IN THE INCOME TAX APPELLATE TRIBUNAL
DELHI BENCH-C : NEW DELHI

BEFORE SHRI MAHAVIR SINGH, VICE PRESIDENT AND
SHRI MANISH AGARWAL, ACCOUNTANT MEMBER

ITA Nos.7262/Del/2025 & 7263/Del/2025
Assessment Years : 2015-16 & 2016-17

M/s Bikram Exports, 129G/51,52, NSEZ Dadari Road, NEPZ, Gautam Buddha Nagar, Uttar Pradesh – 201 305. PAN : AAIFB4629E.	Vs.	Assistant Commissioner of Income tax, Circle-51(1), New Delhi.
(Appellant)		(Respondent)

Assessee by : Shri K. Sampath, Advocate (virtually).
Revenue by : Shri Raghubir Singh, Senior DR.

Date of hearing : 05.11.2026
Date of pronouncement : 13.11.2026

ORDER

Per Mahavir Singh, Vice President:

These two appeals by the assessee for the assessment year 2015-16 and 2016-17 are arising out of the order of learned CIT(A)-29, New Delhi in appeal No.CIT(A)-Delhi-17-10645/2019-20 and CIT(A), Delhi-17-10295/2018-19, both dated 22nd September, 2025. Assessments were framed by the ACIT, Circle-51(1), New Delhi for the assessment year 2015-16 and 2016-17 under Section 143(3)/147 of the Income-tax Act, 1961 (hereinafter referred to as 'the Act') vide order dated 26th December, 2019 and 28th December, 2018.

2. The facts and circumstances in both the appeals are identical and issue on merits is identical in regard to claim of exemption under Section 10AA of the Act. Even the grounds raised are identical and

hence, we will take the lead case for assessment year 2016-17 in ITA No.7263/Del/2025 and will decide the issue.

3. The ground raised by the assessee on merits is as regards the order of learned CIT(A) confirming the action of the Assessing Officer making addition of ₹71,18,075/- by disallowing the exemption claimed under Section 10AA of the Act.

4. Brief facts are that the Assessing Officer noticed that the assessee is engaged in the business of manufacturing and export of jewellery and its manufacturing unit is located in Noida SEZ, Noida Dadri Road, Uttar Pradesh. According to the Assessing Officer, the assessee is also deriving income from other sources. The Assessing Officer noted that the assessee firm has insufficient fixed assets to carry out manufacturing activity although the turnover of the assessee is at ₹53 crores. He noticed that the fixed assets were at ₹18,54,014/-. As per fixed assets schedule, out of total fixed assets of ₹18,54,014/-, the machinery listed in the balance sheet is at ₹21,927/-. In this background, the Assessing Officer noted that the assessee had insufficient fixed assets i.e., machinery, to facilitate production process that would not justify the export turnover. He listed out the fixed assets as inverter, cars, cycle, computer & printer, water dispenser, furniture & fixture, EPBX, CCTV camera, air conditioner, safe, weight machine and generator. Therefore, the Assessing Officer required the assessee to explain the following details:-

> *"1. Provide PAN/Contact/Address of employees/Karigars.*
>
> *2. Bank Account Statements highlighting import payment made export payments received (All Bank).*
>
> *3. Explain in details production process in following by your alongwith details of the design process.*
>
> *4. Who is main designer?*

5. Which machines are used to design and mould gold."

5. The assessee has submitted manufacturing process as under:-

"Manufacturing Process

Step.1: Distribution of gold to workers.

Step.2: Melting of gold & mixing of silver & copper.

Step.3-: Wire drawing of gold as per the design specifications & also making the small components from gold as per design.

Step.4: Setting of these components on the wax.

Step.5-: Soldering of these components to make jewellery pieces.

Step.6-: Depending on the designs, these jewellery pieces soldered with chains to make sets, necklaces & ranihars & rings etc.

Step.7-: Workers submit these sets, necklaces rings etc. after washing & picking.

Step.8-: The jewellery in semi finished stage goes to checking department.

Step.9-: After checking it goes to finishing department for polishing, buffing.

Step.10-: After polishing buffing it goes again to checking department for any breakage.

Step.11-: There after it goes to cutting department for getting shine on the jewellery.

Step.12-: After receipt from cutting department it goes to polishing department for finishing purpose & color matching.

Step.13-: There after it is finally being checked by the production supervisor.

Step. 14-: There after it goes to packing department.

Step. 15-: From packing department it is one day of export being exported."

6. Finally, the Assessing Officer analyzed the submissions of the assessee on packaging expenses, alloy expenses and wastage, design process, design templates and acumen of designer. The Assessing Officer required the assessee to submit evidence i.e., copies of design templates either in physical or digital form but, according to him, no such designs were submitted. Vide order sheet entry dated 21st December, 2018, the assessee was given further opportunity to provide template design even if received through e-mail from buyers. Finally, the Assessing Officer noted that the assessee has outsourced the production for the reason that the assessee has incurred expenses of ₹4,94,46,497/-. He noted that the amount of ₹4,93,86,715/- was paid to various parties on which TDS has been deduction under Section 194C of the Act. The assessee has provided the details of production expenses in regard to 12 parties with names and PAN to evidence the payments made. Finally, the Assessing Officer discussed one of the clients and noted that apart from import of gold on free of cost basis, which is then exported back to the same party, M/s Bafleh Jewellery LLC, Dubai, the assessee has booked outright purchase of ₹43,70,78,162/- and, in this case, the client provided the design template and which the assessee utilized and manufactured the jewellery. According to the Assessing Officer, this does not explain the design process utilized by the assessee in regard to gold purchased outright and was unable to clarify who provided the design template for manufacturing this gold into finished jewellery. Finally, the Assessing Officer noted that the assessee has carried out the production on contract basis and charges are paid to contractors for making jewellery and this necessarily implies that the production activities are outsourced to these parties. Hence, the Assessing Officer was of the view that the deduction claimed under Section 10AA of the Act cannot be allowed to the assessee because it has outsourced the production process. He further noted that the provisions of Section

10AA of the Act are crystal clear that the units in SEZ have to manufacture or produce articles or things as the case may be but provisions are not applicable or allowable for outsourced production process. Hence, he denied the claim of exemption under Section 10AA of the Act. Aggrieved, assessee preferred appeal before the learned CIT(A).

7. Learned CIT(A) also confirmed the action of the Assessing Officer simplicitor on the basis of the findings of the Assessing Officer by observing in paragraph Nos.6.3 and 6.4 as under:-

> *"6.3 I have carefully examined the submissions and records. The pivotal issue is whether the appellant complied with Rule 41 of the SEZ Rules, 2006 concerning subcontracting by a unit within the SEZ, for which compliance to following provisos, which are duly applicable in case of appellant, are must:*
>
> *"Provided that a unit, sub-contracting part of the production or production process to other unit in the same Special Economic Zone shall not require the permission of the Specified Officer provided that both the supplying and receiving units shall maintain proper account of the goods involved in the sub-contracting.*
>
> *Provided further that in case of gems and jewellery unit, in any financial year, the consolidated value of the sub-contracted part of production of a unit and of any sub-contracted production process of a unit, shall not exceed one- half the value of goods cleared by the unit in the immediately preceding financial year."*
>
> *6.4 However, on perusal of the appellant's submissions, it is apparent that documentary evidences to reflect compliances to the above-mentioned proviso of SEZ Rules, have not been brought on record by appellant. The tax scrutiny heavily focuses on the genuineness of manufacturing and its conformity with SEZ manufacturing rules vis-a-vis the subcontracting, but the appellant has failed to satisfactorily prove affirmative compliance on all these counts. In the absence of the same, the appellant's claim for deduction u/s 10AA is not sustainable. Consequently, I uphold the disallowance made by the AO on this ground, as the appellant has failed to demonstrate*

valid in-house manufacturing activities within the SEZ as prescribed by law. Accordingly, this ground of appeal is dismissed."

Aggrieved, assessee is in appeal before the Tribunal.

8. We have heard the rival contentions and have gone through the facts and circumstances of the case. Before us, the learned Counsel for the assessee explained that the assessee's manufacturing operations are located in SEZ and there are certain crucial conditions and limitations in the manufacturing business of SEZ which ought to have been understood and appreciated. In a SEZ, entry of personnel and material is rigorously monitored and controlled. At the time of entry, be it a person or material, the Custom authorities may check at the gate of SEZ, likewise, at the time of exit also. No item can enter or removed from the complex without the security check of Custom authorities. He explained that the assessee is having all the Custom clearances and invoices of entry of gold in SEZ i.e., the premises of the assessee as well as the exit i.e., export to outside India.

9. The assessee explained before the Assessing Officer the entire process of business model and the manufacturing process step-wise. Since it is handmade jewellery, which was designed by the foreign customers according to their design and need, the role of machinery in manufacturing operation is minimal. The entire jewellery was manufactured with hand tools and simple implements. The manufacturing was done as per the design process by the clients. The assessee has provided complete details of purchase of gold and entry into SEZ through Customs and also all details of alloys mixed with gold was provided to the Assessing Officer. The only charge of the Assessing Officer that designs were not provided was because of business secret of the clients and the designs cannot be provided to the Department and also there is no requirement in law that designs are to be provided to the Department. He stated that complete books

of account, bills and vouchers and all documents were provided and Assessing Officer has nowhere rejected the books of account. The only charge left was that the manufacturing was done through contractors. He stated that these were not through contractors, these were through karigars who made handmade jewellery in assessee's factory located in SEZ, Noida and assessee has made payment to all parties and deducted TDS under Section 194C of the Act also. The manufacturing was carried out in SEZ by providing material to the karigars and the entire finding of the Assessing Officer is generic and no specific charge is brought in the assessment order for disallowing exemption claimed under Section 10AA of the Act.

10. On the other hand, learned Senior DR heavily relied on the assessment order.

11. We noted from the facts of the case that assessee has provided complete details in respect of purchase of gold and manufacturing of jewellery as per the requirement of the clients and as per their designs provided. The assessee has made payments to various parties on which TDS has been deducted under Section 194C of the Act. Although it is manufacturing of jewellery and designs was made through karigars, but in SEZ only. As to the compliance with the provisions of section 10AA of the Act the AO again erred in understanding the specific conditions envisaged under this section. The Section gives benefit to an assessee located in the premises covered by the Special Economic Zones Act, 2005 and who would manufacture or produce articles or things. As pointed out supra, there is nothing in the said Section which mandates that the manufacturing ought to be done with machines. The Section contains two Explanations. Neither of them in any way provides for the imperative deployment of machines for manufacturing purposes. Again as stated supra, the emphasis is solely on manufacture and not on machines. The AO has apparently read both the facts of the case and the law

bearing on the subject erroneously culminating in the denial of the benefit u/s 10AA of the Act to the assessee.

12. In the cited para 2.19 of the impugned order, the Assessing Officer seems to have understood that the items manufactured with the help and support of contractors is done by the contractors elsewhere and outside and not within the SEZ premises. That is not so. All contractors have always to work strictly from the premises of the assessee in the SEZ. As stated in the beginning, neither man nor material can enter or exit the SEZ without the approval and attestation of the customs authorities posted at the entry and exit gates of the SEZ. Therefore, the 'inescapable conclusion' as stated to have been arrived at by the Assessing Officer 'that the production activity is not conducted in-house by the Assessee firm at its unit in Noida' is erroneous. It is reiterated that whether manufacturing is through assessee's artisans or through contract labour, all the manufacturing is invariably and unexceptionably done at the SEZ premises of the assessee alone and nowhere else. In para 2.7, the Assessing Officer complains that the business model was not explained. It is regretted that the explanation as given by the assessee orally to the Assessing Officer has not been properly assimilated and understood. It was duly explained to the Assessing Officer that the designs and templates of the jewellery manufactured are supplied by the foreign customers. The designs and templates are the properties and preserve of the foreign customers. They are privy to them. They cannot therefore, be divulged to anybody for doing so will impair their business interests. So long as jewellery manufactured by the assessee have been exported and the proceeds in respect thereof have been received by the assessee there cannot be any valid complaint on this point. The doubt entertained by the Assessing Officer in this respect is thus without any foundation. In fact the common designs and templates were shown to the Assessing Officer during the course of the assessment. However, for reasons not very clear, there was insistence on revealing all the designs and

templates of foreign clients which, for reasons as stated above, could not be shared without the specific consent of those clients. As to the procurement of orders, it is also necessary to note that the foreign customers always book the orders over the telephone. It is on account of the long custom with them that the assessee enjoys their trust and confidence. Generally, there is no subsisting written agreement in this behalf. Most orders are telephonic and transactions are on word of mouth basis.

13. All the details of alloys mix were provided to the Assessing Officer. The only objection was as to the wastage not being specifically mentioned in the audit report. Since the wastage was to account of the foreign clients and was always below the standard fixed by the customs authorities, the Auditor found no need to make any special mention in that behalf. In para 2.9, the Assessing Officer records that the assessee had carried out huge exports to the tune of Rs.253 crores. In actual fact, the exports were only to the tune of Rs.53 crores as elsewhere mentioned by the Assessing Officer herself in the impugned order. In view of the above, the claim of the assessee for exemption under Section 10AA of the Act is allowed.

14. The next issue, which is only involved in assessment year 2016-17 in ITA No.7263/Del/2025, is as regards the disallowance of payment of bonus amounting to ₹16,13,250/- by the Assessing Officer and confirmed by the learned CIT(A).

15. We have heard the submissions of both the sides and perused the material placed before us. We noted that the assessee has submitted complete details of bonus paid to staff during the relevant assessment year and also provided PAN/contact address of the employees/karigars and jewellery makers. The assessee has produced complete acquittance rolls of employees acknowledging receipt of bonus. We noted that only variance in the audit report is of a sum of

₹2,000/- i.e., bonus paid in audit report is 16,11,450/- but, in the other documents, it is ₹16,13,250/-. We are convinced that this variation is some clerical mistake and just based on some book adjustment. We noted that the assessee has filed complete details of claim of bonus, which neither the Assessing Officer nor learned CIT(A) has doubted or found any fault in the same. Hence, we allow the claim of the assessee on this count.

16. As already noted by us, as the facts and circumstances in both these appeals are similar, our decision in regard to the common issue relating to claim of deduction under Section 10AA of the Act in ITA No.7263/Del/2025 will also apply to ITA No.7262/Del/2025.

17. In the result, both the appeals of the assessee are allowed.

Decision pronounced in the open Court on 13th November, 2026.

Sd/-	Sd/-
(MANISH AGARWAL) ACCOUNTANT MEMBER	(MAHAVIR SINGH) VICE PRESIDENT

Date: 13.11.2026

VK.

Copy forwarded to: -

1. Appellant
2. Respondent
3. CIT
4. CIT(A)
5. DR, ITAT

Assistant Registrar