

# Commissioner of Income-tax, Madras v. Indian Bank Ltd.

Civil Appeal No. 1095 of 1963

[1965] 1 SCR 833 | 1964-10-26

**Business deduction: interest paid by a bank on deposits remained deductible under section 10(2)(iii) although part of the borrowed funds was invested in tax-free Mysore Government securities within one indivisible banking business.**

Indian Income-tax Act, 1922: sections 4, 8, 10(1), 10(2)(iii), 10(2)(xv) and 60

3-judge bench | K. Subba Rao, J. | J. C. Shah, J. | S. M. Sikri, J.

Assessment years: 1951-52

## Historical law before later disallowance provisions

The Court found no language in the 1922 Act authorising the proposed apportionment. Later enacted provisions and current exempt-income rules require separate examination.

## One indivisible banking business

The result rested in part on the bank's single indivisible business and the fact that trading gains and losses on the securities entered the business computation.

## 01 FACTS OF THE CASE

Indian Bank received customer deposits, paid interest on them and invested part of the funds in Central and State Government securities. Interest on Mysore Government securities was exempt from income-tax and super-tax under a section 60 notification, while profits and losses on purchases and sales of those securities were included under the business head. For AY 1951-52 the bank claimed Rs.25,91,565 as interest paid to depositors. The tax authorities disallowed Rs.2,80,194 by attributing that proportion to Rs.2,49,93,511 invested in Mysore securities. The High Court held the entire interest deductible under section 10(2)(iii), and Revenue appealed.

Source: [Banking activity, exempt securities and disallowance figures: SCR pp.834-835 / PDF pp.2-3](#)

## 02 DISCUSSION BY THE HON'BLE COURT

The Court first noted that the securities could generate taxable trading profits or losses, which alone defeated Revenue's proposed rule. It then rejected the broader proposition that an expense must itself be traced to taxable receipts before deduction. Statutory language controlled: section 10(1) required computation of business profits and section 10(2) allowed the specified deductions, without a further condition that the expenditure directly or indirectly produce taxable income. Under section 10(2)(xv), Parliament asked whether expenditure was wholly and exclusively for business, not whether it generated a taxable receipt. *Hughes v. Bank of New Zealand* supported deduction of borrowing cost attached to tax-free securities in an indivisible trade. Authorities involving separate foreign business or nonresident territorial limits were distinguished, and *Chellappa Chettiar* was approved.

Source: [Taxable trading feature and close reading of section 10: SCR pp.835-836 / PDF pp.3-4](#); [Indivisible business and comparative authorities: SCR pp.837-840 / PDF pp.5-8](#)

## 03 JUDICIAL DECISION

The Court affirmed that the bank could deduct the entire interest paid on fixed deposits. The 1922 Act contained no statutory basis for excluding the portion attributed to tax-free securities in the bank's indivisible business. The referred question remained answered in the affirmative, and Revenue's appeal was dismissed with costs.

Source: [Rejection of general disallowance principle and final dismissal: SCR p.840 / PDF p.8](#)

## 04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee bank. The entire fixed-deposit interest was deductible on the historical statutory footing, notwithstanding tax-free interest from Mysore Government securities.

Source: [Affirmative answer and dismissal with costs: SCR p.840 / PDF p.8](#)

## 05 AKHB REVIEW POINT

AKHB analysis: the case is an important warning against adding an apportionment condition that the governing text did not contain. For present files, however, begin with the current express disallowance provisions before relying on this historical general principle. Also confirm whether the activity is one indivisible business, whether the asset can generate taxable trading results, and which precise expense provision applies.

Source: [AKHB analysis based on the statutory-language reasoning](#)

## SOURCE & VERIFICATION

[Supreme Court Reports scan - public eSCR mirror](#)

Full 8-page SCR report read and visually checked. The editorial headnote on PDF p.1 was distinguished from Sikri J.'s unnumbered judgment beginning on PDF p.2 and continuing through PDF p.8.

### Open cited source rendition

Exact source bytes, SHA-256 and 8-page count match catalogue asset 1965\_1\_833\_840; every page was read as extracted text and inspected as a rendered image.

The judicial text verifies Civil Appeal No. 1095 of 1963, the three-member bench, AY 1951-52, the Rs.25,91,565 claim and Rs.2,80,194 disallowance.

No published AKHB record with this party identity, case number or source asset was found; the existing South Indian Bank records concern different parties and decisions.

### **STATUTORY SCOPE**

The decision construes business deductions and tax-exempt security interest under the repealed Indian Income-tax Act, 1922. It predates later statutory disallowance regimes and does not provide current-law clearance for expenditure relating to exempt income.

### **LATER TREATMENT**

Source checked 2026-10-10. Comprehensive later treatment, including statutory rules governing expenditure related to exempt income, has not been checked; no current-law or citator clearance is represented.

### **AI DISCLOSURE**

AI-assisted research. The AKHB Review Point is editorial analysis, not part of the Court's judgment.

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