IN THE HIGH COURT OF JUDICATURE AT MADRAS

DATED: 18-03-2026

CORAM

THE HON'BLE DR JUSTICE G. JAYACHANDRAN

AND

THE HON'BLE MR.JUSTICE SHAMIM AHMED

TCA No. 796 of 2013

The Commissioner of Income Tax,
Chennai.

..Appellant(s)

Vs

M/s.Sudarshan Colorants India Ltd.

(As per memo dated 17.02.2026, the respondent company name is amended vide court order dated 18.02.2026 in TCA.No.796/2013)

..Respondent(s)

PRAYER : Appeal against the order of Income Tax Appellate Tribunal, Bench "C", Chennai, dated 24.02.2012, passed in I.T.A.No.2189/Mds/2008.

For Appellant(s): Mr.T.Ravikumar,
Senior Standing Counsel.

For Respondent(s): Mr.R.Vijayaraghavan,
for M/s.Subbaraya Aiyar Padmanabhan.

JUDGMENT

(Judgment of the Court was delivered by Dr.G.Jayachandran J.)

This Tax Case Appeal is filed by the Revenue, being aggrieved by the order of Income Tax Appellate Tribunal, Bench "C", Chennai, dated

24.02.2012, passed in I.T.A.No.2189/Mds/2008, holding that transfer of Rs.9.00 crores from holding company to subsidy company, which is the assessee herein, is capital receipt and not revenue receipt, as contended by the Department.

2. The facts of the case : The assessee company is engaged in the business of manufacturing and marketing of leather and chemicals. On verification of the return filed, it was noticed that the assessee had received an amount of Rs.9.00 crores from its holding company and further subsidy of Rs.12.16 lakhs from SIPCOT. Explanation was, therefore, sought from the assessee as to why the said amount should not be treated as revenue receipt. The assessee explained that the amount of Rs.9.00 crores which the assessee had received from the holding company was to mitigate the loss incurred prior to 31.03.2000. There was a debit therein in the profit and loss account comprising opening balance a loss of Rs.19,37,000/-, therefore, the holding company had funded by way of subsidy to reduce the said loss. The debit balance in the profit and loss account was shown under Schedule-XII to the account. The company had not received it as the revenue subsidy from the holding company. It was stated by the assessee that it was a funding from the holding company for the prior year losses incurred and that the application of funds was towards reducing the losses and, therefore, it was not income.

3. According to the Department, the assessee had received a sum of Rs.9.00 crores from the holding company for reducing its losses and for such receipt, there was no transfer of shares or quid pro quo. Therefore, the same had

to be treated as revenue receipt and liable to be taxed. The said contention had gained favour before the Assessing Officer, but was negatived before the Appellate Authority as well as by the Tribunal.

4. At the time of admission of this appeal, the following substantial questions of law were framed for consideration :

1. Whether on the facts and in the circumstances of the case, the Income Tax Appellate Tribunal was right in holding that receipt of Rs.9.00 crores from the holding company for reducing the losses was purely not a revenue account ?

2. Whether on the facts placed before the Tribunal especially when the assessee had shown an amount of Rs.9.00 crores received from the holding company in Schedule-XII in the profit and loss appropriate account is in the nature of contribution to capital ?

5. We are of the view that the above substantial questions of law are no more *res integra*, in view of the finding given by the Hon'ble Supreme Court in *Siemens Public Communication Networks (P) Ltd.* v. *Commissioner of Income Tax*, (2017) 244 TAXMAN 188 (SC), wherein the subvention payments made to the assessee Indian company by the parent company were held as capital receipts and the contention of the Department that it was a revenue receipt was negatived. For better appreciation of the facts, the finding of the Hon'ble Supreme Court in the said case is extracted below :

"2. The assessment years in question are 1999-2000, 2000-01 and 2001-02. The point involved in the present appeals is short

and precise. The subvention received by the assessee-company from its parent company in Germany in a situation where the assessee company was making losses has been treated to be a revenue receipt by the A.O. Though the first appellate authority [CIT(A)] and the learned Tribunal has reversed the said finding, the High Court, by the orders under challenge, has restored the view taken by the A.O. Aggrieved the assessee has filed the present appeals.

3. The question of law that was presented before the High Court, namely, whether subvention was capital or revenue receipt, was sought to be answered by the High Court by making a reference to two decisions of this Court in <a> Sahney Steel & Press Works Ltd. v. CIT (1997) 142 CTR (SC) 261 : (1997) 7 SCC 764 and <a> CIT vs. Ponni Sugars & Chemicals Ltd. & Ors. (2008) 219 CTR (SC) 105 : (2008) 13 DTR (SC) 1 : (2008) 9 SCC 337. The view expressed by this Court that unless the grant-in-aid received by an assessee is utilized for acquisition of an asset, the same must be understood to be in the nature of a revenue receipt was held by the High Court to be a principle of law applicable to all situations. The aforesaid view tends to overlook the fact that in both Ponni Sugars (supra) and Sahney Steel (supra) the subsidies received were in the nature of grant-in-aid from public funds and not by way of voluntary contribution by the parent company as in the present cases. The above apart, the voluntary payments made by the parent company to its loss-making Indian company can also be understood to be payments made in order to protect the capital investment of the assessee-company. If that is so, we will have no hesitation to hold that the payments made to the assessee-company by the parent Company for assessment years in question cannot be held to be revenue receipts. We also find such a view in a recent pronouncement in CIT vs. Handicrafts &

Handlooms Export Corporation of India Ltd. (2014) 102 DTR (Del) 211 : (2014) 268 CTR (Del) 341 : (2014) 49 Taxman.com 488 (Del) Delhi High Court) with which we are in respectful agreement."

6. In the above decision, the Hon'ble Supreme Court has held that transfer of fund by parent company to subsidy company to offset its loss and to save its existence is to be treated as capital receipt and not revenue receipt. Following the said decision, this Tax Case Appeal is dismissed.

(G.J.,J.) (S.S.A.,J.)
18-03-2026

Index: Yes/No
Speaking/Non-speaking order
Neutral Citation: Yes/No

DIXIT

To

Income Tax Appellate Tribunal, Bench "C",

Chennai.

DR.G.JAYACHANDRAN, J.
AND
SHAMIM AHMED, J.

DIXIT

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