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IN THE HIGH COURT OF JUDICATURE AT MADRAS

Reserved on :16.03.2026

Pronounced on :27.03.2026

CORAM

**THE HONOURABLE DR. JUSTICE G. JAYACHANDRAN
AND
THE HONOURABLE MR.JUSTICE SHAMIM AHMED**

T.C.A.No.191 of 2016

M/s Computer Graphics P. Ltd.,
No.24 & 25 'Sterling Silver',
Sivaganga Road, Off Sterling Road,
Nungambakkam, Chennai 600 034.

.. Appellant/Petitioner

/versus/

The Deputy Commissioner of Income Tax,
Central Circle-1(2),
Chennai-600 034.

..Respondent/Respondent

Tax Case Appeal has been filed under Section 260A of Income Tax Act, 1961, against the order dated 30th September, 2015 passed by the Income Tax Appellate Tribunal, Chennai in C.O.105/Mds/2015 in ITA No.1723/Mds/2015 for the Assessment Year 2011-2012.

For Appellant :Mr.Bharat Raichandani

For Respondent :Mr.Prabhu Mukund Arunkumar
Senior Standing Counsel



JUDGMENT

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

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The Appellant is a Private Limited Company engaged in manufacturing and trading in slitting colour paper, GAF/X-Ray etc. For the assessment year 2011-2012, the appellant filed its income tax return admitting total income of Rs.3,00,33,170/-. The Department selected the case for scrutiny and issued notice under Section 143(2). After affording opportunity of hearing, the claim of the appellant/assessee, a deduction @ 30% on Rs.4,37,89,771/- amounting to Rs.1,21,75,910/- under Section 80 IB of the Income Tax Act, 1961 (in short “IT Act”) and other income such as miscellaneous income, freight Insurance and Handling charges received interest on income tax refund and commission income, to a tune of Rs.2,90,47,765/- was disallowed and the assessment was made u/s 143(3) computing the total income as Rs.3,44,78,240/- vide order dated 25/02/2014.

2. Against the assessment order, the appellant filed appeal before the Commissioner of Income Tax (Appeals) at Chennai on the ground that, the assessing officer erred by restricting the deduction under Section 80 IB of the IT Act to Rs.74,96,887/- instead of Rs.1,55,73,726/- as claimed. The appellant is having branches in several places, however the Company factory is located only in one place (I.e.) Goa. The other income pertaining to the Goa Unit to a



tune of Rs.2,90,47,765/- ought to have been included for deduction under Section 80 IB of the IT Act.

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3. The Commissioner of Income Tax (Appeals)-18, (in short “CITA”) following the order of the Income Tax Appellate Tribunal, ‘A’ Bench, Chennai in respect of the same appellant for the Assessment Years 2005-06 and 2006-07, allowed the deduction under Section 80 IB of IT Act, claimed for the sales tax incentives, Freight and Handling charges, interest on short term deposits, insurance claim and directed the Assessing Officer to include deduction for the following receipts:

Sales tax incentives:	Rs.1,03,64,175/-
Freight and Handling charges	Rs. 6,59,077/-
Interest on short term deposit	Rs. 3,24,132/-

4. However, the claim of deduction under Section 80 IB of the Act in respect of Rs.3,22,067/- received as commission and Rs.1,73,82,230/- received towards income tax collected wrongly and refunded on successful appeal by the assessee, not accepted as they were not directly derived from the appellant’s business activity of manufacturing and processing of goods. The receipt of interest under Section 244 A of the Act from the Income Tax Department is assessed to tax under the head ‘income from other sources’. Thus, the appeal by the assessee was partly allowed.



5. As against the allowed portion of the appellate authority order, the Department filed appeal before the ITAT on the ground that, allowing the deduction for sales tax incentives, freight and handling charges, interest on short term deposits based on the earlier order of ITAT for the same assessee is not sustainable, since the earlier order of ITAT has not reached the finality and appeal before High Court is pending.

6. As against the disallowed portion, the assessee had filed cross objection on the ground that the commission income of Rs.3,22,067/- and interest income on IT refund of Rs.1,73,82,230/- are eligible for deduction under Section 80 IB of IT Act since the income under these two items fully qualified to seek deduction under this Section. The ITAT by the common order, dismissed the appeal by the Department as well the Cross Objection by the Assessee, thereby the order of the CITA stood confirmed.

7. The assessee being not satisfied with the order of the ITAT which has disallowed the deduction under Section 80 IB of the Act in respect of the interest earned on the refund of income tax, had preferred the instant Tax Case Appeal.



8. This Court has admitted the appeal for answering the following
Substantial Question of Law:-

Whether on the facts and in the circumstances of the case, the Tribunal is correct in law in holding that the interest income received consequent to the refund of income tax is not eligible for 80 IB deduction?

9. The Learned Counsel for the appellant/assessee submitted that, the interest income arose consequence to the excess payment of Income Tax as a result of the denial of deduction under Section 80 IB of the Act by the Assessing Officer, which was later allowed in favour of the appellant by the Appellate Authority and that payment of tax was made out of the borrowed funds, which was involved payment of interest, thereby the profits of Section 80 IB of the Act got reduced in that process. In retrospective reversal of all events, would result in higher 80 IB of the Act claim, which was unfortunately lost due to the narrow interpretation of deduction under Section 80 IB of the Act.

10. Per contra, the Learned Senior Standing Counsel for the Respondent submitted that, the appeal against the concurrent finding on facts deserves to be dismissed. There is no substantial question of law involved in this case. The sole



question of law framed by this Court at the time of admission is to be answered in favour of the revenue since the plain reading of Section 80 IB of the IT Act does not contemplate any deduction on the interest paid by the Income Tax Department along with the refund of income tax collected in excess. It is the statutory obligation of the Department to refund the excess tax collected along with the interest prescribed. The interest paid does not form part of the business activity or derived from the manufacturing or processing activity of the assessee company. The claim of the assessee that liberal interpretation for Section 80 IB to be given, in view of the fact that it borrowed money to pay the tax and the interest, it paid for the said borrowing has impaired its tax benefit claim under Section 80 IB of the Act for the previous years, therefore, the process should be reversed and the loss incurred in paying interest for the loan availed has to be deducted, is an untenable submission without any legal or logical force. Section 80 IB of the IT Act provides tax concession as deduction in certain cases. The provisions under the Income Tax has to be interpreted strictly and not liberally.

11. Heard submissions of the learned counsels on either side.

12. The basic facts for consideration are not in dispute. Payment of interest by the Income Tax Department to the assessee along with refund of excess tax collected is also not in dispute. The bone of contention is, whether



the claim deduction under Section 80 IB of the IT Act for the said interest received is permissible under law.

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13. Section 80IB deals with deduction in respect of profits and gains from certain industrial undertakings, other than infrastructure development undertaking. The Section 80 IB of the Act is applicable to the industries which fulfil the conditions enumerated under Sub-Section (2) of the said Section. On reading of the Section, it is undoubtedly permits deduction only in respect of the profit and gains derived from the business activity and not from any other source unconnected to the business activity. The business of the appellant/assessee in this case is manufacturing of colour papers, GAF and X-Ray films. The Interest gained for the tax paid in excess and refunded subsequently is not a profit or gain derived from the business activity of the assessee.

14. The plea of the assessee/appellant is that the interest gain is attributable to the business activities, if not derived directly from business activity. The plea of the assessee/appellant is not impressive to attract Section 80 IB. The expression 'derived' used in the provision is not same or similar to the expression 'attributable'. Further, the interest income for the refunded tax is neither attributable to the business activity, it is attributable only to the



difference of views between the Assessee and the Department regarding the accounting practice and procedure. This is unconnected to any of the business activity either directly or indirectly.

15. Therefore, for the above reason, we hold that the Appellate Authority has rightly considered the law and facts to disallow the deduction claimed on the interest gained on refund of income tax paid earlier and allowed the claims in respect of profit or gain derived from the business activities. The Tribunal after due consideration of the grounds of appeal had dismissed the appeal by the Revenue and the cross objection filed by the assessee confirming the order of the appellate authority.

16. As a result, this Tax Case Appeal stands dismissed. No costs.

(Dr.G.JAYACHANDRAN, J.)

(J.SHAMIM AHMED,J.)

27.03.2026

Neutral Citation:Yes
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To

The Deputy Commissioner of Income Tax,
Central Circle-1(2),
Chennai 600 034.



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T.C.A.No.191 of 2



**Dr.G.JAYACHANDRAN, J.
AND
SHAMIM AHMED, J.**

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