

## Commissioner of Income-Tax, Madras v. The Lakshmi Vilas Bank Ltd., Karur

Civil Appeal Nos. 132–133 of 1979

[1996] Supp.2 SCR 522 | 1996-05-08

**Whether margin deposits forfeited in ordinary banking transactions were taxable on forfeiture or could instead reduce security cost and defer the income until sale or redemption.**

Two-judge bench | B.P. Jeevan Reddy, J. | Suhas C. Sen, J.

Assessment years: 1964-65, 1965-66

### Specific trading forfeitures; no assumed funding or universal cost rule

The margin deposits became banking income when forfeited under these transactions and could not reduce the actual security purchase price. The Court did not find that the deposits funded the purchases, tax deposits merely on receipt or set face value as a universal valuation rule. The caption/operative singular wording is preserved. Later treatment and current statutory extensions remain unverified.

### 01 FACTS OF THE CASE

The bank bought Madras State Electricity Board and State Loan bonds for customers, in its own name, at face value. Customers paid margin deposits and undertook to pay the balance by a specified date; on default the securities would belong to the bank and the margin would be forfeited, in addition to commission and service charges (physical page 3).

On defaults, the bank reduced the securities' purchase cost by forfeited deposits of Rs 1,69,966 for AY 1964-65 and Rs 62,563 for AY 1965-66. The ITO and Appellate Assistant Commissioner taxed those receipts when forfeited; the Tribunal and High Court accepted cost reduction and deferred recognition until disposal or redemption (physical pages 3–4).

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

## 02 DISCUSSION BY THE HON'BLE COURT

The deposits served as part-payment if the transaction completed and as forfeitable earnest money pending completion. Each arose from a specific profit-making banking transaction, rather than a deposit held throughout a long-term licence or business arrangement. On forfeiture, the money became the bank's own business receipt (physical page 5).

The bank had paid face value for the securities. Becoming their full owner on default did not reduce the price actually paid. Any later sale profit was a separate event; adjusting the forfeited receipt against acquisition cost could not postpone its accrual. The Court expressly noted the absence of a factual finding that these deposits themselves had funded the purchase, and did not supply one (physical pages 5–6).

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

## 03 JUDICIAL DECISION

Revenue's appeal was allowed in the Court's singular operative wording, the High Court judgment was set aside and the referred question answered against the bank. The caption contains two appeals, and the judicial text identifies the two assessment years without allocating an individual appeal number to each year. The forfeited amounts were banking income in the years they became the bank's money and could not reduce the securities' acquisition price. There was no order as to costs (physical pages 2 and 6).

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

## 04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue

High Court reversed; reference answered for Revenue in the two captioned appeals; no costs

Final forfeiture-income and acquisition-cost ruling for the stated transactions

No rule that every deposit is taxable on receipt, every forfeiture has revenue character or face value always represents security cost.

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

**05 AKHB REVIEW POINT**

Track the deposit's initial purpose, the contract's default consequence and when the recipient obtained an unconditional right to keep it. A bookkeeping reduction of an asset's cost cannot replace the income analysis. Equally, the case does not make all security deposits income before forfeiture, or classify every cancelled capital transaction.

The acquisition-cost conclusion follows the actual finding that the bank paid face value; it does not require face value to be used where a different price was paid. Do not assume the deposits financed the acquisition when the Court explicitly says no such finding existed. Later statutory rules for forfeited advances or other types of assets require separate checking; no current-law equivalence or comprehensive later treatment is certified.

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

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

1.

**Topic:** Identity, appeal group and contractual deposits

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

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

**Paragraphs:** Unnumbered judicial text

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

2.

**Topic:** Amounts, years and competing accounting treatment

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

**Pdf pages:** 3; 4

**Paragraphs:** Unnumbered judicial text

**Source role:** judicial text

3.

**Topic:** Business character, actual acquisition cost, missing funding finding and final order

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

**Pdf pages:** 5; 6

**Paragraphs:** Unnumbered judicial text

**Source role:** judicial text

**JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS**

Suhas C. Sen, J.

**ACT IDENTIFIED IN THE REVIEWED SOURCE**

Income-tax Act, 1961

**SOURCE & VERIFICATION**

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

Identified source rendition: 6 PDF pages; SHA-256

1296638a74a93dfedc2090741c0c9cdf1837262fc96e07ff9a6874f6c4be46fe. Original bytes preserved.

Complete judicial text physical pages 3–6/SCR 524–527; business-income forfeiture and security-cost questions, with no express numbered charging section in the source.

#### Open cited source rendition

The source caption has Civil Appeals 132–133/1979, while the final paragraph uses singular appeal. Both stated years and amounts are retained without an invented number-to-year allocation.; The Court distinguishes this transactional banking margin from enduring deposits for acquiring a licence or business contract; that comparison is not a universal holding on every forfeiture.; The bank's possible use of deposits to pay for securities is expressly unproved. It must not be stated as an established fact.; The amounts were deposits on receipt and taxable business receipts on the established forfeiture; the note does not tax every customer deposit when received.; No numbered charging section appears in the judicial text or headnote. The note is in scope because the operative issue is substantive 1961 Act banking income, not merely a tax reference in another statute.

The source decides substantive banking business-income treatment under the 1961 Act but does not expressly identify a numbered charging provision. No unprinted section number is supplied.

### **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. No comprehensive later-treatment search is certified. Any actually checked later judgment or statute is expressly identified in this note.

### **IDENTIFIED SOURCE LINKS**

[reported judgment - PDF pages: 6](#)

SHA-256: 1296638a74a93dfedc2090741c0c9cdf1837262fc96e07ff9a6874f6c4be46fe

### **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.