IN THE HIGH COURT OF JUDICATURE AT MADRAS

Reserved on :15.04.2026

Pronounced on :02.06.2026

CORAM

THE HONOURABLE DR.JUSTICE G. JAYACHANDRAN
AND
THE HONOURABLE MR.JUSTICE R.SAKTHIVEL

Tax Case Appeal No.1496 of 2007

Mr.T.M.Abdul Shakoor,
48/2, Wuthucattan Street,
Periamet, Chennai 600 003. ..Appellant/Appellant

/versus/

The Assistant Commissioner of Income Tax,
Circle X, Chennai 600 006. ..Respondent/Respondent

Tax Case Appeal has been filed under Section 260A of Income Tax Act, 1961, against the order of the Income Tax Appellate Tribunal, C Bench, Chennai in I.T.A.No.2194/Mds/2004 for the assessment year 2001-2002 dated 06.07.2007.

For Appellant :Mr.A.S.Sriraman

For Respondent :Mr.J.Narayanaswamy

JUDGMENT

(Judgment was delivered by Dr.G.JAYACHANDRAN,J.)

The Appellant herein is the manufacturer and exporter of finished leather. For the Assessment year 2001-2002, he filed Income Tax Return admitting his income as Rs.29,98,420/- after claiming deduction under Section 80IA of the Income Tax Act, 1961 (in short "IT Act") and under Section 80 HHC of the Act. The case was taken up for scrutiny and the Assessing Officer rejected the claim of the assessee and recomputed the total income at Rs.88,55,530/- restricting the deduction under Section 80IA and under Section 80HHC of the Act.

2. The Appellant being aggrieved by the said assessment, preferred the appeal before the Commissioner of Income Tax (Appeals), Chennai in I.T.A.No.39/2004-2005. The Commissioner of Income Tax upheld the working of deduction under Section 80IB of the Assessing Officer. Regarding the levy of interest, the Assessing Officer directed to workout the correct interest leviable under Section 234B.

3. Being not satisfied the Appellant preferred the appeal before the Tribunal in I.T.A.No.2194/Mds/2004 wherein the Tribunal following its earlier order in M/s Rogini Garments in ITA Nos.963/M/05 and 1518/M/06 dated 27th April, 2007 and dismissed the Assessee Appeal.

4. Assailing the order of the ITAT, the present Tax Case (Appeals) No.1496 of 2007 are preferred by the Assessee. At the time of admitting the Appeal, the following Substantial Question of Law were framed:-

1.Whether the Appellate Tribunal is correct in law in concluding that the provisions of Section 80 IA(9) of the Act were correctly applied in the quantification of deduction under Section 80HHC of the Act by the respondent even though the quantification process under both sections were different and independent especially there was no claim of "Double deduction/claim"?

2.Whether the Tribunal is correct in law in sustaining the stand of the respondent on the interpretation of Section 80IA(9) of the Act, while further sustaining the reduction of the quantified amount in terms of Section 80IA(9) of the Act in the process of ascertaining the deduction under Section 80HHC of the Act, allowable in the computation of taxable total income for the relevant assessment year upon brushing aside the legal principles of 'purposive and harmonious construction' of the Taxing statute and further not considering the decision of the Apex Court reported in 88 ITR 192?

3.Whether the Tribunal is correct in law in sustaining the exclusion of the receipts from Duty Drawback and Cash Assistance in the computation of 'eligible profits' in quantifying the deduction under Section 80 I.A. of the Act in spite of the 'live nexus' of the said receipts with the undertaking?

5. In the course of argument, the learned counsel appearing for the appellant and the respondent submitted that the substantial questions of law involved in this case are covered by the judgment of the Hon'ble Supreme Court in ***Shital Fibres Limited v. CIT reported in [(2025) 174 TAXMANN.com 807 (SC)].*** The relevant portion of the judgment in the Shital Fibres Limited case (cited supra), is as below:-

> "19. In this context, now the provision of Sub-section (9) of Section 80-IA must be considered. Sub-section (9) of Section 80-IA reads thus:
>
> > "(9) Where any amount of profits and gains of an undertaking or of an enterprise in thecase of an assessee is claimed and allowed under this section for any assessment year, deduction to the extent of such profits and gains shall not be allowed under any other provisions of this Chapter under the heading 'C.—Deductions in respect of certain incomes,' and shall in no case exceed the profits and gains of such eligible business of undertaking or enterprise, as the case may be."
> >
> > Let us analyse Sub-section (9). It is applicable where any amount of profits and gains of an undertaking or enterprise is claimed and allowed under Section 80-IA. As stated earlier, the deduction is to the extent of percentage of profits and gains derived from certain category of businesses. Sub-section (9) of Section 80-IA provides that the deduction to the extent of profit or gain shall not be allowed under

> any other provisions under heading 'C' of Chapter VI-A. It is further provided in Sub-section (9) that in no case, the deduction allowed under any other provision of Chapter VI-A under the heading 'C' shall exceed profits and gains of such eligible business of undertakings or enterprises, as the case may be.

20. Therefore, on plain reading of Sub-section (9) of Section 80-IA, if a deduction of profits and gains under Section 80-IA is claimed and allowed, the deduction to the extent of such profits and gains in any other provision under the heading 'C' is not allowed. The deduction to the extent allowed under Section 80-IA cannot be allowed under any other provision under heading 'C'. Therefore, if deduction to the extent of 'X' is claimed and allowed out of gross total income of 'Y' under Section 80-IA and the assessee wants to claim deduction under any other provision under the heading 'C', though he may be entitled to deduction 'Y' under the said provision, he will get deduction under the other provisions to the extent of (Y-X) and in no case total deductions under heading 'C' can exceed the profits and gains of such eligible business of undertaking or enterprise.

21. Sub-section (9) of Section 80-IA, on its plain reading, does not provide that when a deduction is allowed under Section 80-IA, while considering the claim for deduction under any of the provision under heading 'C', the deduction allowed under Section 80-IA should be deducted from the gross total income. The restriction under sub-section (9) of Section 80-IA is not on computing the total gross income. It restricts deduction under any

other provision under heading 'C' to the extent of the deduction claimed under Section 80- IA."

6. Regarding the third substantial question of law, the same is covered by the judgment of the Hon'ble Supreme Court in ***ACG Associated Capsules (P) Ltd., v. CIT, Central IV-Mumbai*** reported in ***[(2012) 18 taxmann.com 137 (SC)], wherein it has been held that:***

> **"**11. For this interpretation of Explanation (baa) to Section 80HHC of the Act, we rely on the judgment of the Constitution Bench of this Court in Distributors (Baroda) P. Ltd. v. Union of India and Others (supra). Section 80M of the Act provided for deduction in respect of certain intercorporate dividends and it provided in sub-section (1) of Section 80M that "where the gross total income of an assessee being a company includes any income by way of dividends received by it from a domestic company, there shall, in accordance with and subject to the provisions of this Section, be allowed, in computing the total income of the assessee, a deduction from such income by way of dividends an amount equal to" a certain percentage of the income mentioned in this Section. The Constitution Bench held that the Court must construe Section 80M on its own language and arrive at its true interpretation according to the plain natural meaning of the words used by the legislature and so construed the words "such income by way of dividends" in sub-section (1) of Section 80M must be referable not only to the category of income included in the gross total income

but also to the quantum of the income so included. Similarly, Explanation (baa) has to be construed on its own language and as per the plain natural meaning of the words used in Explanation (baa), the words "receipts by way of brokerage, commission, interest, rent, charges or any other receipt of a similar nature included in such profits" will not only refer to the nature of receipts but also the quantum of receipts included in the profits of the business as computed under the head "Profits and Gains of Business or Profession" referred to in the first part of the Explanation (baa). Accordingly, if any quantum of any receipt of the nature mentioned in clause (1) of Explanation (baa) has not been included in the profits of business of an assessee as computed under the head "Profits and Gains of Business or Profession", ninety per cent of such quantum of the receipt cannot be deducted under Explanation (baa) to Section 80HHC.

12.If we now apply Explanation (baa) as interpreted by us in this judgment to the facts of the case before us, if the rent or interest is a receipt chargeable as profits and gains of business and chargeable to tax under Section 28 of the Act, and if any quantum of the rent or interest of the assessee is allowable as an expense in accordance with Sections 30 to 44D of the Act and is not to be included in the profits of the business of the assessee as computed under the head "Profits and Gains of Business or Profession", ninety per cent of such quantum of the receipt of rent or interest will not be deducted under clause (1) of Explanation (baa) to Section 80HHC. In other words, ninety per cent of not the gross rent or gross interest but only the net interest or

> net rent, which has been included in the profits of business of the assessee as computed under the head "Profits and Gains of Business or Profession", is to be deducted under clause (1) of Explanation (baa) to Section 80HHC for determining the profits of the business."

7. In view of the above facts and circumstances, the substantial questions of law are answered in favour of the appellant/assessee. Accordingly, the order of the Tribunal is hereby set aside. The matter is remanded back to the Asssessing Officer to re-assessee and computing the tax payable, by following the dictum laid down by the Hon'ble Supreme Court in *Shital Fibres Limited case and M/s ACG Associated Capsules (P) Ltd case (cited supra).*

8. In the result, ***the Tax Case Appeal by the assessee is disposed of*** with direction to the Assessing Officer to re-assess the returns, in the light of the guidelines laid by the Hon'ble Supreme Court in the two cases cited supra. No order as to costs.

(G.JAYACHANDRAN, J.) **(R.SAKTHIVEL, J.)**
02.06.2026

Neutral Citation:yes/no
Index:yes/no
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To

The Assistant Commissioner of Income Tax,
Circle X, Chennai 600 006.

Dr.G.JAYACHANDRAN, J.
and
R.SAKTHIVEL,J.

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delivery Judgment made in
T.C.(A)No.1496 of 2007

02.06.2026