, 35, 36 / judgment](#); [reported alternate rendition / paragraphs 7.1-7.4 \(opening analysis, before the extended Liberty India quotation\) / PDF pages 15, 16 / judgment](#); [reported alternate rendition / paragraphs 7.5-7.7 / PDF pages 19, 20, 21, 22 / judgment](#)

03 JUDICIAL DECISION

Profits from the DEPB and duty-drawback schemes did not qualify for deduction under section 80-IB. The Court upheld the High Court's conclusion, declared contrary High Court decisions on this issue not good law and dismissed the assessee's appeal without an order as to costs.

Source: [official signed judgment / paragraphs 7.6, 8 / PDF pages 33, 36 / judgment](#); [reported alternate rendition / paragraphs 7.6, 8 / PDF pages 21, 22, 23 / judgment](#)

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue

Assessee's appeal dismissed; High Court disallowance upheld; no order as to costs

Section 80-IB eligibility of DEPB and duty-drawback profits decided against the assessee

The ruling concerns DEPB and duty-drawback profits under section 80-IB for AY 2008-09. It does not deny every government subsidy a deduction, determine eligibility under differently worded deduction provisions, fix this assessee's deduction percentage or independently decide the computation issues raised in counsel's citations of Topman Exports.

Source: [official signed judgment / paragraphs 8 / PDF pages 36 / judgment](#); [reported alternate rendition / paragraphs 8 and its unnumbered concluding disposition / PDF pages 22, 23 / judgment](#)

05 AKHB REVIEW POINT

For a legacy section 80-IB claim, reconcile each incentive receipt to its scheme, source and eligible-unit accounts. Taxability as business income does not by itself establish deduction eligibility. Distinguish export-triggered DEPB or duty-drawback income from a subsidy that actually reimburses an element of manufacturing cost; retain the scheme terms and cost linkage instead of relying only on the ledger label. Check the governing year and precise deduction provision before extending the reasoning. This note makes no automatic mapping to, or certification of current law under, the Income-tax Act, 2025.

Source: [official signed judgment / paragraphs 7.1-7.4, 7.6-7.7 / PDF pages 23, 24, 25, 33, 34, 35, 36 / judgment](#); [reported alternate rendition / paragraphs 7.1-7.4, 7.6-7.7 / PDF pages 15, 16, 21, 22 / judgment](#)

AUTHORITIES IDENTIFIED IN THE JUDGMENT

1.

Case: Liberty India v. CIT

Citation: (2009) 9 SCC 328

Role: Followed in paragraphs 7.2-7.4 and 7.6-7.7; not held per incuriam by this Court

2.

Case: CIT, Karnataka v. Sterling Foods, Mangalore

Citation: (1999) 4 SCC 98

Role: Followed in paragraphs 7.5-7.7; quoted underlying section 80-HH import-entitlement facts are not the facts of Saraf

3.

Case: CIT v. Meghalaya Steels Limited

Citation: (2016) 6 SCC 747

Role: Distinguished in paragraph 7.7; not treated as overruling Liberty India

4.

Case: Topman Exports v. CIT, Mumbai

Citation: (2012) 3 SCC 593

Role: Assessee submissions in paragraphs 3.6-3.8; its separate computation issues were not independently determined here

ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS

28(iia); 143(2); 80-I; 80-IA; 80-HH; 80-IB(13)

SOURCE & VERIFICATION

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

Identified source rendition: 36 PDF pages; SHA-256

8e61373c58870423bcde67c555526d800f036085a992cd811cd87ad8464bf932. Original bytes preserved.

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Paragraph 8 calls the assessee the respondent, as does the editorial headnote. The official cause title and paragraph 1 establish that Saraf Exports is the Supreme Court appellant; the note follows that verified posture without altering the source.

Paragraphs 7.1 and 7.6 refer collectively to sections 28(iiid) and (iiie) for DEPB/duty-drawback income. Yet the statutory text reproduced in paragraph 7 assigns drawback to 28(iiic), DEPB-transfer profit to 28(iiid), and Duty Free Replenishment Certificate-transfer profit to 28(iiie). The note records business-income treatment generally and does not repeat that clause conflation as a statutory proposition.

Paragraph 2.2 reports the assessee's reliance on sections 28(iiic) and (iiib); this is its stated accounting/tax position, not a definitive scheme-by-scheme classification by the Court.

Paragraphs 3-3.9 and 4-4.9 are submissions. In particular, Topman Exports and related authorities are invoked by counsel; the judgment contains no separately reasoned adjudication of their computation issues.

Embedded paragraphs 24, 28-36, 38-39, 41, 43 and 45 are quotations from Liberty India; embedded paragraphs 7 and 13 are from Sterling Foods; embedded paragraph 20 is from Meghalaya Steels. These numbers are not Saraf paragraph numbers.

All physical-page pinpoints are tied to their own 36-page official or 23-page reported PDF. SCR printed pagination is 338-360; it is not interchangeable with physical pages.

The broad eligibility conditions, rates and time windows reproduced in paragraph 7 are quoted statutory material, not an independently verified AY 2008-09 consolidation, a finding that this assessee satisfies every condition, or a statement of current eligibility.

The Revenue's assertion in paragraph 4.1 concerning the business-income head is a submission. The Court's paragraph 7.1 recognises section 28 business-income chargeability; failure under the narrower section 80-IB test is the deduction holding.

SCR citation verified on physical page 1 of the reported rendition; appeal and originating SLP numbers verified on physical page 1 of the official signed judgment. Repository metadata also supplies 2023 INSC 331, but that neutral citation is not printed on either reviewed PDF and is not independently certified here.

AY 2008-09 is expressly stated in paragraph 2.1; no other assessment year is decided.

STATUTORY SCOPE

1961 Act provisions as quoted and applied in the judgment; no independently verified AY 2008-09 consolidation or comprehensive amendment audit

No 2025 Act correspondence or later-treatment certification is made. Verify the governing year, applicable statutory version and subsequent treatment before reliance.

LATER TREATMENT

Source checked 2026-10-04. Subsequent appeals, review proceedings, stays, reversals and later judicial treatment have not been comprehensively checked. This note is not a citator status certificate.

IDENTIFIED SOURCE LINKS

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

SHA-256: 8e61373c58870423bcde67c555526d800f036085a992cd811cd87ad8464bf932

[reported alternate rendition - PDF p. 1 / SCR p. 338 - PDF pages: 23](#)

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