

State Bank of Travancore v. Commissioner of Income Tax, Kerala

Civil Appeal Nos. 1860–1862 (NT) of 1973

[1986] 1 SCR 25 | 1986-01-08

Whether interest charged on doubtful advances but credited to suspense was taxable in AYs 1965-66 to 1967-68, and separately whether the Rs.1,66,128 foreign-exchange surplus arising from rupee devaluation was taxable in AY 1967-68.

5 | 28 | 29 | 36(1)(vii) | 36(2) | 145

Three-judge bench; 2:1 on sticky-interest issue; unanimous on foreign-exchange issue | V.D. Tulzapurkar, J. | Sabyasachi Mukharji, J. | Ranganath Misra, J.

Assessment years: 1965-66, 1966-67, 1967-68

Partial dissent; separate exchange holding; essential later circular qualification

Interest was taxable by a 2:1 majority; Tulzapurkar, J.'s first-appearing opinion dissents on that issue. All judges upheld the separate AY 1967-68 exchange surplus on actual trading findings. UCO Bank later limited use of Travancore on binding beneficial section 119 circulars; it did not declare this entire judgment overruled. Preserve the 1952/1984 circular periods and conditions and the later section 43D/145 distinctions. The source's devaluation month is inconsistent, and page 43 contains an opinion transition despite its running header. Comprehensive later treatment and current/2025 mapping remain unverified.

01 FACTS OF THE CASE

The bank kept mercantile accounts using the calendar year as its previous year. It debited borrowers with interest on advances considered extremely doubtful of recovery, but credited the interest to an Interest Suspense Account rather than profit and loss. It separately disclosed and excluded Rs.67,170 for AY 1965-66, Rs.47,777 for AY 1966-67 and Rs.57,889 for AY 1967-68. The debts were not treated as bad or irrecoverable under the historical bad-debt provisions. The taxing authorities, Tribunal and Kerala High Court rejected the exclusion; the bank appealed by certificate from the High Court's 22 March 1973 decision (physical pp12–14 and 44–47; SCR 36–38, 68–71).

A distinct issue concerned Rs.1,66,128 arising from the 1966 rupee devaluation. The bank dealt in foreign exchange as stock-in-trade and credited the surplus to Provision for Contingencies. It initially claimed a casual, non-recurring receipt and later argued that the currency remained unused or unsold, so there was only book appreciation. The Appellate Assistant Commissioner had found that the foreign-exchange assets were acquired and sold in ordinary banking operations (physical pp41–43; SCR 65 C–67 D).

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

02 DISCUSSION BY THE HON'BLE COURT

Majority on interest: Mukharji, J., joined by Misra, J., held that on these facts the accrued interest could not be excluded merely because recovery was doubtful and the credit was placed in suspense. The bank continued to debit its borrowers; the conditions for historical bad-debt relief were admittedly unsatisfied. The real-income concept governed whether income had genuinely accrued, but could not displace the Act or turn an established accrual into no income through the assessee's subsequent accounting treatment (physical pp47, 50, 57–58, 61, 67–69; SCR 71, 74, 81–82, 85, 91–93).

The majority did not abolish the real-income doctrine. It required a realistic, fact-sensitive assessment of accrual, including the transaction, parties' conduct and prospects of realisation, while rejecting a general rule based merely on the taxpayer's assertion of doubtful recovery. It distinguished the cited surrender, commission and non-accrual cases; the conduct and legal rights in those cases mattered. Misra, J. separately stressed the statutory bad-debt route and that hardship did not justify exemption where the law was clear (physical pp55–69; SCR 79–93).

Dissent on interest: Tulzapurkar, J. would have excluded the three sums. He treated objectively established stickiness, proved to the taxing authority through the debtors' financial condition and account history, as preventing real accrual; mere non-receipt of reasonably realisable income was insufficient. He regarded the suspense-account practice as compatible with commercial accounting, distinguished sticky loans from bad debts, and contemplated taxation on later recovery. This was his dissenting conclusion, not the Court's operative interest ruling (physical pp23–28, 35–41 and 43; SCR 47–52, 59–65 and 67 E).

On circulars, the majority recounted the earlier administrative concessions but expressly left their actual effect and adjustment of the parties' rights adjudicated. Its general remarks about executive concessions must be read with the later UCO Bank qualification below. Counsel's circular arguments are not independent holdings (physical pp48–50; SCR 72 D–74 B).

Unanimous exchange ruling: all three judges upheld the second answer for Revenue. Tulzapurkar, J. accepted the principle that mere appreciation of unused or unsold stock did not itself yield taxable profit, but the necessary factual premise failed: the authority had found actual acquisition and sale in the bank's normal business. The suspense-style label given to the surplus did not change that trading character. Mukharji and Misra, JJ. expressly agreed (physical pp41–44 and 69; SCR 65–68 and 93 B).

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

03 JUDICIAL DECISION

Both referred questions were answered in the affirmative for Revenue. The Court's operative majority order dismissed Civil Appeal Nos.1860–1862 (NT) of 1973; the majority directed the parties to bear their own respective costs throughout. Tulzapurkar, J.'s proposed partial allowance on interest did not become the order (physical pp43, 68–69; SCR 67 E and 92 G–93 F).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue on both issues in these appeals

Appeals dismissed by majority; parties bear their own respective costs throughout

Final substantive decision; no remand

No separate disposition of AY 1968-69 or the intervenors' individual assessments; no finding that every exchange revaluation or every unpaid interest amount is taxable.

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

05 AKHB REVIEW POINT

Keep the original holding, the dissent and later law separate. The 1986 majority concerned this bank's established accrual and unfulfilled historical bad-debt conditions; it was not a universal rejection of real-income analysis. Its separate foreign-exchange holding turns on the recorded trading transactions, not a general rule taxing unsold-stock appreciation.

Verified later qualification: in *UCO Bank v. CIT*, decided 13 May 1999, the Court held that Travancore could not be read as denying the binding force of beneficial circulars properly issued under section 119. UCO Bank described the circulars as not having been placed in the correct perspective, upheld the 9 October 1984 circular and disagreed with Kerala Financial Corporation on the circular issue. It did not declare the entire Travancore judgment overruled (UCO physical pp11–14; SCR 645 E–648 D).

The circular periods and conditions matter. UCO Bank states that the 6 October 1952 circular governed through AY 1978-79, requiring the assessing officer's satisfaction about the extreme improbability of recovery. For banking companies from AY 1979-80, the 1984 circular excluded qualifying interest from the fourth year after three consecutive accounting years without recovery, with later actual recoveries taxed in their respective years. The connected corporation appeals concerned earlier years and the broader 1952 circular. These rules cannot be collapsed into immediate exemption for every unpaid loan interest (UCO physical pp7–9 and 13–14; SCR 641–643 and 647–648).

For statutory separation, the checked 2011 compilation records section 43D's original insertion from 1 April 1991 and its substitution from 1 April 2000. That later prescribed-debt/lender regime taxes on profit-and-loss credit or actual receipt, whichever is earlier. The same compilation shows section 145 substituted from 1 April 1997. These later provisions do not decide the 1960s years here. The limited checks are not a complete subsequent-treatment search, a present-law certificate or an Income-tax Act, 2025 mapping.

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

DETAILED DISPOSITION AND CONNECTED GROUPS**Issue results**

1.

Issue: Interest suspense exclusion

Assessment years: 1965-66; 1966-67; 1967-68

Result: Taxability upheld by Mukharji and Misra, JJ.; Tulzapurkar, J. dissented

2.

Issue: Rs.1,66,128 foreign-exchange trading surplus

Assessment years: 1967-68

Result: Taxability upheld unanimously on the recorded trading facts

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, date, bench, full appeal group and referred questions

Source url: [Open cited source](#)

Pdf pages: 1; 12; 13

Paragraphs: SCR 25 A-B; 36 A, F-H; 37 A-D

Source role: reported metadata and judicial text

2.

Topic: Historical statutory framework and unfulfilled bad-debt requirements

Source url: [Open cited source](#)

Pdf pages: 44; 47; 50; 51

Paragraphs: SCR 68 C-F; 71 A-C; 74 C-H; 75 A-B

Source role: judicial text

3.

Topic: Majority real-income reasoning and limits

Source url: [Open cited source](#)

Pdf pages: 57; 58; 61; 63; 64; 65; 66; 67; 68

Paragraphs: SCR 81 B-H; 82 A-C; 85 A-B; 87 A-H; 88 A-H; 89-91; 92 A-F

Source role: judicial text

4.

Topic: Dissent's objectively-established stickiness and proposed interest relief

Source url: [Open cited source](#)

Pdf pages: 35; 37; 40; 41; 43

Paragraphs: SCR 59 A-H; 61 A-H; 64 G-65 C; 67 E

Source role: dissenting opinion on interest

5.

Topic: Unanimous separate foreign-exchange issue and factual boundary

Source url: [Open cited source](#)

Pdf pages: 41; 42; 43; 44; 69

Paragraphs: SCR 65 C-67 E; 68 A-B; 93 B

Source role: judicial text

6.

Topic: Majority circular discussion leaves actual effect unadjudicated

Source url: [Open cited source](#)

Pdf pages: 48; 49; 50

Paragraphs: SCR 72 D–74 B

Source role: judicial text

7.

Topic: Opinion transition, Misra concurrence, costs and operative order

Source url: [Open cited source](#)

Pdf pages: 43; 68; 69

Paragraphs: SCR 67 D–F; 92 G–93 F

Source role: judicial text

8.

Topic: 1984 circular mentioned in original dissent's recital of counsel submissions

Source url: [Open cited source](#)

Pdf pages: 16

Paragraphs: SCR 40 D–F

Source role: counsel argument recorded in dissent

9.

Topic: UCO Bank exact circular periods and conditions

Source url: [Open cited source](#)

Pdf pages: 7; 8; 9; 13; 14

Paragraphs: SCR 641 A–643 E; 647 A–H; 648 E–G

Source role: bounded later judicial text

10.

Topic: UCO Bank limits use of Travancore on circulars

Source url: [Open cited source](#)

Pdf pages: 11; 12; 13; 14

Paragraphs: SCR 645 E–647 H; 648 A–D

Source role: bounded later judicial text

11.

Topic: Later section 43D and substituted section 145, historical 2011 text only

Source url: [Open cited source](#)

Pdf pages: 326; 327; 718; 719

Paragraphs: Printed pp1.285–1.286 and 1.677–1.678; insertion/substitution footnotes

Source role: historical statutory text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Three separate opinions: Tulzapurkar, J. (dissent on interest, concurrence on exchange); Mukharji, J. (majority reasoning on interest); Misra, J. (concurring with Mukharji on interest and with both judges on exchange).

OTHER STATUTORY CONTEXT

Section 119 is material to the separately identified later UCO Bank circular analysis, not an independently decided section 119 holding in the 1986 source.; Later section 43D and substituted section 145 are checked only as historical statutory distinctions; neither is retroactively applied to these assessment years.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SPECIFIED LATER DECISION AND LIMITS OF THE CHECK

1.

Kind: later judicial qualification

Case: UCO Bank, Calcutta v. Commissioner of Income Tax, West Bengal

Decision date: 1999-05-13

Source asset id: 1999_3_635_648

Source url: [Open cited source](#)

Pdf pages read: 1; 2; 3; 4; 5; 6; 7; 8; 9; 10; 11; 12; 13; 14

Material pinpoints: Physical pp7-14/SCR 641-648, particularly pp11-13/SCR 645 E-647 H

Finding: Travancore cannot be read as holding properly issued beneficial section 119 circulars non-binding. UCO applies the historical 1952/1984 circular periods and lender-specific conditions and expressly disagrees with Kerala Financial Corporation on the circular issue; no wholesale overruling of Travancore is stated.

Scope limit: Bounded direct treatment only; no comprehensive later citator check. UCO's statement that the later circular was overlooked is reported as its characterization, not as an assertion that the 1986 report contains no mention of that circular.

2.

Kind: statutory text comparison

Source url: [Open cited source](#)

Pdf pages: 326; 327; 718; 719

Finding: Later section 43D is a specified-lender/prescribed-debt rule keyed to profit-and-loss credit or receipt, whichever is earlier; the compilation footnotes identify original insertion from 1 April 1991 and substitution from 1 April 2000. Section 145 was substituted from 1 April 1997.

Scope limit: 2011 historical compilation only; prescribed Rules, complete later bad-debt provisions and post-2011 changes not audited; no automatic retrospective or 2025 carryover.

MATTERS EXPRESSLY LEFT UNDECIDED

Actual effect of administrative circulars and adjustment of the parties' rights under them expressly not adjudicated by the 1986 majority (SCR 73 E-74 B); AY 1968-69 mentioned only as separate High Court litigation; intervenors' individual assessments not disposed of; No blanket tax on foreign-currency stock appreciation: the bank failed on the recorded facts of acquisition and sale.

SOURCE & VERIFICATION

Hon'ble Supreme Court source PDF (reported judgment)

Identified source rendition: 69 PDF pages; SHA-256

a994517d00db3f55740514004714bc7fa0f1308830c9f177cbd3fc7c75f0d7cf. Original bytes preserved.

The three judicial opinions begin at physical page 12/SCR 36 F and end at physical page 69/SCR 93 E; the Court's operative majority order follows at SCR 93 F. Tulzapurkar, J.: pp12–43, ending SCR 67 E; Mukharji, J.: pp43–69, SCR 67 E–93 A; Misra, J.: p69, SCR 93 A–E. The running header on p43 names Mukharji before Tulzapurkar's opinion ends. Editorial headnote pp1–11, case metadata and counsel list p12, quoted authorities and counsel submissions separately identified. No neighbouring judgment.

Open cited source rendition

Reported SCR identity, date and bench verified on the source; the consolidated catalogue also records 1986INSC3. UCO Bank identifies the same decision as (1986) 158 ITR 102.

Calendar previous years 1964, 1965 and 1966 respectively. The exchange-difference issue arises only for AY 1967-68. AY 1968-69 is mentioned as separate High Court litigation, not disposed of in these appeals. The report gives no appeal-number-to-year allocation.

The report starts with Tulzapurkar, J.'s opinion, which dissents on interest. Physical p43's running header names Mukharji even though the first part still concludes Tulzapurkar's opinion. The transition is within the page after Tulzapurkar's proposed disposition. Physical p69 begins with the end of Mukharji's costs direction before Misra's opinion and the final majority order; The referred question at physical pp13 and 44 gives devaluation as 6.6.1966; the headnote and Tulzapurkar's exchange narrative at pp1 and 41–42 say August 6, 1966. The image on p42 says 1966 where extracted text gives 1960. The note uses 1966 without silently resolving the internal month discrepancy; UCO Bank says the 9 October 1984 circular was overlooked/not placed in the correct perspective; the earlier dissent's recital of counsel submissions expressly mentions that circular at physical p16/SCR 40 E–F. This is a distinction about treatment, not proof of total textual absence; UCO's circular quotations and discussion were read as judicial primary evidence; separate original circular instruments were not authenticated. UCO physical p8 once says 6 October 1984, whereas the surrounding and operative text consistently identifies 9 October 1984; The original headnote's references to earlier decisions being overruled occur under the Tulzapurkar dissent; they must not be presented as the Court's majority treatment of those cases; The casual/non-recurring argument is part of the lower-stage exchange history; the final exchange reasoning is tied to stock-in-trade and actual trading findings. No unpressed appeal or abandoned referred question is identified in the source.

STATUTORY SCOPE

Historical 1961-Act provisions control the disputed years. The bounded later section 43D/145 comparison is not present-law certification or an automatic Income-tax Act, 2025 mapping.

LATER TREATMENT

Source checked 2026-10-04. Comprehensive subsequent judicial treatment, appeals, review proceedings, stays, reversals and statutory/circular developments have not been verified. The bounded primary-source UCO Bank qualification and historical statutory comparison below are verified only within their stated scope. No entire-judgment overruling or current-law status is asserted.

IDENTIFIED SOURCE LINKS

reported judgment - PDF pages: 69

SHA-256: a994517d00db3f55740514004714bc7fa0f1308830c9f177cbd3fc7c75f0d7cf

reported judgment - PDF pages: 14

SHA-256: 8f8b72f6fe79aaa2fac76cb161d4a039b60a5f26961d38660a077297c492415d

official department hosted historical statutory compilation - PDF pages: 1251

SHA-256: 1ec6e4c38dc1d524d1d40b1fd35d13ac1336c8fc549cef2af1bf723a999c822b

AI DISCLOSURE

AI-assisted research checked against the identified source. Extraction, interpretation or omission errors remain possible. Source review does not mean independent approval by a practising professional. Verify every material statement against the complete original judgment.

PROFESSIONAL DISCLAIMER

General research information only; not legal or tax advice, a certified judgment or a substitute for the full order. Applicability depends on facts, assessment year, statutory version and jurisdiction. Subsequent treatment is unverified unless identified sources are expressly stated. Downloading does not create a professional engagement. Obtain case-specific advice before reliance.