IN THE INCOME TAX APPELLATE TRIBUNAL, 'A' BENCH MUMBAI

BEFORE: SHRI AMIT SHUKLA, JUDICIAL MEMBER
&
SHRI MAKARAND VASANT MAHADEOKAR, ACCOUNTANT MEMBER

ITA No.5433/Mum/2025
(**Assessment Year :2011-12**)

DCIT Circle 1(2)(1), Mumbai	Vs.	MSPL Ltd., 117, Baldota Bhavan Maharshi Karve Road Churchgate, Mumbai-400 020
PAN/GIR No. AABCM1040N		
(Appellant)	..	**(Respondent)**

CO No.290/Mum/2025
(Arising out of ITA No.5433/Mum/2025)
(**Assessment Year :2011-12**)

MSPL Ltd., 117, Baldota Bhavan Maharshi Karve Road Churchgate, Mumbai- 400 020	Vs.	DCIT Circle 1(2)(1), Mumbai
PAN/GIR No. AABCM1040N		
(Appellant)	..	**(Respondent)**

Assessee by	Shri Madhur Agrawal & Shri Fenil Bhatt
Revenue by	Shri Rajesh Kumar Yadav, CIT-DR
Date of Hearing	**27/01/2026**
Date of Pronouncement	**28/01/2026**

आदेश / O R D E R

PER BENCH:

The present appeal has been preferred by the Revenue against the order dated 06/06/2025 passed by the learned Addl./JCIT(A)-7, Kolkata, arising out of the reassessment framed under section 143(3) read with section 147 of the Income-tax Act, 1961, for the assessment year 2011-12. The assessee has also filed a cross-objection, inter alia, challenging the validity of the reopening proceedings. Since the appeal and cross-objection arise out of the same impugned order and involve interconnected issues, they were heard together and are being disposed of by this consolidated order for the sake of convenience.

2. The solitary grievance raised by the Revenue is against the action of the learned CIT(A) in deleting the addition of Rs. 15,16,16,644/-, representing the amount received by the assessee on sale of Carbon Emission Reduction Certificates / Carbon Credits, which the first appellate authority has held to be a capital receipt not chargeable to tax. The Revenue contends that the said receipt bears the character of business income and ought to have been brought to tax.

3. Briefly stated, the assessee had received the aforesaid amount during the year under consideration on sale of carbon credits generated in the course of operating its eligible projects.

In the return of income, the assessee treated the said receipt as capital in nature and excluded it from taxable income. The Assessing Officer, however, was of the view that the receipt was integrally connected with the business activity of the assessee and constituted revenue income. Proceeding on such premise, and also observing that the issue was allegedly not finally settled, the Assessing Officer made the impugned addition. On appeal, the learned CIT(A), after considering the submissions of the assessee and the judicial precedents relied upon, deleted the addition, holding that the issue stood squarely covered in favour of the assessee.

4. We have carefully considered the rival submissions, perused the orders of the authorities below, and examined the material placed on record. At the outset, it must be stated that the controversy sought to be raised by the Revenue is no longer res integra. The nature and taxability of receipts arising from sale of carbon credits have been the subject matter of extensive judicial scrutiny over the years, and a consistent and well-settled judicial view has emerged that such receipts are capital in nature and do not partake the character of business income.

5. The Hon'ble Andhra Pradesh High Court, in the landmark decision of CIT v. My Home Power Ltd. [(2014) 365 ITR 82 (AP)], after undertaking a detailed analysis of the genesis and character of carbon credits, held that carbon credits are not generated as a result of carrying on business operations, but accrue on account of environmental concerns and international

regulatory mechanisms aimed at reduction of carbon emissions. The Hon'ble High Court categorically held that carbon credits are not a by-product of business, nor do they arise from the sale of any goods or rendering of any services. The Court, therefore, concluded that receipts from sale of carbon credits constitute capital receipts. The relevant observations of the Hon'ble High Court, which have since attained seminal significance, clearly state that carbon credits represent an entitlement or accretion of capital and not income arising from commercial exploitation.

6. The aforesaid principle has thereafter been consistently followed by other High Courts, including the Hon'ble Karnataka High Court and the Hon'ble Allahabad High Court, thereby lending uniformity and certainty to the legal position. More importantly, the Hon'ble Bombay High Court, being the Jurisdictional High Court for this Tribunal, has expressly approved and adopted this line of reasoning, thereby rendering the issue beyond the pale of further debate within this jurisdiction.

7. In Principal Commissioner of Income Tax-9, Mumbai v. Dodson Lindblom Hydro Power Pvt. Ltd. (ITA No. 1820 of 2016 and connected appeals), the Hon'ble Bombay High Court considered the Revenue's challenge to the Tribunal's view that carbon credit receipts are capital in nature. After taking note of the judgment of the Hon'ble Andhra Pradesh High Court in My Home Power Ltd. and the consistent judicial view that followed, the Hon'ble High Court dismissed the Revenue's appeals, holding

that no substantial question of law arose for consideration. By doing so, the Hon'ble Jurisdictional High Court unequivocally affirmed the principle that receipts from sale of carbon credits are capital receipts not chargeable to tax.

8. The judicial reasoning approved by the Hon'ble Bombay High Court, and repeatedly relied upon thereafter, is founded on the fundamental premise that carbon credits are not an offshoot of business operations, but arise due to environmental initiatives and regulatory incentives. The reasoning, which has been judicially accepted, is succinctly encapsulated in the observation that carbon credits are generated not because the assessee carries on business, but because it adopts environmentally responsible measures, and therefore the receipts therefrom are in the nature of capital accretion rather than revenue income.

9. The Hon'ble Bombay High Court has once again reiterated and reaffirmed this settled legal position in Pr. Commissioner of Income Tax, Central-1, Mumbai v. Essel Mining and Industries Ltd. (Income Tax Appeal Nos. 50 & 63 of 2024). In the said decision, the Hon'ble High Court, after referring to its earlier judgment in Dodson Lindblom Hydro Power Pvt. Ltd., dismissed the Revenue's appeals and held that receipts on sale of carbon credits are capital receipts and cannot be brought to tax as business income. The reaffirmation by the Hon'ble Jurisdictional High Court leaves no manner of doubt that the issue stands conclusively settled.

10. The legal position that thus emerges is clear and unambiguous. Carbon credits are not generated by the business activity of the assessee in the ordinary commercial sense; they accrue as a result of environmental protocols, international agreements, and regulatory incentives aimed at reducing carbon emissions. The receipts arising therefrom represent a capital accretion and do not have the character of revenue income. Once the Hon'ble Jurisdictional High Court has declared the law in such categorical terms, the same is binding on all authorities and Tribunals functioning within its territorial jurisdiction.

11. Any attempt by the Revenue to rely upon contrary views expressed by non-jurisdictional fora or to contend that the issue is still open on account of pendency of matters elsewhere is wholly misconceived. Judicial discipline demands that the binding precedents of the Hon'ble Jurisdictional High Court must be followed in letter and spirit. The learned CIT(A), in deleting the addition, has merely applied the settled legal position, and no infirmity can be found in the impugned order.

12. In view of the aforesaid discussion, and respectfully following the binding judgments of the Hon'ble Bombay High Court, we hold that the amount received by the assessee on sale of carbon credits is a capital receipt not exigible to tax. Consequently, the grounds raised by the Revenue are devoid of merit and are liable to be dismissed.

13. As regards the cross-objection filed by the assessee challenging the validity of reopening, since the addition itself

does not survive on merits in view of the binding jurisdictional precedents, the said issue becomes purely academic. We therefore refrain from adjudicating upon the same and leave the issue open. The cross-objection is accordingly treated as infructuous.

14. The appeal filed by the Revenue is dismissed. The Cross-Objection filed by the assessee is dismissed as infructuous.

Order pronounced on 28th January, 2026.

Sd/-	**Sd/-**
(MAKARAND VASANT MAHADEOKAR)	**(AMIT SHUKLA)**
ACCOUNTANT MEMBER	**JUDICIAL MEMBER**

Mumbai; Dated 28/01/2026
KARUNA, *sr.ps*

Copy of the Order forwarded to :

1. The Appellant
2. The Respondent.
3. CIT
4. DR, ITAT, Mumbai
5. Guard file.

BY ORDER,

//True Copy//

(Asstt. Registrar)
ITAT, Mumbai