

Commissioner of Income Tax, Karnataka-III v. Karnataka State Cooperative Apex Bank

Civil Appeal Nos. 4646–4648 of 2000

[2001] Supp. 2 SCR 35 | 2001-08-22

Whether interest from reserve funds compulsorily placed to carry on banking qualified under the historical section 80P(2)(a)(i), despite not being circulating capital.

80P(2)(a)(i)

Three-judge bench | S.P. Bharucha, J. | Y.K. Sabharwal, J. | Ashok Bhan, J.

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

Reserve-interest holding predates the cooperative-bank exclusion

The three-judge Bench rejected a circulating-capital-only restriction for the required banking reserve placements. The later section 80P(4), recorded from 1 April 2007 with specified agricultural-credit exceptions, must be considered before relying on the deduction result. No universal exemption for banks, other cooperative entities or all investments is stated. Assessment years and amounts are absent; comprehensive later treatment/current mapping remain unverified.

01 FACTS OF THE CASE

The cooperative bank was required to place part of its funds with the State Bank or Reserve Bank of India in order to conduct its banking business. The dispute concerned interest from reserve-fund investments. Three Revenue appeals were referred to a larger bench because M.P. Cooperative Bank and Bangalore District Cooperative Central Bank appeared to conflict (physical pages 2–3). No assessment-year list or interest amount is supplied.

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

02 DISCUSSION BY THE HON'BLE COURT

The compulsory placement was an integral requirement of banking, so income derived from those funds arose from the bank's business. Nothing in section 80P(2)(a)(i) confined relief to income from working or circulating capital. The restriction adopted in M.P. Cooperative Bank was therefore not correct (physical page 4).

The Court also rejected the suggestion that M.P. Cooperative Bank could simply be dismissed as an unexplained facts-only decision; it had supplied reasons, which this Bench disagreed with. The present result concerned the statutory reserve placements before the Court, not every investment of any cooperative society.

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

03 JUDICIAL DECISION

All three Revenue appeals were dismissed without costs, and the question answered for the assessee. The Court expressly rejected the earlier M.P. Cooperative Bank rule. It fixed no interest amount or fresh deduction computation (physical page 4).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee cooperative bank under the historical provision

Three Revenue appeals dismissed; no costs

Final reserve-investment classification decision

Not an unchanged present deduction for all cooperative banks or all surplus investments; later section 80P(4) and the entity/income facts require separate attention.

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

05 AKHB REVIEW POINT

Identify why the funds were invested and the actual banking obligation. A label such as reserve does not itself remove the business nexus; equally, a deposit's interest is not automatically banking income for every cooperative entity. The judgment resolves the narrower circulating-capital restriction on the facts stated.

The checked 2011 compilation, pages 541–542 and footnote 43, records section 80P(4), inserted from 1 April 2007, excluding cooperative banks subject to the specified agricultural-credit exceptions and definitions. This later restriction is essential before applying the old deduction result. It does not justify guessing the classification or eligibility of another institution, and no present-law or full later-treatment audit is claimed.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, three appeals and reference issue

Source url: [Open cited source](#)

Pdf pages: 1; 2

Paragraphs: Unnumbered judicial text

Source role: reported metadata and judicial text

2.

Topic: Earlier decisions and historical text

Source url: [Open cited source](#)

Pdf pages: 2; 3

Paragraphs: Unnumbered judicial text

Source role: judicial text

3.

Topic: Mandatory banking placement, rejection of prior rule and dismissal

Source url: [Open cited source](#)

Pdf pages: 4

Paragraphs: Unnumbered judicial text

Source role: judicial text

4.

Topic: Later cooperative-bank exclusion and definitions

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

S.P. Bharucha, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

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

Identified source rendition: 4 PDF pages; SHA-256

485a751ee9d7a95a32e0f4b6fb0a20fa7a5c831c37866ecd3ab527be3cb69f7e. Original bytes preserved.

Complete unnumbered judicial text physical pages 2–4/SCR 36–38; earlier editorial material and prior-case description distinguished.

[Open cited source rendition](#)

The source supplies no assessment years, investment amounts or taxpayer-wide portfolio schedule. None is inferred from the High Court date.; The opening calls the predecessor section 80(i), while the prior-case discussion refers to section 81. This source-level predecessor-reference inconsistency is not silently made a legislative crosswalk.; The judgment's language of not paying tax on this income is confined to the historical deduction and stated reserve placements. It is not a general exemption certificate for the institution.

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 subsequent judicial and statutory treatment has not been verified. Only the expressly identified bounded comparisons have been checked. No current-law or Income-tax Act, 2025 mapping is certified.

IDENTIFIED SOURCE LINKS

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

SHA-256: 485a751ee9d7a95a32e0f4b6fb0a20fa7a5c831c37866ecd3ab527be3cb69f7e

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

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