

Shah Originals v. Commissioner of Income Tax-24, Mumbai

Civil Appeal No. 2664 of 2011 / Civil Appeal No. 2665 of 2011

2023 INSC 1014 | 2023-11-21

Whether appreciation of export proceeds retained in an EEFC account, after receipt from overseas customers, qualified for the section 80HHC export-profit deduction.

80HHC

Two-judge bench | B.V. Nagarathna, J. | S.V.N. Bhatti, J.

Assessment years: 2000-01, 2001-02

01 FACTS OF THE CASE

The garment exporter, a 100% export-oriented unit, included Rs 26,62,927 of foreign-exchange fluctuation gains in its AY 2000-01 export turnover and deduction computation. It had already received its export consideration without delay and credited part of the foreign currency to an Exchange Earners' Foreign Currency account rather than converting it immediately into rupees. The currency appreciated by year-end. The Assessing Officer and CIT(A) disallowed the deduction, the Tribunal allowed it, and the Bombay High Court restored the disallowance. The Supreme Court heard the similar AY 2000-01 and AY 2001-02 appeals together.

Source: [official signed judgment / paragraphs 1-2.1,6.1 / PDF pages 1, 2, 3, 4, 5, 11](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court treated an EEFC account as an optional RBI facility for retaining and using foreign currency, not a mandatory element of making exports. The controlling inquiry under section 80HHC was whether the profit was derived from the export of goods, which requires a direct and proximate source rather than a wider business connection. Here the export proceeds had already been received. The later appreciation arose from currency retained in the account and was independent of the export earnings for the claimed deduction. The Court distinguished Topman Exports, which involved treatment of a specifically recognised statutory export incentive. It also rejected the attempt to bring the receipt within the deduction through the section 80HHC formula and Explanation(baa). Its reasoning must be kept within the admitted post-receipt EEFC facts; this was not a case of exchange movement pending delayed receipt of export consideration.

Source: [official signed judgment / paragraphs 6.1-7.2,9-13 / PDF pages 11, 12, 13, 14, 15, 17, 18, 19, 20, 21, 22, 23, 24, 25](#)

03 JUDICIAL DECISION

The EEFC fluctuation gain did not satisfy the required derivation from garment exports for section 80HHC. The Supreme Court agreed with the High Court and dismissed both assessee appeals, without costs.

Source: [official signed judgment / paragraphs 13-15 / PDF pages 24, 25](#)

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue

Civil Appeal Nos. 2664 and 2665 of 2011 dismissed; no costs

Section 80HHC eligibility of the identified post-receipt EEFC appreciation decided

This is not a universal ruling on every foreign-exchange gain, export receivable, hedging transaction or every deduction provision. It does not certify current EEFC permissions or create a present-year section 80HHC entitlement.

Source: [official signed judgment / paragraphs 14-15 / PDF pages 25](#)

05 AKHB REVIEW POINT

Trace the source and timing of an exchange gain: invoice, realisation of export proceeds, credit to the foreign-currency account, retention and revaluation or conversion. A receipt that arose after completed realisation cannot be treated as eligible export profit merely because the original funds came from exports or were later used in the business. Keep delayed-realisation gains and express statutory export incentives separate, and apply the actual deduction provision and historical year before extending the reasoning.

Source: [official signed judgment / paragraphs 6.1, 7.1, 8.2, 12-13 / PDF pages 11, 13, 17, 23, 24, 25](#)

PROVISION-SPECIFIC SCOPE

80hhc: Dispositive deduction nexus; subsections(1)-(3) and Explanation(baa) discussed

260a: High Court appeal route

28-44: General business-income computation reference, not an independent determination under every provision

SOURCE & VERIFICATION

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

Identified source rendition: 25 PDF pages; SHA-256

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One common judgment covering two appeals; full physical PDF pp1-25, paragraphs 1-15 including decimal subparagraphs.

[Open cited source rendition](#)

Paragraphs 3-5 and 8-8.2 include party submissions. The note grounds the operative reasoning in paragraphs 6.1, 7.1 and 10-15.

The source discusses differing historical permitted EEFC credit percentages; the note does not present either as a current RBI limit.

The ultimate ruling concerns section 80HHC deduction and the identified gain. No broader independent determination of all foreign-exchange receipts or every income-head computation is inferred.

The AY 2000-01 facts are used as the lead example; both years are expressly identified in paragraph 1.

STATUTORY SCOPE

Historical section 80HHC dispute. No current EEFC regulations, later statutory changes, or 2025 Act equivalence certification.

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: 25](#)

One common judgment covering two appeals; full physical PDF pp 1-25, paragraphs 1-15 including decimal subparagraphs.

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