

State Bank of Patiala, Patiala v. Commissioner of Income-Tax, Patiala

Civil Appeal Nos. 4270-4273 of 1996 and connected appeals arising from SLP(C) Nos. 27543-27550 and 27551 of 1995

[1996] 3 SCR 359 | 1996-03-13

Surtax capital and chargeable profits: factually unutilised bad-and-doubtful-debt appropriations were reserves, not provisions.

Companies (Profits) Surtax Act, 1964: sections 2(5), 2(8), 2(9) and 4; First Schedule, rule 1(xi)(b); Second Schedule, rule 1(iii) | Income-tax Act, 1961: contextual computation provisions

2-judge bench | B. P. Jeevan Reddy, J. | K. S. Paripoornan, J.

Assessment years: 1971-72, 1972-73, 1973-74, 1975-76, 1979-80 to 1987-88

Fact-specific historical classification

The sums were treated as reserves because no identified bad debt was written off or adjusted, no bad-debt deduction was claimed, and the amounts remained employed as capital. The judgment does not classify every bank provision for bad and doubtful debts as a reserve.

01 FACTS OF THE CASE

State Bank of Patiala set apart sums described as reserves for bad and doubtful debts. The main four appeals covered AYs 1971-72, 1972-73, 1973-74 and 1975-76; connected appeals covered AYs 1979-80 through 1987-88. For the first group, the claimed annual transfers were Rs. 7,00,000, Rs. 13,78,000, Rs. 22,11,000 and Rs. 15,98,000, with separately stated opening balances. The Income Tax Officer rejected the relief, but the Tribunal found for the bank. The Punjab and Haryana High Court treated the amounts as provisions because a bank could reasonably anticipate bad debts. Later Tribunal proceedings for the connected years followed that High Court decision against the bank.

Source: [paragraphs 1-5](#) / [SCR pp. 362-364](#) / [PDF pp. 4-6](#) / [judgment](#)

02 DISCUSSION BY THE HON'BLE COURT

A provision is a charge against profits for a known or legitimately anticipated liability; a reserve is an appropriation retained as capital, although an amount is not automatically a reserve merely because it is not a provision. Classification depends on the amount's true character and the facts at the balance-sheet date. The Tribunal had specifically found that no bad debt was written off or adjusted against these sums, no bad-debt deduction was claimed or allowed, the bank made no appropriation against an identified bad debt, and the amounts remained employed as capital and were treated as reserves. Those findings did not show a known or factually anticipated liability. The High Court could not replace them with the general supposition that any bank was bound to anticipate bad debts. Whether a liability was actually known or legitimately anticipated was the relevant question, not whether banking businesses could abstractly foresee that some debts might become doubtful.

Source: [paragraphs 8-14 / SCR pp. 367-375 / PDF pp. 9-17 / judgment](#)

03 JUDICIAL DECISION

The Court set aside the High Court judgment and restored the Tribunal's order dated 23 January 1980. It answered the referred questions in the affirmative, for the assessee and against Revenue. The same result governed the connected years: the bank was entitled to the appropriate relief for AYs 1979-80 to 1987-88. All thirteen appeals were allowed, with no order as to costs.

Source: [paragraphs 14 \(second\)-16 / SCR pp. 375-376 / PDF pp. 17-18 / judgment](#)

04 OUTCOME / IN WHOSE FAVOUR

The assessee bank prevailed finally in all thirteen appeals. The amounts qualified as reserves under rule 1(xi)(b) of the First Schedule and rule 1(iii) of the Second Schedule on the recorded facts. The Court did not create a categorical rule for every bad-and-doubtful-debt account.

Source: [paragraphs 12-16 / SCR pp. 374-376 / PDF pp. 16-18 / judgment](#)

05 AKHB REVIEW POINT

AKHB analysis: classify an appropriation from contemporaneous evidence, not its label or a general assumption about the industry. Trace whether it was charged against profits, linked to identified or reasonably measured exposures, used for write-offs, claimed as a deduction, or retained as capital. Record the Tribunal's factual findings before relying on the precedent. For present banking and tax work, separately test applicable accounting standards, RBI provisioning directions, income-tax provisions and capital rules; this repealed-surtax ruling supplies no current-law certification.

Source: [AKHB analysis based on paragraphs 9-16 / SCR pp. 367-376 / PDF pp. 9-18](#)

SOURCE & VERIFICATION

Supreme Court Reports scan - public eSCR mirror

Full 18-page SCR report read; PDF pages 1-3 are the editorial headnote and paragraphs 1-16 of the judicial text run from PDF pages 4-18.

Open cited source rendition

Full primary SCR report read; exact original bytes match the catalogue SHA-256. The editorial headnote occupies PDF pages 1-3 and was not treated as judicial reasoning.

The reproduced section 2(8) on SCR page 364 states fifteen per cent, while paragraph 8 on SCR page 367 refers to ten per cent. This internal source discrepancy is preserved and no percentage is material to the note's reserve-classification holding.

The judgment prints paragraph number 14 twice, on SCR pages 374 and 375. Decision pinpoints identify the second paragraph 14 where necessary.

Paragraphs 3-4 separate eight assessment years from 1979-80 to 1987-88 excluding 1985-86 and a separate appeal for 1985-86; paragraph 15 collectively grants relief for 1979-80 to 1987-88.

STATUTORY SCOPE

This decision applies the historical Companies (Profits) Surtax Act, 1964. Its reserve-versus-provision conclusion rests on the Tribunal's specific findings and does not determine current income-tax deductibility, accounting classification, regulatory provisioning or capital treatment.

LATER TREATMENT

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