



T.C.A.Nos.1400 and 1401 of 2008

IN THE HIGH COURT OF JUDICATURE AT MADRAS

Judgment Reserved on : 15.04.2026

Judgment Delivered on : 02.06.2026

Coram:

THE HONOURABLE Dr.JUSTICE G.JAYACHANDRAN
and
THE HONOURABLE MR.JUSTICE R.SAKTHIVEL

T.C.A.Nos.1400 and 1401 of 2008

M/s.Rogini Garments,
No.1, Kasipalayam Road,
Tirupur-641 606.

.. Appellant in both the appeals

Vs.

The Assistant Commissioner of Income Tax,
Circle-I,
Tirupur.

..Respondent in both the appeals

Tax Case Appeal No.1400 of 2008 filed under Section 260-A of the Income Tax Act, 1961, against the order of the Income Tax Appellate Tribunal, Bench “D”, Chennai, dated 27.04.2007 passed in I.T.A.No.963/Mds/05 (Assessment year 1999-2000).

Tax Case Appeal No.1401 of 2008 filed under Section 260-A of the Income Tax Act, 1961, against the order of the Income Tax Appellate Tribunal, Bench “D”, Chennai, dated 27.04.2007 passed in I.T.A.No.1518/Mds/06 (Assessment year 2002-2003).



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For appellant : Mr.R.Sivakumar in both the appeals

For respondent: Mr.J.Mahalingam, Senior Standing Counsel
in both the appeals

COMMON JUDGMENT

Dr.G.Jayachandran, J

The appellant herein is a partnership firm engaged in the business of manufacturing and exporting hosiery garments. The Return of income was filed by the appellant for the assessment year 1999-2000 and 2002-2003 and it was processed under Section 143(3) of the Income Tax Act. The Assessing Officer held that the appellant has claimed excess deduction under Section 80-HHC of the Act, without adhering to the restriction provided under Section 80-IA (9), while computing the deduction under Section 80-IA and Section 80-HHC. After issuance of notice under Section 148 of the Act, the assessment order was passed, after arriving at the eligible profit for inclusion of deduction under Section 80-HHC, after deducting the deduction under Section 80-IA, by invoking Section 80-IA(9). As against the said assessment order, appeal was preferred by the Revenue before the Commissioner of Income Tax (Appeal), Coimbatore. However, the assessment order was

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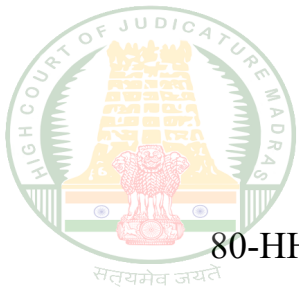
confirmed by the appellate authority. On further appeal to the Tribunal, the matter was referred to Special Bench, in view of the conflicting view and later the Special Bench held against the assessee, restoring the order of the Assessing Officer. Hence, the assessee is before this Court by way of this appeal in respect of the assessment years 1999-2000 and 2002-2003.

2. The following substantial questions of law are raised in the grounds of appeals:

(i) Whether the order of the Tribunal is vitiated on account of its proceedings on the factually erroneous assumption that the appellant had claimed more than 100% of the profits of its eligible undertaking ?

(ii) Whether relief under Section 80-IA should be deducted from profits and gains of business before computing relief under Section 80-HHC ?

(iii) Whether the Income Tax Appellate Tribunal erred in failing to deal with the appellant's alternative submission admittedly raised before it to the effect that the appellant should first be granted a deduction under Section



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80-HHC of the Act and thereafter, a deduction under Section 80-IA of the

Act?

3. The substantial questions of law raised in these appeals are covered in identical case in M/s.K.L.G.Knit Wear Vs. Assistant Commissioner of Income Tax (T.C.A.No.1477 of 2008), in which, it was held as follows:

“5. The question in respect of the expression “profits of the business’ found in the explanation (baa) to Section 80 HHC of the IT Act, came up for consideration of the Hon’ble Supreme Court in *ACG Associated Capsules (P) Ltd –vs- CIT,Central IV-Mumbai reported in [(2012) 18 taxmann.com 137(SC)]*. Three Judges of the Hon’ble Apex Court in the said case held as below:-

“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



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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](#).



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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.”

6. In the course of argument, the learned counsels appearing on either side conceded that the second question of law under consideration is no more *res-integra*, in view of the pronouncement by the Hon’ble Supreme Court in ***Shital Fibres Limited v. CIT reported in [(2025) 174 TAXMANN.com 807 (SC)]***, wherein, the Hon’ble Supreme Court has held as below:-

“19. In this context, now the provision of Sub-section (9) of [Section 80-IA](#) must be



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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 the case 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.



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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](#)."

7. The first question of law subsumes with the second question of law and in fact, it is purely a question of fact. Hence, it does not warrant any answer. The third question of law is only based on the alternate plea to the second



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question of law. Since the second question of law is answered in favour of the assessee, the third question of law stay purely academic.

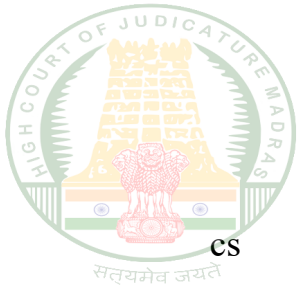
8. In view of the above facts and circumstances, the Substantial Questions of Law are answered in favour of the appellant/assessee. Accordingly, the order of the Tribunal is hereby set aside. The matter is remanded back to the Assessing officer to re-assess and compute the tax payable, by following the dictum laid down in the *Shital Fibres Limited Case and M/s ACG Associated Capsules (P) Ltd case (cited supra)*.

9. In the result, ***the Tax Case Appeal by the assessee is disposed of*** with a direction to the Assessing Officer to recompute the tax payable, in the light of the judgment laid down by the Hon'ble Supreme Court in the two cases (cited supra). No order as to costs.”

4. In view of the decision of this Court in K.L.G.Knit Wears Vs. Assistant Commissioner of Income Tax (T.C.A.No.1477 of 2008), following the decision of the Honourable Supreme Court in ACG. Associates Capsules (P) Ltd., and M/s.Shital Fibres Ltd., the present appeal stands disposed of, with the direction to the assessing officer to re-compute the tax as directed in the said decision of the Honourable Supreme Court.

(G.J., J) (R.S.V.,J)
02.06.2026

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To

The Assistant Commissioner of Income Tax,
Circle-I, Tirupur.

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Dr.G.Jayachandran, J

and

R.Sakthivel, J

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Pre-delivery Judgment in
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on 02.06.2026

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