

M/s. Mepco Industries Ltd. v. Commissioner of Income Tax, Madurai

Civil Appeal No. 8694 of 2012

2026 INSC 1090 | 2026-10-07

Purpose test for electricity subsidy: the operative scheme reimbursed running costs rather than capital outlay.

143(3) | Capital versus revenue receipt - subsidy purpose test

Two-judge bench | Prashant Kumar Mishra, J. | Shree Chandrashekhar, J.

Assessment years: 1997-98

Historical assessment year and scheme-specific result

This decision concerns AY 1997-98 and the Pondicherry power-subsidy scheme. It does not classify every electricity or industrial incentive as revenue. Payment after production is not, by itself, decisive (paragraphs 11-14 and 19).

01 FACTS OF THE CASE

The manufacturer of potassium chlorate received Rs. 16,20,745 as electricity subsidy for AY 1997-98 and claimed a capital receipt. The Pondicherry scheme reimbursed power charges at 33 1/3% for the first three production years, 20% in year four and 10% in year five, subject to the applicable ceiling. The assessment dated 31 March 2000 under section 143(3) treated it as revenue income. CIT(A), ITAT and the Madras High Court upheld that treatment. The Supreme Court examined whether the operative purpose made the receipt capital or revenue.

Source: [Paragraphs 1-9 / PDF pages 1-4](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court applied the purpose test developed in Sahney Steel, Ponni Sugars and Chaphalkar Brothers. The scheme must be read as a whole: a broad aim of industrial growth cannot override the actual assistance provided. Here the benefit followed actual energy charges and reduced recurring production expense. No requirement directed it to plant, construction, repayment of capital borrowing or another capital asset. Timing, source and form are not independently decisive; commencement of production mattered as one feature of this scheme. Retaining more business funds through lower expenditure did not transform operating support into capital assistance.

Source: [Paragraphs 10-22 / PDF pages 4-12](#)

03 JUDICIAL DECISION

The Court upheld the authorities and the High Court. This subsidy was a revenue receipt: it reduced electricity costs and was not shown to contribute to a new capital asset. The assessee's appeal was dismissed. The operative order directs no remand.

Source: [Paragraphs 23-24 / PDF page 12](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the Revenue on the issue decided. Mepco's capital-receipt claim failed and its appeal was dismissed. This is a final merits decision on this subsidy, not interim protection or a procedural remand.

Source: [Paragraphs 23-24 / PDF page 12](#)

05 AKHB REVIEW POINT

AKHB analysis: retain the scheme notification and amendments, then map the eligibility trigger, computation basis, use restrictions and the cost or capital purpose supported. Reconcile the receipt with power bills and ledger entries. A policy label such as backward-area development is insufficient. Equally, avoid treating the payment date as a standalone test. For a current incentive, separately assess the applicable statute and assessment year before adopting the historical capital/revenue analysis.

Source: [AKHB practical analysis derived from paragraphs 11-22 / PDF pages 5-12; current-law applicability not verified](#)

SOURCE & VERIFICATION

[Original Supreme Court judgment - 12 pages](#)

Complete signed judgment obtained from the Supreme Court PDF endpoint; all 12 pages read. This note concerns assessment year 1997-98.

Source distinction: The official latest-judgment listing labels the respondent Commissioner of Income Tax Company Circle; the signed judgment names Commissioner of Income Tax, Madurai. The signed judgment title is retained.

[Open cited source rendition](#)

Citation and cause title: PDF page 1. Bench, dismissal and judgment date: PDF page 12.

Paragraph 19 expressly rejects timing of payment as the sole test. Paragraphs 11-14 require a scheme-specific purpose analysis.

The earlier 2009 Mepco rectification decision is a separate proceeding; it is not this judgment.

STATUTORY SCOPE

The Court decided the character of this receipt for assessment year 1997-98. Section 143(3) identifies the assessment procedure, not an independent subsidy exemption. This note does not determine the effect of later statutory amendments or the Income-tax Act, 2025 on a current subsidy; those provisions and the relevant year require separate review.

LATER TREATMENT

Source checked 2026-10-09. The complete judgment has been checked. Subsequent judicial treatment has not been independently verified; no citator clearance is represented.

Related note: [M/s. Mepco Industries Ltd., Madurai v. Commissioner of Income Tax & Anr.](#)

Related note: [Commissioner of Income Tax, Madras v. Ponni Sugars & Chemicals Ltd.](#)

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