

## The Madhya Pradesh Co-operative Bank Ltd., Jabalpur Etc. v. The Additional Commissioner of Income Tax Etc.

Civil Appeal No. 1116 (NT) of 1979 Etc. / Appeals arising from SLP(C) Nos. 5813–5814 of 1982 (resulting numbers not supplied)

[1996] 1 SCR 773 | 1996-01-19

**Whether interest on restricted statutory reserve investments qualified as banking income under historical section 81; the restrictive answer was expressly disapproved by a later three-judge Bench.**

81(i)(a) and proviso, historical | 80P (successor provision identified; later treatment separately checked)

Two-judge bench | A.M. Ahmadi, C.J. | B.L. Hansaria, J.

Assessment years: See the source-scope notes; no year inferred.

### Principal reserve-interest reasoning expressly disapproved in 2001

The 1996 appeals were dismissed with costs, but the three-judge Karnataka State Cooperative Apex Bank judgment of 22 August 2001 expressly rejected the working/circulating-capital restriction used here. Do not cite that restriction as current law. The provident-fund contention was unpressed, and later section 80P(4) separately limits cooperative-bank relief from 2007. Further treatment and present eligibility remain unverified.

### 01 FACTS OF THE CASE

The apex cooperative bank controlled district cooperative banks in Madhya Pradesh. It claimed that all its income was exempt banking income. The ITO included interest on securities earmarked against reserves and on provident-fund deposits; its challenges failed before the higher authorities and High Court. The report gives no individual assessment years or amounts (physical pages 3–4).

The quoted State instructions required reserve funds to be held in Government securities outside working capital and allowed withdrawal only with the Registrar's permission to meet losses or winding-up needs. The provident-fund interest had been included in the bank's profit and loss account. A later argument that it belonged to a separate fund held in trust lacked foundational facts and was not pressed before the Supreme Court (physical pages 5–6).

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

## 02 DISCUSSION BY THE HON'BLE COURT

The two-judge Bench read the banking exemption as confined to income attributable to banking activity. It distinguished readily realisable short-term reserves used to meet depositor demands from the restricted investments before it. Because the latter could not freely circulate in the business, it treated them as outside the bank's stock-in-trade or working capital and denied the exemption (physical pages 6–11).

The Bench also rejected the argument that carrying on only banking business meant every receipt must qualify under the proviso. Its conclusion depended on its restrictive connection between the investment and banking activity. This is the reasoning actually given in 1996; the later larger Bench expressly rejected its working/circulating-capital limitation, as described in the AKHB Review Point (physical page 11; later source physical pages 3–4).

The provident-fund ownership contention was not adjudicated on a proved trust record. The Court accepted counsel's non-pursuit after acknowledging the absence of foundational facts, rather than laying down a general ownership rule for every provident fund (physical page 6).

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

## 03 JUDICIAL DECISION

The 1996 appeals were dismissed with costs, leaving the reserve-interest tax treatment undisturbed in that litigation. No costs amount was specified. The provident-fund contention was not pressed. This historical disposition must be displayed together with the subsequent disapproval of the reserve-investment reasoning (physical pages 6 and 11).

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

## 04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue in the 1996 disposition; reserve-investment reasoning later disapproved

Appeals dismissed with costs; no quantified costs; provident-fund contention unpressed

Historical final disposition with verified adverse later treatment of its principal reasoning

The restrictive working-capital rule cannot be presented as current authority. Neither the later case nor this note determines present eligibility of every cooperative institution.

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

**05 AKHB REVIEW POINT**

This is an authority whose treatment warning is essential to its use. The complete four-page Karnataka State Cooperative Apex Bank judgment of 22 August 2001 was checked. Its three-judge Bench held that mandatory reserve placement enables banking business and that section 80P(2)(a)(i) contains no working/circulating-capital limitation. It expressly said M.P. Cooperative Bank did not state the correct law. It also rejected the view that this 1996 decision could be distinguished merely as a ruling on its own facts, emphasising that it was a reasoned decision.

The later judgment answers the reserve-investment principle; it does not decide the unpressed provident-fund ownership claim on missing facts. Keep each issue's procedural posture separate.

There is also a later statutory limit. The checked 2011 compilation records section 80P(4), inserted from 1 April 2007, excluding cooperative banks other than a primary agricultural credit society or a primary co-operative agricultural and rural development bank, subject to the linked statutory definitions. Neither this 1996 dismissal nor the 2001 correction independently establishes a claimant's present classification or entitlement. The direct later disapproval and bounded statutory check do not amount to comprehensive treatment verification.

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

**PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES**

1.

**Topic:** Identity, absent year/amount detail and original statutory claim

**Source url:** [Open cited source](#)

**Pdf pages:** 1; 3; 4

**Paragraphs:** Unnumbered judicial text

**Source role:** reported metadata and judicial text

2.

**Topic:** Reserve restrictions and expressly unpressed provident-fund contention

**Source url:** [Open cited source](#)

**Pdf pages:** 5; 6

**Paragraphs:** Unnumbered judicial text

**Source role:** judicial text

3.

**Topic:** Restrictive historical reasoning and dismissal with costs

**Source url:** [Open cited source](#)

**Pdf pages:** 7; 8; 9; 10; 11

**Paragraphs:** Unnumbered judicial text

**Source role:** judicial text

4.

**Topic:** Larger-bench express disapproval

**Source url:** [Open cited source](#)

**Pdf pages:** 1; 2; 3; 4

**Paragraphs:** Complete judicial text

**Source role:** direct adverse later treatment

5.

**Topic:** Later cooperative-bank exclusion

**Source url:** [Open cited source](#)

**Pdf pages:** 541; 542

**Paragraphs:** Section 80P(4), Explanation and footnote 43

**Source role:** bounded historical statutory text

## JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

A.M. Ahmadi, C.J.

## ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

## SPECIFIED LATER TREATMENT EVENTS AND THEIR PRECISE LIMITS

1.

**Date:** 2001-08-22

**Case id:** sc-2001-08-22-karnataka-apex-bank-reserves

**Treatment:** Express disapproval of the working/circulating-capital restriction for mandatory reserve interest

**Source url:** [Open cited source](#)

**Pdf pages:** 4

**Scope:** Direct larger-bench legal correction; not a new order in this 1996 litigation or a decision of its unpressed provident-fund claim.

## SOURCE & VERIFICATION

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

Identified source rendition: 11 PDF pages; SHA-256

5ec3c83045428c75bb416abadc8754c22ec946ece6bb2628e1b6cdee88184c74. Original bytes preserved.

Complete judicial text physical pages 3–11/SCR 775–783; reserve-interest reasoning and expressly unpressed provident-fund contention separated.

[Open cited source rendition](#)

The reported source gives no assessment years, quantified disputed income or resulting appeal numbers for the two SLPs. None is invented.; The provident-fund argument was expressly not pressed because its factual foundation had not been laid; it is not a general Supreme Court finding that every trustee-held fund belongs to the bank.; The cited Assam cooperative-marketing case concerns different facts and does not add a new marketing claim to this bank's dispute. Its subsequent history is outside this bounded note.; The later 2001 source expressly rejects the substantive reasoning, not merely a typographical passage or the report headnote. The historical 1996 result must always carry that qualification.; The three-judge source prints section 80(i) in its introductory historical reference, but its account of the earlier case identifies section 81. The actual provision in this 1996 case is section 81.; Current institutional classification, later banking legislation and present-year section 80P entitlement are not independently certified.

## STATUTORY SCOPE

No automatic mapping to the Income-tax Act, 2025 or present-law certification. Apply the statutory text for the relevant year.

## LATER TREATMENT

Source checked 2026-10-04. Comprehensive later treatment remains not\_verified. A specific adverse treatment is verified: Karnataka State Cooperative Apex Bank, 22 August 2001, three-judge Bench, full 4-page source, expressly rejects this decision's reserve-interest reasoning. Later section 80P(4) comparison is bounded to 2011 text.

## IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 11](#)

SHA-256: 5ec3c83045428c75bb416abadc8754c22ec946ece6bb2628e1b6cdee88184c74

[later reported judgment direct disapproval - PDF pages: 4](#)

SHA-256: 485a751ee9d7a95a32e0f4b6fb0a20fa7a5c831c37866ecd3ab527be3cb69f7e

[official department hosted historical statutory compilation - PDF pages: 1251](#)

SHA-256: 1ec6e4c38dc1d524d1d40b1fd35d13ac1336c8fc549cef2af1bf723a999c822b

[Related note: Commissioner of Income Tax, Karnataka-III v. Karnataka State Cooperative Apex Bank](#)

## 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.

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