

Commissioner of Income-tax, Mysore v. The Canara Bank Ltd.

Civil Appeal No. 675 of 1965

[1967] 1 SCR 859 | 1966-10-13

Historical foreign-exchange receipt: appreciation on a Pakistan balance was capital because the agreed facts showed that the money had been blocked, sterilised and unused in banking operations before remittance.

Indian Income-tax Act, 1922: section 10

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

Assessment years: 1954-55

Fact-specific blocked and sterilised balance

The capital result depended on agreed findings that this balance lay idle, could not be used and was not employed in banking or foreign-exchange business. The judgment does not classify every currency fluctuation gain or every bank balance as capital.

01 FACTS OF THE CASE

Canara Bank opened a Karachi branch in 1946. When India devalued the rupee on 18 September 1949, the branch held Rs.3,97,221 belonging to the Mangalore head office. Pakistan did not devalue, and the exchange ratio was settled only on 27 February 1951 at 100 Pakistani rupees to 144 Indian rupees. Remittance permission came on 1 July 1953. The balance then translated to Rs.5,71,038; after deductions, Rs.1,70,746 was transferred to contingency reserve. For AY 1954-55 the Bank claimed that amount as capital, while the department and Tribunal treated it as revenue. The agreed case stated that the balance was blocked and sterilised and was not used in banking operations.

Source: [Currency history, remittance and agreed facts: SCR pp.860-861 / PDF pp.2-3](#)

02 DISCUSSION BY THE HON'BLE COURT

Exchange profit earned through business or incidental trading operations is revenue; profit not arising from business may be capital. The controlling inquiry was therefore the use and character of this particular balance. The Tribunal's agreed findings showed that it lay idle, was kept only for eventual remittance, could not be used under State Bank of Pakistan instructions, and was not employed in internal banking or foreign-exchange activity. Revenue could not introduce new balance-sheet material in the Supreme Court to contradict those findings. Even assuming that money ordinarily formed part of a bank's stock-in-trade, the Court held that this balance changed character when it became blocked and sterilised. It distinguished the competing English exchange cases on their facts rather than announcing a result from currency movement alone.

Source: [Trading nexus, agreed findings and blocked-balance reasoning: SCR pp.861-863 / PDF pp.3-5](#)

03 JUDICIAL DECISION

The Court held that the Rs.1,70,746 exchange difference was a capital receipt and was not assessable to income tax on the facts found. It affirmed the High Court's answer and dismissed Revenue's appeal with costs.

Source: [Capital character and final dismissal: SCR pp.862-863 / PDF pp.4-5](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee bank. The exchange difference was treated as capital and Revenue's appeal was dismissed with costs. The result rests on the proved sterilisation and non-use of this specific balance, not merely on the fact of devaluation.

Source: [Qualified outcome: SCR pp.862-863 / PDF pp.4-5](#)

05 AKHB REVIEW POINT

AKHB analysis: for exchange differences, document why the foreign currency was held, whether it remained available for ordinary operations, any regulator-imposed restriction, the accounts through which later business was conducted and the moment its use changed. A bank's money is not automatically revenue stock for every period and purpose. Verify the applicable statutory and accounting framework and later treatment before using this historical classification today.

Source: [AKHB analysis based on the use-and-character test](#)

SOURCE & VERIFICATION

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

Full 5-page SCR report read and visually reviewed. The editorial headnote is on PDF p.1; the unnumbered judicial text begins on PDF p.2/SCR p.860 and ends on PDF p.5/SCR p.863. No neighbouring judgment is included.

Open cited source rendition

Exact source bytes and 5-page count match catalogue asset 1967_1_859_863.

The report identifies Civil Appeal No.675 of 1965, decided 13 October 1966 by J.C. Shah, V. Ramaswami and V. Bhargava JJ.; Ramaswami J. delivered the judgment.

The caption prints the third judge's surname as BHARVAGA; the established name V. Bhargava is used while preserving this source-print anomaly in verification evidence.

PDF p.1 is an editorial headnote; judicial reasons were taken from PDF pp.2-5/SCR pp.860-863.

STATUTORY SCOPE

This judgment addresses the capital-or-revenue character of a 1953 remittance under the Indian Income-tax Act, 1922 for AY 1954-55. It does not certify current foreign-exchange, computation, accounting or capital-gains treatment.

LATER TREATMENT

Source checked 2026-10-10. Later treatment and present statutory applicability have not been comprehensively checked; no current citator clearance is represented.

AI DISCLOSURE

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

PROFESSIONAL DISCLAIMER

AI-assisted legal research note for general information and professional research. It is not legal or tax advice. Verify the original judgment, applicable statutory version and subsequent judicial treatment before relying on it. The AKBH Review Point is editorial analysis, not part of the Court's judgment.