

ITA/120/2012
IN THE HIGH COURT AT CALCUTTA
Special Jurisdiction [Income Tax]
ORIGINAL SIDE

COMMISSIONER OF INCOME TAX,
KOLKATA - 1, KOLKATA

-Versus-

M/S. BRAMHAPUTRA CARBON LIMITED

BEFORE :
THE HON'BLE JUSTICE T.S. SIVAGNANAM
And
THE HON'BLE JUSTICE HIRANMAY BHATTACHARYYA
Date : 27th February, 2023

Appearance :
Mr. Smrajit Roy Chowdhury Adv.
...for the appellant.

Mr. Subash Agarwal, Adv.
Mr. Brijesh Kumar Singh, Adv.
...for the respondent..

The Court : This appeal filed by the revenue under Section 260A of the Income Tax Act, 1961 (the 'Act' for brevity) is directed against the order dated 18th April, 2012 passed by the Income Tax Appellate Tribunal, "A" Bench, Kolkata (the Tribunal) in ITA No.282/Kol/2010 for the assessment year 2005-06.

The appeal was admitted on 3rd October, 2012 on the following substantial questions of law:

"(a) Whether on a correct and proper interpretation of section 80IC of the Income Tax Act and the legal principles laid down by Hon'ble Supreme Court in the cases of Pandian Chemicals Ltd. - Vs. - CIT (2003) 262 ITR 278 (SC) and Sterling Goods 237 ITR 579 (SC), refund of excise duty amounting to Rs.4,43,16,884/- is eligible for deduction under section 80IC of the Income Tax Act?

(b) Whether the Learned Tribunal erred in law in allowing deduction of Rs.3,39,68,495/- under section 40(a)(ia) of the Income Tax Act without considering that these payments had been made in March, 2005 without deduction of tax at source and without appreciating that the Supreme Court judgment in Allied Motors Pvt. Ltd. (1997) 3 SCC 472 nowhere speaks about retrospective effect of amendment made in section 40(a)(ia)?"

We have heard Mr. Smarajit Roy Chowdhury, learned standing counsel appearing for the appellant/revenue and Mr. Subash Agarwal, learned counsel assisted by Mr. Brijesh Kumar Singh, learned advocate appearing for the respondent/assessee.

The question of law (a) is identical to the question of law raised in the assessee's own case for the assessment year 2011-12 in ITA 140/2019 which was decided against the revenue by judgment dated 26th September, 2022. The operative portion of the decision reads as follows :

"The short issue involved in this issue is whether the refund of excise duty obtained by the

respondent/assessee could have been treated as profit from business and the assessee could have been granted the benefit of deduction under section 80IC of the Act. We find that identical issue was decided by the High Court of Gauhati in the case of Commissioner of Income-tax vs. Meghalaya Steels Ltd., 332 ITR 91 (Gauhati). The operative portion of the decision reads as follows :-

"18. Insofar as the second question is concerned, the Central excise duty refund claimed by the assessee is on the basis of an exemption notification issued by the Ministry of Finance (Department of revenue) being Notification No. 32 of 1999 and Notification No. 33 of 1999 both dated 8-7-1999. In terms of these notifications, a manufacturer is required to first pay the Central excise duty and thereafter claimed a refund on fulfilment of certain conditions. In the next month, after verification of the claim, the Central excise duty so deposited is refunded to the assessee if the conditions laid down in the notifications are fulfilled. In the present case, there is no dispute that the assessee was entitled to the Central excise duty refund.

19. The Central Board of Excise and Customs in its circular dated 19-12-2002 clarified that the refund is not on account of excess payment of excise duty but is basically designed to give effect to the exemption and to operationalise the exemption given by the notifications. In that sense, the Central excise duty refund does not appear to bear the character of income since what is refunded to the

assessee is the amount paid under the modalities provided by the Department of revenue for giving effect to the exemption notifications. There is also nothing to suggest that the assessee has recovered or passed on the excise duty element to its customers.

20. Even assuming the refund does amount to income in the hands of the assessee, it is a profit or gain directly derived by the assessee from its industrial activity. The payment of Central excise duty has a direct nexus with the manufacturing activity and similarly, the refund of the Central excise duty also has a direct nexus with the manufacturing activity. The issue of payment of Central excise duty would not arise in the absence of any industrial activity. There is, therefore, an inextricable link between the manufacturing activity, the payment of Central excise duty and its refund. In the circumstances, we are of the opinion that question No. 2 must be answered in the affirmative in favour of the assessee and against the revenue."

Identical view was taken by the High Court of Jammu & Kashmir in ITA No.2 of 2010, dated January 31, 2010 in the case of Shree Balaji Alloys & Ors. vs. Commissioner of Income Tax & Anr., wherein it was held as follows :-

"24) A close reading the Office Memorandum and the amendment introduced thereto with para No. 3 appearing in the Central Excise Notification Nos. 56 and 57 of November 11, 2002, thus, makes it

amply clear that the acceleration of development of industries in the State was contemplated with the object of generation of employment in the State of Jammu and Kashmir and the generation of employment, so contemplated, was not only casual or temporary; but was on the other hand, of permanent nature.

25) Considered thus, the paramount consideration of the Central Government in providing the incentives to the New Industrial Units and Substantial Expansion of the existing units, was the generation of employment through acceleration of industrial development, to deal with the social problem of unemployment in the State, additionally creating opportunities for self employment, hence a purpose in Public Interest.

30) For all what has been said above, the finding of the Tribunal on the first issue that the Excise Duty Refund, Interest Subsidy and Insurance Subsidy were Production Incentives, hence Revenue Receipt, cannot be sustained, being against the law laid down by Hon'ble Supreme Court of India in Sahney Steel and Ponni Sugars cases (supra)."

The appeal filed by the revenue against the decision in the case of Shree Balaji Alloys in Civil Appeal No. 10061 of 2011 was dismissed by the Hon'ble Supreme Court by order dated April 19, 2016. The order reads as follows :-

"Heard Mr. K. Radhakrishnan, learned senior counsel appearing for the Revenue as well as Mr. Ajay

Vohra, learned senior counsel appearing for the respondents.

The issue raised in these appeals is covered against the Revenue by the decision of this Court in "Commissioner of Income Tax, Madras Vs. Ponni Sugars and Chemicals Ltd.", reported in (2008) 9 SCC 337, or in the alternate, in "Commissioner of Income Tax Vs. M/s Meghalaya Steels Ltd.", reported in (2016) 3 SCALE 192.

The appeals are, therefore, dismissed.

No costs."

As against the order passed in the case of Meghalaya Steels Ltd., the revenue had preferred appeal before the Hon'ble Supreme Court in Commissioner of Income-tax vs. Meghalaya Steels Ltd., 383 ITR 217 (SC) and the appeal filed by the revenue was dismissed.

Thus, the issue having been settled in favour of the assessee in the aforementioned decisions, we are inclined to apply the same to the case on hand.

In light of the above, the appeal filed by the revenue is dismissed and the substantial question of law is answered against the revenue."

In the light of the above, the substantial question of law (a) is answered against the revenue. So far as the substantial question of law (b) is concerned, this issue is also covered by the decision of this Court in the case of Commissioner of Income Tax, Kolkata - XI, Kolkata Vs. Virgin

Creations in ITAT/302/2011 dated 23rd November, 2011 wherein the Hon'ble Division Bench held as follows :

"It is argued by Mr. Nizamuddin that this court needs to take decision as to whether section 40(A)(ia) is having retrospective operation or not.

The learned Trinunal on fact found that the assessee had deducted tax at source from the paid charges between the period April 1, 2005 and April 28, 2006 and the same were paid by the assessee in July and August 2006, i.e. well before the due date of filing of the return of income for the year under consideration. The factual position was undisputed.

Moreover, the Supreme Court, as has been recorded by the learned Tribunal, in the case of Allied Motors Pvt. Ltd. and also in the case of Alom Extrusions Ltd., has already decided that the aforesaid provision has retrospective application. Again, in the case reported in 82 ITR 570, the Supreme Court held that the provision, which has inserted the remedy to make the provision workable, requires to be treated with retrospective operation so that reasonable deduction can be given to the section as well.

In view of the authoritative pronouncement of the Supreme Court, this court cannot decide otherwise. Hence we dismiss the appeal without any order as to costs."

Following the above decision, the substantial question of law (b) is also answered against the revenue.

In the result, the appeal [ITA/120/2012] filed by the revenue stands dismissed and the substantial questions of law are answered against the revenue.

(T.S. SIVAGNANAM, J.)

(HIRANMAY BHATTACHARYYA, J.)