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.1477 of 2008

M/s K.L.G.Knit Wear
Represented by its Partner,
Mr.S.Chenniappan,
18-B, Ashar Nagar,
60 Feet Road, Tirupur-2. .. Appellant/Respondent

/versus/

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

Tax Case Appeal has been filed under Section 260A of Income Tax Act, 1961, against the order of the Income Tax Appellate Tribunal, Chennai Bench 'D', dated 17.08.2007 in ITA No.1789/Mds/2006.

For Appellant :M/s Aishwarya Sridhar, B for
Maccan Law Firm

For Respondent :Mr.V.Mahalingam,
Senior Standing Counsel and
Per Mangala Suvigaram, Jr. Standing Counsel

**JUDGMENT**

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

The appellant M/s K.L.G.Knit Wear is a firm doing business in the manufacture, sale and export of hosiery garments. It filed its return of income for the Assessment Year 2003-04 admitting total income of Rs.13,63,980/-. The case was taken up for scrutiny and after hearing the assessee, the assessment was completed by treating the interest earned on bank deposits as taxable under the head "income from other sources" and denying the deduction under Section 80 HHC on such income. The claim of the assessee that the said interest income is to be treated as 'income from business' was disallowed. Likewise, the simultaneous deductions from the total gross income under Sections 80 IB and 80 HHC was disallowed by the Assessing Officer.

2. Being aggrieved by the order of the Assessing Officer, appeal before the CIT (A), Coimbatore was laid by the assessee. The Appellate Authority, partly allowed the assessee appeal by holding the disallowing the simultaneous deduction under the section 80 IB and 80 HHC as improper, in favour of the assessee and by upholding the treatment of interest income as income from other sources in favour of the revenue.

3. The order of the appellate authority in respect of recognising the simultaneous deduction under the two provision from the total gross income challenged before the ITAT by the Revenue. The Tribunal relying of its judgement in *ACIT v. M/s Rogini Garments* allowed the revenue appeal. Hence the present TAX CASE APPEAL by the Assessee.

4. The appeal got admitted to answer the following Substantial Questions of Law:-

> ***(1)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 ?***
>
> ***(2)Whether relief under Section 80 IB should be deducted from profits and gains of business before computing relief under Section 80 HHC ?***
>
> ***(3)Whether the 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 80 HHC of the Act and thereafter a deduction under Section 80 IB of the Act?***

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 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."

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 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."

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 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.

**(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-I, Tirupur.

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

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delivery Judgment made in
**T.C.(A)No.1477 of 2008**

**02.06.2026**