

Deputy Commissioner of Income Tax v. State Bank of India and Others

Civil Appeal D. No. 32945 of 2007 (as printed in the jurisdiction line) / Civil Appeal Nos. 326–329 of 2008 / Civil Appeal D. No. 1537 of 2008 (as printed)

[2008] 16 SCR 1146 | 2008-12-03

Whether the Special Court could scale down the priority tax-payment claim and order refund/disbursement to creditor banks without determining the nexus between their decrees and assessed income or resolving alleged duplication.

Two-judge bench | Tarun Chatterjee, J. | Dr. Mukundakam Sharma, J.

Assessment years: 1992-93, 1993-94

Priority-payment remand with two preserved items

This is a Special Court Act ruling concerning tax-payment priority from Harshad Mehta's attached assets, not a bank-interest or deduction decision. Nexus and alleged duplication affecting the Rs.1,688 crore and Rs.1,080 crore items were remitted; only the Rs.253 crore and Rs.101 crore scaling-down items were preserved. No final Rs.140 crore tax liability or Rs.546.22 crore refund was approved. Appeal identifiers and some source figures require the stated cautions; remand outcome, current law and later treatment remain unverified.

01 FACTS OF THE CASE

Harshad S. Mehta, a notified person under the Special Court Act, was assessed for AYs 1992-93 and 1993-94 at incomes of approximately Rs.2,014 crore and Rs.1,396 crore. The assessments, largely confirmed by CIT(A), generated a reported Rs.1,743 crore tax demand; the source describes pending tax appellate proceedings. The Custodian had released Rs.686.22 crore to Revenue under interim orders backed by an undertaking to return funds with interest if directed (paragraphs 4–7).

SBI and other banks sought reduction of the priority payment, relying on decrees and alleged inclusion of bank money, oversold securities, unexplained stocks and deposits in Mehta's income. The Special Court excluded reported items of Rs.1,688 crore, Rs.1,080 crore, Rs.253 crore and Rs.101 crore, estimated the priority tax at about Rs.140 crore, and directed Revenue to return Rs.546.22 crore with 9% interest to the Custodian. Its further pro-rata bank-disbursement direction was conditional and subject to undertakings and the Supreme Court clarification described in paragraph 2 (paragraphs 1–9).

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

02 DISCUSSION BY THE HON'BLE COURT

Drawing on A.K. Menon and Harshad S. Mehta, the Court restated that the Special Court cannot act as a tax appellate authority or reopen assessed tax liability. It can determine how much is paid in priority from the Custodian's funds. Section 11(2)(a) priority is confined to tax liability connected with the statutory period, 1 April 1991–6 June 1992. Strong reasons such as serious miscarriage of justice, fraud, collusion or a grossly disproportionate assessment can justify reducing that priority payment; the residual tax liability does not thereby disappear (paragraphs 17–20).

Existing third-party rights in attached property are not extinguished by notification. But final bank decrees alone did not prove that the corresponding money had been included in Mehta's assessed income for the statutory period. The banks had to establish that nexus. Revenue also alleged overlap between the Rs.1,688 crore decreed amount and Rs.1,080 crore oversold-securities item; the banks disputed this and characterised the transactions differently. Neither nexus nor duplication had been decided on the necessary evidence, and the Supreme Court lacked the decrees and underlying suit documents needed to resolve those disputed facts (paragraphs 22–28).

On remand, a demonstrated nexus would require disbursement to the banks. For oversold securities actually delivered in completed transactions, the Court directed consideration of the difference between payable and receivable, rather than the gross amount. Whether particular decrees concerned oversold securities, duplicated another reduction or arose from siphoned funds remained for the Special Court to determine (paragraphs 29–30).

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

03 JUDICIAL DECISION

All listed appeals were disposed of by a partial remand. The Special Court's directions were set aside except the scaling down associated with Rs.253 crore and Rs.101 crore, which paragraph 31 expressly preserved. The remanded inquiry must determine nexus and duplication after allowing relevant documents; the Court requested an expeditious decision, preferably within three months. Pending that decision, the amount directed to be deposited by Revenue with the Custodian was not to be refunded. Interim disbursements remained subject to final liabilities, and the Court expressly disclaimed a decision on the merits of the unresolved claims. It fixed no final tax liability or bank entitlement; there is no express costs direction (paragraphs 31–34).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Mixed: Revenue secured remand and relief from the immediate refund/disbursement directions; the banks retained the Rs.253 crore and Rs.101 crore scaling-down items

All appeals disposed of; Special Court directions set aside except paragraph 31 items; matter remitted for fresh determination; refund withheld pending that decision

Jurisdiction and priority principles stated; two reductions preserved; nexus, duplication and final claims unresolved on remand

A Special Court Act distribution ruling, not cancellation of the notified person's overall tax assessment or a general banking accrual/deduction rule. The statutory period, attached-property interests, evidence of nexus and later tax/forum determinations control.

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

05 AKHB REVIEW POINT

Separate tax assessment from priority payment out of an attached pool. A reduction in the amount payable first is not itself an erasure of the assessed tax debt. For a bank relying on a decree, assemble a transaction-by-transaction link to the income assessed for the statutory period and test whether any proposed reduction counts the same amount twice. The conditional net-amount direction for completed oversold-securities transactions cannot replace that factual exercise.

The lower court's Rs.140 crore estimate and Rs.546.22 crore refund are not final Supreme Court computations. Record separately the two preserved items, the two factual inquiries sent back and the interim nature of disbursement. Later remand results, final tax appeals and present statutory relevance require verification before reliance.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, reported appeal/diary numbers and judicial start

Source url: [Open cited source](#)

Pdf pages: 1; 5; 6

Paragraphs: Cover; jurisdiction line; 1

Source role: reported metadata and judicial text

2.

Topic: Lower court directions, conditional disbursement, assessment years and interim releases

Source url: [Open cited source](#)

Pdf pages: 6; 7; 8; 9; 10

Paragraphs: 1-9

Source role: judicial text

3.

Topic: Party-deletion applications and source OCR correction

Source url: [Open cited source](#)

Pdf pages: 11

Paragraphs: 11

Source role: judicial text

4.

Topic: Competing nexus/duplication arguments and differing source figures

Source url: [Open cited source](#)

Pdf pages: 11; 12; 13; 14; 15

Paragraphs: 12–15

Source role: judicial text

5.

Topic: Statutory and prior-judgment extracts

Source url: [Open cited source](#)

Pdf pages: 15; 16; 17; 18; 19; 20; 21; 22; 23

Paragraphs: 17–19

Source role: embedded statutory and precedent material

6.

Topic: Present Court's synthesis of jurisdiction and statutory-period priority

Source url: [Open cited source](#)

Pdf pages: 23; 24; 25

Paragraphs: 20–22

Source role: judicial text

7.

Topic: Existing rights, required nexus and absence of factual findings

Source url: [Open cited source](#)

Pdf pages: 25; 26; 27; 28

Paragraphs: 22–28

Source role: judicial text

8.

Topic: Conditional net-amount direction and specified remand issues

Source url: [Open cited source](#)

Pdf pages: 28; 29

Paragraphs: 29–30

Source role: judicial text

9.

Topic: Preserved items, interim disbursements and operative remand/refund order**Source url:** [Open cited source](#)**Pdf pages:** 29; 30**Paragraphs:** 31–34**Source role:** judicial text**ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS****1961 act:** Assessment and tax-recovery background only; no numbered provision separately adjudicated.**Special court act section 11(2):** Extent and order of discharge from attached funds, distinct from determining or reopening the underlying tax assessment.**Special court act sections 3 and 9-a:** Attached-property interests and adjudication of civil claims.**OTHER GOVERNING STATUTES**

1.

Act: Special Court (Trial of Offences Relating to Transactions in Securities) Act, 1992**Sections:** 3; 9-A; 11(2)(a); 11(2)(b); 11(2)(c)**JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS**

Dr. Mukundakam Sharma, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Special Court (Trial of Offences Relating to Transactions in Securities) Act, 1992; Income-tax Act, 1961 (underlying tax demands)

PRIMARY GOVERNING STATUTE

Special Court (Trial of Offences Relating to Transactions in Securities) Act, 1992

SCOPE OF THE TAX-RECOVERY AND CROSS-LAW ISSUE**Status:** substantive tax recovery related cross law**Basis:** Priority disbursement of assessed income-tax demands from attached funds is the central dispute, not an incidental statutory mention. The main operative framework is the Special Court Act; no independent 1961-Act section interpretation is invented.**SOURCE & VERIFICATION**[Hon'ble Supreme Court source PDF \(reported judgment\)](#)

Identified source rendition: 30 PDF pages; SHA-256

8f06416117be20455fd372b70129e8e633a1027613ed94812c3126b9fb0f8033. Original bytes preserved.

One joint judgment by Dr. Mukundakam Sharma, J., paragraphs 1–34, physical pages 6–30 (SCR 1151–1175). Pages 1–5 and the opening of page 6 are reporter/editorial material. Statutory quotations and the reproduced A.K. Menon and Harshad S. Mehta passages are distinguished from the present Court's analysis. No separate opinion or adjacent judgment.

[Open cited source rendition](#)

These are the notified person Harshad S. Mehta's assessment years, not the creditor banks' assessments. Priority is further confined to the statutory transaction period 1 April 1991–6 June 1992.

The cover calls the lead matter Civil Appeal No. 32945/2007; the jurisdiction line prints Civil Appeal D.No. 32945/2007 and separately lists Civil Appeal Nos. 326–329/2008 and Civil Appeal No.D.-1537/2008. The diary-style identifiers are preserved without inventing regular appeal numbers.; The Rs.1,688 crore/Rs.1,080 crore/Rs.253 crore/Rs.101 crore table records the Special Court's exclusions, not four finally approved Supreme Court deductions.; The source uses Rs.1,681.79 crore in paragraphs 12 and 25 and Rs.1,681.78 crore in paragraph 14, alongside rounded Rs.1,080 crore and Rs.601.22 crore components. No reconciled computation is invented.; Paragraph 24 prints the awkward phrase amount due and payable by the banks while discussing loans advanced by them and their existing rights. The note uses the full conditional nexus reasoning, rather than treating that phrase as a new debtor-creditor finding.; The database OCR reads respondent No. 11 at the start of paragraph 11; the rendered source says No. 7 in both places. The two party-deletion applications were allowed following the stated acquisition of State Bank of Saurashtra by SBI.; The quoted statutory provisions, A.K. Menon and Harshad S. Mehta extracts in paragraphs 17–19 are embedded sources; paragraph 20 is this Court's synthesis. No independent text comparison or later-treatment audit was performed.

Income-tax assessment and recovery context, but the substantive jurisdiction and priority ruling is under the Special Court Act. This is not a bank-interest accrual, interest deduction or withholding decision, and no specific 1961-Act section is independently construed.

STATUTORY SCOPE

Current statutory equivalence and 2025 Act applicability have not been verified.

LATER TREATMENT

Source checked 2026-10-04. No comprehensive subsequent judicial or statutory audit; the eventual remand outcome is unverified. Earlier authorities were read as reproduced in this judgment, not independently checked. No current-law or 2025-Act certification.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 30](#)

SHA-256: 8f06416117be20455fd372b70129e8e633a1027613ed94812c3126b9fb0f8033

AI DISCLOSURE

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