

Madras Co-operative Central Land Mortgage Bank Ltd. v. Commissioner of Income-tax, Madras

Civil Appeal No. 1975 of 1966

[1968] 1 SCR 30 | 1967-07-19

Apportionment of a non-banking co-operative society's Government-securities income between exempt business and taxable non-business components where neither the withdrawn departmental instructions nor the banking-company Explanation to section 8 governed.

Indian Income-tax Act, 1922: sections 8, 14(3) and 60 | Finance Act, 1955: section 10 | Finance Act, 1956: Explanation to section 8

3-judge bench; unanimous judgment delivered by J. C. Shah, J. | J. C. Shah, J. | S. M. Sikri, J. | V. Ramaswami, J.

Assessment years: 1956-57

The society was not a banking company

The parties agreed that the section 8 Explanation did not apply because this co-operative society did not carry on banking business. The Tribunal could not import that artificial expense-allocation rule as the governing apportionment formula.

Withdrawn instructions did not govern

The older section 60 departmental notification had ceased to operate for the relevant year. The Court reached a similar Rs.13,578 result through commercial apportionment, not by reviving the notification.

Income apportionment differed from expense allocation

The problem was to divide securities income between business and non-business components under section 14(3), not merely allocate collection costs and borrowing outgoings under section 8.

Broader exemption argument was not open

The assessee had consistently accepted Rs.13,578 as taxable before the authorities and Tribunal. It could not first contend in the Supreme Court that this amount also escaped tax.

Printed gross-interest inconsistency

The table at SCR p.31/PDF p.2 prints interest from Government securities as Rs.4,31,453, while the assessment narrative at SCR p.32/PDF p.3 prints gross securities income of Rs.4,30,053. The note does not reconcile those figures; the operative Rs.13,578 amount is consistent.

01 FACTS OF THE CASE

The appellant was a society registered under the Co-operative Societies Act, 1912 and did not carry on banking business. For the year ended 30 June 1955, relevant to assessment year 1956-57, it held Government securities within substantial working capital and claimed that only Rs.13,578 of its securities income was taxable because the balance was attributable to its exempt business. The Income-tax Officer computed Rs.59,498 under the approach of the banking-company Explanation to section 8; the first appellate authority restored Rs.13,578 using the old departmental instructions; the Tribunal restored Rs.59,498 even while accepting that the Explanation did not literally apply. The Madras High Court answered its reframed question for the Commissioner (SCR pp.31-33; PDF pp.2-4).

Source: [Primary judgment: facts](#)

02 DISCUSSION BY THE HON'BLE COURT

Section 14(3), introduced from 1 April 1955, exempted a co-operative society's business profits. The earlier section 60 instructions had been withdrawn, and the section 8 Explanation governed banking companies rather than this society. Yet bringing all Government-securities income to tax would defeat section 14(3), so an apportionment consistent with commercial accounting was required (SCR pp.33-35; PDF pp.4-6). The Explanation's clauses allocated realisation expenses and interest outgoings among banking-company sources; they did not apportion composite income between exempt and taxable components. The proper rule divided securities income according to the capital used for the society's business compared with total working capital. On the admitted figures, that left Rs.13,578 taxable (SCR pp.35-36; PDF pp.6-7).

Source: [Primary judgment: discussion](#)

03 JUDICIAL DECISION

The Supreme Court allowed the appeal and answered that Rs.13,578 was taxable as the society's Government-securities income under section 8. The Commissioner was directed to pay the society's costs. No separate collection-expense deduction was considered because it had not been raised in the High Court (SCR p.36; PDF p.7).

Source: [Primary judgment: decision](#)

04 OUTCOME / IN WHOSE FAVOUR

Substantially in favour of the society: taxable gross securities income was reduced from Rs.59,498 to Rs.13,578, but the Court did not permit a new claim that the admitted Rs.13,578 was also exempt (SCR pp.33, 36; PDF pp.4, 7).

Source: [Primary judgment: outcome](#)

05 AKHB REVIEW POINT

AKHB analysis: distinguish the legal task before choosing an allocation method. A formula designed to assign expenses among income sources is not necessarily a formula for splitting composite income between taxable and exempt components. Identify the taxpayer's legal character, the exact exemption, capital used in the exempt business, total working capital and issues preserved before the Tribunal and High Court (based on SCR pp.33-36; PDF pp.4-7).

Source: [Primary judgment: reviewPoint](#)

SOURCE & VERIFICATION

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

Full 7-page SCR report read and checked. The editorial headnote and adjacent-report boundary text were distinguished from the judicial opinion and operative order.

[Open cited source rendition](#)

Exact source bytes, SHA-256 and 7-page count match catalogue asset 1968_1_30_36; every page was reviewed.

The source verifies Civil Appeal No. 1975 of 1966, the stated bench, issues, reasoning and operative result.

No published or archived standalone AKHB note with this source hash, case identity and operative decision was found.

STATUTORY SCOPE

The decision addresses assessment year 1956-57 under the repealed Indian Income-tax Act, 1922, immediately after a statutory co-operative-business exemption replaced withdrawn departmental instructions and alongside an Explanation expressly framed for banking companies. It does not determine current co-operative-society deduction, securities-income or banking law. No current-law or later-treatment clearance was undertaken.

LATER TREATMENT

Source checked 2026-10-11. Later judicial treatment and current statutory applicability have not been comprehensively checked; no current-law or citator clearance is represented.

AI DISCLOSURE

This AKHB research note was prepared with AI assistance from the identified primary report and has not been represented as independently human-reviewed.

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