

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

Civil Appeals Nos. 601 and 602 of 1965

[1967] 1 SCR 348 | 1966-09-15

Whether amounts paid or credited by a bank to compensate customers for pledged jewellery stolen in a dacoity were expenditure laid out wholly and exclusively for the business under section 10(2)(xv) of the Indian Income-tax Act, 1922.

Indian Income-tax Act, 1922: sections 10(1), 10(2)(xi), 10(2)(xv), 66(2) and 66A(2)

3-judge bench | J. C. Shah, J. | V. Ramaswami, J. | V. Bhargava, J.

Assessment years: 1953-54, 1954-55

Bilateral settlement, not mere waiver

The Court relied on mutual accounting of the customer's loan liability and the bank's admitted compensation liability. Mere forbearance from recovery was distinguished and not held deductible by itself.

Business-purpose evidence mattered

The bank's goodwill and customer confidence, especially in rural areas where it lent against jewellery, supplied the business nexus. A gratuitous payment without comparable evidence is not automatically covered.

No legal-liability prerequisite established

The Court assumed for argument that the bank might have resisted strict legal liability; it held the commercial settlement deductible on the proven business-purpose facts.

01 FACTS OF THE CASE

Dacoits stole Rs. 1,06,000 in currency and pledged jewellery from Nainital Bank's premises on 11 June 1951. The present appeals concerned the jewellery. The bank settled with customers by crediting the market value of each pledged item against the customer's outstanding advance: it paid any excess value to the customer and recovered any shortfall. It paid Rs. 48,891 in 1952 and Rs. 1,21,760 in 1953 and claimed those amounts for AYs 1953-54 and 1954-55. The officer, AAC and Tribunal disallowed the claims. The Allahabad High Court rejected the section 10(1) basis after the bank abandoned section 10(2)(xi), but allowed deduction under section 10(2)(xv). Revenue appealed.

Source: [SCR pp. 349-350](#) / [PDF pp. 2-3](#)

02 DISCUSSION BY THE HON'BLE COURT

Expenditure ordinarily means something paid or spent, but need not involve separate delivery of cash or property. When cross-claims are settled by account and only the balance is paid, the amount debited to the assessee may still be expenditure. These settlements were bilateral, not mere forbearance: each customer acknowledged the loan debt and the bank admitted liability for the jewellery value. Netting the two meant the bank paid the full jewellery value while receiving the customer's debt. Even if the bank could have denied legal liability after proving due care as pledgee, commercial purpose remained decisive. Confidence was central to its banking business and lending against jewellery, especially in rural areas. Compensating customers protected goodwill and business relationships, so the expenditure was wholly and exclusively for business.

Source: [SCR pp. 350-352 / PDF pp. 3-5](#)

03 JUDICIAL DECISION

The Supreme Court held that the bank's side of each settlement was expenditure equal to the value of the pledged jewellery and that it was laid out wholly and exclusively to protect and further the bank's business. The deductions were admissible under section 10(2)(xv); Revenue's appeals were dismissed with costs and one hearing fee.

Source: [SCR p. 352 / PDF p. 5](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee bank for both assessment years. The Court sustained the settlement deductions under section 10(2)(xv); it did not decide a continuing section 10(2)(xi) claim or establish deductibility for a unilateral waiver without the same bilateral settlement and business nexus.

Source: [SCR pp. 350-352 / PDF pp. 3-5](#)

05 AKHB REVIEW POINT

AKHB analysis: for a customer-compensation deduction, document the reciprocal claims, settlement entries, payment computation and commercial reason for protecting goodwill. Distinguish an actual discharge by payment or account settlement from simply declining to collect a receivable. Legal enforceability is relevant but not always conclusive of business purpose; contemporaneous evidence should show why the payment served the business rather than personal or gratuitous objectives. Apply current deduction, banking, provisioning and bad-debt rules independently.

Source: [AKHB analysis based on SCR pp. 350-352 / PDF pp. 3-5](#)

SOURCE & VERIFICATION

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

Full 5-page SCR report read; the editorial headnote occupies PDF page 1 and the top of page 2, while the judicial opinion begins on PDF page 2/SCR 349 and ends on PDF page 5/SCR 352.

[Open cited source rendition](#)

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The report verifies Civil Appeals Nos. 601 and 602 of 1965, the three-judge bench and the opinion by J. C. Shah J.

The Bank abandoned its section 10(2)(xi) claim before the High Court; the Supreme Court decision sustained deduction under section 10(2)(xv).

STATUTORY SCOPE

This decision applies section 10(2)(xv) of the Indian Income-tax Act, 1922 to customer settlements made to protect a bank's goodwill. It does not itself determine current section 37 treatment, provisioning, bad-debt rules, banking regulation or deductibility of every voluntary payment.

LATER TREATMENT

Source checked 2026-10-10. Comprehensive later treatment and current statutory equivalence have not been verified; no current-law or citator clearance is represented.

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