

Commissioner of Income-tax, U.P. v. Nainital Bank Ltd.

Civil Appeal No. 938 of 1963

[1965] 1 SCR 340 | 1964-09-25

Bank cash stolen in a dacoity: trading-loss deduction and the factual nexus between loss and banking operations

Indian Income-tax Act, 1922: section 10(1) | Banking Companies Act, 1949: section 5(1)

Three-judge bench; judgment delivered by K. Subba Rao, J. | K. Subba Rao, J. | J. C. Shah, J. | S. M. Sikri, J.

Cash loss is distinct from customer compensation

This 1964 judgment concerns the bank's cash loss for AY 1952-53. The separately published 1966 ruling concerns settlements for pledged jewellery under section 10(2)(xv). Neither makes every theft loss automatically deductible.

01 FACTS OF THE CASE

The bank kept cash in safes at its Ramnagar branch to meet customers' demands. On 11 June 1951, dacoits took Rs. 1,06,000 in cash and also pledged ornaments. For AY 1952-53, the bank claimed the cash amount as a trading loss. The Income-tax Officer, Appellate Assistant Commissioner and Tribunal rejected it as not incidental to banking. The Allahabad High Court allowed the deduction under section 10(1). Revenue appealed, arguing that the theft affected the bank merely as owner of funds, not in its banking operations.

Source: [SCR pp. 341-342](#) / [PDF pp. 2-3](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court treated cash as the stock-in-trade or circulating capital of a banking company but required a further nexus between the loss and business operations. Retaining ready cash was necessary to banking. Badridas Daga's illustration about a money-lender's private funds did not determine this bank's case: the deposits already formed business stock-in-trade, although the Court reserved a definitive view on the illustration itself. Drawing on Indian and overseas authorities, it rejected a rigid distinction between robbery in transit and robbery at business premises. Whether a loss is incidental depends on the nature of the operations and risk; the risk's frequency or degree is less important than its business connection.

Source: [SCR pp. 342-349](#) / [PDF pp. 3-10](#)

03 JUDICIAL DECISION

The guarded retention of money at the bank to meet constituents' demands was part of banking operations. It carried risks including theft, dacoity, embezzlement and fire. On the facts, the dacoity loss was incidental to banking and deductible in computing profits under section 10(1). The High Court's order was correct.

Source: [SCR p. 349 D-H](#) / [PDF p. 10](#)

04 OUTCOME / IN WHOSE FAVOUR

Revenue's appeal was dismissed with costs. The assessee bank retained the deduction for its cash loss. The judgment did not decide the later, separate question of expenditure incurred in compensating customers for pledged jewellery.

Source: [SCR p. 349 F-H / PDF p. 10](#)

05 AKHB REVIEW POINT

AKHB analysis: document the ownership and business character of the stolen funds, why they were held at that place and time, the loss event, safeguards and any recovery or insurance. Establish the link to actual income-earning operations, rather than relying only on the label stock-in-trade. Keep the bank's own cash loss separate from customer-settlement expenditure. Apply the governing modern statutory text and later authorities independently.

Source: [AKHB analysis based on SCR pp. 344-349 / PDF pp. 5-10](#)

SOURCE & VERIFICATION**[Supreme Court Reports scan - public eSCR mirror](#)**

Complete ten-page report, including the judicial text from SCR 341 to 349; reporter headnote distinguished from the Court's reasoning.

[Open cited source rendition](#)

Complete primary report read; source SHA-256 matched the reconciliation catalogue.

The judicial narrative at SCR 341 identifies Rs. 1,06,000 as cash, with ornaments additionally taken; the compressed headnote wording is not used to value cash and ornaments together.

The bank-specific distinction from the Badridas Daga illustration is retained; the Court reserved a definitive ruling on that illustration.

Different date, docket, assessment year and statutory issue from the 1966 Nainital Bank compensation decision.

STATUTORY SCOPE

The ruling applies the Indian Income-tax Act, 1922 in its historical assessment-year setting. It is not an automatic crosswalk to present income-tax provisions.

LATER TREATMENT

Source checked 2026-10-12. Comprehensive later judicial treatment has not been checked. No current-law or citator clearance is represented.

[Related note: Commissioner of Income-tax, U.P. v. Nainital Bank Ltd.](#)

AI DISCLOSURE

This AKHB research note was prepared with AI assistance from the identified primary report; independent human review is not represented.

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