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Newsflash: Income Tax: Supreme Court Ruling

Stage of deduction of section 10A would be while computing the gross total income of the eligible undertaking under Chapter IV and not at the stage of computation of the total income under Chapter VI

Decision of SC in the case of CIT vs. M/S Yokogawa India Ltd (Civil Appeal No. 8498 OF 2013) dated 16th December 2016

In this case, the principal issue arising for determination before the Honourable Supreme Court was the true and correct meaning and effect of the provisions of Section 10A of the Income Tax Act, 1961. The Supreme Court held as follows:

Section 10A¹ of the Income Tax Act, 1961 is a deduction section and not an exemption section

From the introduction of the word 'deduction' in Section 10A by the amendment, it has to be understood that the Section embodies a clear enunciation of the legislative decision to alter its nature from one providing for exemption to one providing for deductions.

Deduction under section 10A is qua the eligible undertaking

From a reading of the relevant provisions of Section 10A it is more than clear that the deductions contemplated therein is qua the eligible undertaking of an assessee standing on its own and without reference to the other eligible or non-eligible units or undertakings of the assessee.

Stage of deduction

The stage of deduction of the profits and gains of the business of an eligible undertaking has to be made independently and, therefore, immediately after the stage of determination of its profits and gains. At that stage, the aggregate of the incomes under other heads and the provisions for set off and carry forward contained in Sections 70, 72 and 74 of the Act would be premature for application. The deductions under Section 10A therefore would be prior to the commencement of the exercise to be undertaken under Chapter VI of the Act for arriving at the total income of the assessee from the gross total income.

Meaning of the phrase 'Total income' as occurring in section 10A

The expression 'total income of the assessee' in Section 10A has to be understood as 'total income of the undertaking'.

Conclusion

Though Section 10A, as amended, is a provision for deduction, the stage of deduction would be while computing the gross total income of the eligible undertaking under Chapter IV of the Act and not at the stage of computation of the total income under Chapter VI.

Note: The ratio of the above decision of Supreme Court would be equally be applicable to cases governed by the provisions of Section 10B as in view of the said later provision being *pari materia* with Section 10A.

¹Section 10A provides for deduction of the profits and gains derived from the export of articles or things or computer software for a period of 10 consecutive assessment years beginning with the assessment year relevant to the previous year in which the undertaking begins to manufacture or produce such article or thing or computer software.

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