

State Bank of India v. Commissioner of Income Tax, Ernakulam

Civil Appeal No. 596 (NT) of 1974

[1985] Supp. 3 SCR 694 | 1985-10-31

Whether the Rs.4,65,515 gain on foreign-exchange trading assets consequent on the 6 June 1966 rupee devaluation was taxable revenue income rather than a non-taxable windfall.

5 (income within the charge for a resident and ordinarily resident assessee) | 256(1) (reference route)

Two-judge bench | V.D. Tulzapurkar, J. | Sabyasachi Mukharji, J.

Assessment years: 1967-68

Exchange-gain appeal only; retain trading and timing limits

This is the AY 1967-68 case of foreign exchange held as bank stock-in-trade and actually realised/utilised through repatriation. Only the Rs.4,65,515 exchange gain was decided; the Rs.52,935 Government-securities question and later sterling-loss claim were not. Do not treat it as a universal rule for unrealised exchange items or later accounting regimes. Comprehensive later treatment, current-law status and 2025 mapping are not verified.

01 FACTS OF THE CASE

The original assessee, Bank of Cochin Ltd., was amalgamated with State Bank of India, whose substitution was allowed with the respondent's consent. As part of its banking business the assessee purchased foreign-currency instruments and sometimes currency itself, sold or encashed them through overseas correspondent banks, and credited the proceeds to foreign current accounts. Following the Indian rupee's devaluation on 6 June 1966, these balances yielded an additional Rs.4,65,515. The tax authorities treated that sum as business income for the accounting year ending 31 December 1966, relevant to AY 1967-68, rejecting the bank's windfall argument (physical pages 2–3).

The section 256(1) reference also included a separate Rs.52,935 claim for a loss on the year-end valuation of Government securities. The Kerala High Court answered the foreign-exchange question for the Revenue and the securities question for the bank. The Supreme Court expressly recorded that the securities question was no longer alive and confined Civil Appeal 596 (NT) of 1974 to the exchange gain (physical pages 3–4).

Source: See the proposition-specific paragraph and PDF-page references below.

02 DISCUSSION BY THE HON'BLE COURT

The foreign exchange was stock-in-trade of the banking business. The recorded facts showed excess realisation in rupees, and the Court applied section 5 in the setting of an assessee resident and ordinarily resident in India. The records described periodic transfers of the foreign balances to India; amounts standing overseas after the devaluation were repatriated on different dates. The gain was therefore incidental income of the banking business, even though the exchange-rate change, rather than another separate banking operation, produced it (physical pages 4–5 and 7).

The Court used the distinction in *Sutlej Cotton Mills*: currency held on revenue account, as a trading asset or as circulating business capital ordinarily yields a trading gain or loss on conversion; currency held as a capital asset or fixed capital yields a capital result. The actual character of the holding matters. Entries chosen in the books do not conclusively settle either the existence or legal character of a profit or loss (physical page 6).

The discussion of *Mogul Line* distinguished mere fluctuation in an unused foreign fund from use for trading purposes and from non-business use. The decisive application here was to increased foreign-currency value actually utilised through repatriation in the banking business. The Court also noted the bank's claim for a sterling-devaluation loss in the later AY 1968-69 as relevant conduct; it did not determine that later claim. The decision should not be converted into a universal rule requiring cash repatriation for every exchange gain or loss under every accounting method or later statutory regime (physical pages 5–7).

Source: See the proposition-specific paragraph and PDF-page references below.

03 JUDICIAL DECISION

The Supreme Court upheld the Kerala High Court's answer to the foreign-exchange question: the Rs.4,65,515 was taxable revenue income. The bank's appeal was dismissed with costs. The separate Government-securities question was expressly not considered, and there was no remand (physical pages 4 and 7/SCR 697 C–D; 700 A–C).

Source: See the proposition-specific paragraph and PDF-page references below.

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue on the foreign-exchange gain

Civil Appeal 596 (NT) of 1974 dismissed with costs; High Court's answer on Rs.4,65,515 exchange gain upheld

Final reasoned merits decision on exchange gain alone

Government-securities valuation loss of Rs.52,935 and the later AY 1968-69 sterling-loss claim were not adjudicated by this appeal; actual trading-asset and realisation/repatriation facts are material.

Source: See the proposition-specific paragraph and PDF-page references below.

05 AKHB REVIEW POINT

Start with what the currency represented in the business, then trace the transactions and method of recognition. An externally caused appreciation can still be taxable business income where it attaches to circulating trading assets. A windfall label and the chosen ledger entry cannot replace that enquiry. At the same time, keep this bank's actual realisation and repatriation facts attached to the holding; they are not a complete modern code for all unrealised exchange items.

A bounded later primary comparison was made with Woodward Governor India, physical pages 19–26, especially paragraphs 15–21. That later judgment discusses year-end exchange losses, mercantile accounting, applicable standards and revenue/capital classification. It provides a reason to check timing and accounting rules separately; the bounded passage was not treated as a direct citing treatment of this State Bank decision. Current legislation, standards, comprehensive later treatment and 2025 mapping remain unverified.

Source: See the proposition-specific paragraph and PDF-page references below.

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, appeal and original-bank substitution

Source url: [Open cited source](#)

Pdf pages: 1; 2

Paragraphs: SCR 694 A–B; 695 E–H

Source role: reported metadata and judicial text

2.

Topic: Banking transactions, amount, year and two reference questions

Source url: [Open cited source](#)

Pdf pages: 3; 4

Paragraphs: SCR 696 A–697 C

Source role: judicial text

3.

Topic: Securities question excluded; section 5 and trading stock

Source url: [Open cited source](#)

Pdf pages: 4

Paragraphs: SCR 697 C–H

Source role: judicial text

4.

Topic: Actual transfers and later sterling-loss conduct

Source url: [Open cited source](#)

Pdf pages: 5

Paragraphs: SCR 698 A–H

Source role: judicial text

5.

Topic: Revenue/capital and book-entry principles

Source url: [Open cited source](#)

Pdf pages: 6

Paragraphs: SCR 699 A–H

Source role: judicial text

6.

Topic: Repatriation application, dismissal and costs

Source url: [Open cited source](#)

Pdf pages: 7

Paragraphs: SCR 700 A–C

Source role: judicial text

7.

Topic: Bounded later exchange-accounting comparison

Source url: [Open cited source](#)

Pdf pages: 19; 20; 21; 22; 23; 24; 25; 26

Paragraphs: Paragraphs 13–21; SCR 756–763

Source role: bounded later primary comparison

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Sabyasachi Mukharji, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

[Hon'ble Supreme Court source PDF \(reported judgment\)](#)

Identified source rendition: 7 PDF pages; SHA-256

725eb7af622e2a6e38420dc56b16dee9a5d6be65d77ba5f595d4af48a958c4fd. Original bytes preserved.

Unnumbered judicial body begins physical page 2/SCR 695 G and ends page 7/SCR 700 C. Editorial headnotes and appellate metadata precede it on pages 1–2. No neighbouring judgment.

[Open cited source rendition](#)

State Bank of India was substituted for the original appellant Bank of Cochin Ltd. after amalgamation; the original bank's transactions supply the facts.; AY 1967-68 and the year ended 31 December 1966 are expressly stated. AY 1968-69 is only the later-loss conduct example.; Two questions reached the High Court, but only the exchange-gain question was before the Supreme Court. The result must not be reported as a Supreme Court ruling against or for the Rs.52,935 securities-loss deduction.; The holding relies on foreign exchange held as stock-in-trade and on actual excess realisation/utilisation through repatriation. The quoted older authorities do not establish a universal modern cash-realisation requirement.; Books are not legally conclusive, but this statement is not a holding that accounting methods and applicable standards never matter; the limited later Woodward comparison reinforces the need for separate year-specific research.

Accounting year ended 31 December 1966. AY 1968-69 appears only in the account of the bank's later sterling-loss claim and was not disposed of in this appeal.

STATUTORY SCOPE

No automatic mapping to the Income-tax Act, 2025 and no present-law certification. Identify the applicable statutory version and procedural route separately.

LATER TREATMENT

Source checked 2026-10-04. not_verified. Actual bounded later primary check: CIT v. Woodward Governor India P. Ltd., 8 April 2009, preserved asset 2009_5_738_770, physical pages 19–26, paragraphs 13–21 (including surrounding text). This is a topical later-framework comparison, not a verified citation-treatment link or comprehensive subsequent history. Targeted web searches yielded no relied-on direct-treatment source; no inference of no later treatment is made.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 7](#)

SHA-256: 725eb7af622e2a6e38420dc56b16dee9a5d6be65d77ba5f595d4af48a958c4fd

[later judgment bounded comparison - PDF pages: 33](#)

SHA-256: 895e612599df7f204b19fb57b298a369f6db4a636a4bfdf57976f752dc3d21e3

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