

M/s Bangalore Club v. Commissioner of Income Tax & Anr.

Civil Appeal No. 124 of 2007 / Civil Appeal No. 125 of 2007 / Civil Appeal Nos. 272, 273, 274, 275, 276-277 and 278 of 2013

[2013] 1 SCR 267 | 2013-01-14

Whether interest on surplus club funds placed in fixed deposits with banks that were corporate members of the club remained outside income-tax on the principle of mutuality.

2(24)

Two-judge bench | D.K. Jain, J. | Jagdish Singh Khehar, J.

Assessment years: 1989-90, 1990-91, 1993-94, 1994-95, 1995-96, 1996-97, 1997-98, 1998-99, 1999-2000

Receipt-specific mutuality; limited later-treatment check

The mutuality of members' club contributions does not automatically extend to bank interest. This note reviews the historical assessment years and one expressly identified 2023 comparison only; current statutory applicability and comprehensive later treatment are not certified.

[paragraphs 43\(ii\), \(iii\), \(v\), \(vii\) and disposition / PDF pages 72, 73, 74 / judicial text](#)

01 FACTS OF THE CASE

Bangalore Club was an unincorporated association of persons. For the nine assessment years listed in paragraph 3, it claimed mutuality for interest on fixed deposits with corporate member banks, while offering interest from non-member banks to tax. The Assessing Officer rejected the claim; the Commissioner (Appeals) and Tribunal accepted it. The Karnataka High Court restored the assessment, treating the relationship as one of banker and customer. The common Supreme Court judgment considered the resulting batch of appeals (paragraphs 1-4; physical pages 7-10).

Source: [reported judgment / paragraphs 1-4 / PDF pages 8, 9, 10 / judicial text](#)

02 DISCUSSION BY THE HON'BLE COURT

Mutuality rests on persons contributing to a common fund for their own common benefit, so that a surplus of their own contributions is not a profit from an outside source. The Court analysed three cumulative requirements: identity of contributors and participators; the entity and its dealings acting in accordance with the members' mandate; and the impossibility of contributors deriving profits from a fund that can only be spent on or returned to themselves. Identity is of the relevant classes, not exact equality of each person's payments and benefits. Incorporation or a membership label is not conclusive (paragraphs 7-17).

The capacity in which people contribute and receive matters. Returns to shareholders as shareholders are different from the return or application of contributors' common fund for them as contributors. Some members' non-use of a facility does not alone destroy mutuality. Identifiable non-member facilities can be treated separately, while a single commercial business providing the same facilities to members and outsiders may be profit-making throughout. The Court also recognised that the club's mandate can involve indirect or longer-term benefits, but those factual principles did not save the banking arrangement here (paragraphs 18-24).

All three requirements failed for the disputed interest. The member banks deployed the deposits in commercial lending to third parties outside the mutual circle; the funds were thus exposed to outside banking operations, not merely used to deliver the club's mutual facilities. They earned a lending spread before paying interest back to the club. No evidence showed segregated special treatment of the club's deposits or that the money was not lent onward. The transactions were those of bank and customer, notwithstanding corporate membership. Returning interest to the common fund did not cure that commercial character (paragraphs 25-31).

The Court kept the already-mutual surplus collected for members' facilities separate from the interest earned after its deposit with banks. It relied on Bankipur's distinction between a genuinely mutual arrangement and a commercially tainted activity; it did not withdraw mutual treatment of the original club surplus (paragraphs 32-33).

Source: [reported judgment / paragraphs 7-33 / PDF pages 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28 / judicial text](#)

03 JUDICIAL DECISION

Interest from the four corporate member banks was outside mutuality and taxable in the hands of the club. All appeals were dismissed with costs (paragraphs 33-34).

Source: [reported judgment / paragraphs 33-34 / PDF pages 28 / judicial text](#)

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue

All assessee appeals dismissed with costs

Final rejection of mutuality for the disputed member-bank fixed-deposit interest

Non-member-bank interest had already been offered to tax; the original members' facility surplus was distinguished from the interest. No separately hypothesised segregated-deposit arrangement or universal club-income immunity was decided.

Source: [reported judgment / paragraphs 33-34 / PDF pages 28 / judicial text](#)

05 AKHB REVIEW POINT

Trace each receipt and the legal capacity in which the other party acts. Membership of the bank does not turn an ordinary deposit contract into a members' service transaction. Test who can contribute and participate, how the fund is used, and whether a commercial intermediary or outsider enters the transaction. Paragraph 29's absence-of-segregation observation does not establish an affirmative safe harbour for a hypothetical special deposit.

In the bounded later comparison actually read, Secundrabad Club (17 August 2023), paragraph 43(ii), (iii) and (vii), declined to reconsider Bangalore Club, rejected the per-incuriam objection based on Cawnpore Club, and applied it to club fixed-deposit interest whether the banks were members or not. Paragraph 43(v) described the interest as income from other sources. This limited check is not a comprehensive later-treatment or present-law certification.

Source: [reported judgment / paragraphs 25-34 / PDF pages 23, 24, 25, 26, 27, 28 / judicial text](#); [official signed judgment / paragraphs 43\(i\)-\(vii\) and final disposition; bounded later comparison / PDF pages 72, 73, 74 / judicial text](#)

DETAILED DISPOSITION AND CONNECTED GROUPS

Issue results

1.

Issue: Interest from member banks

Result: Taxable; commercial banking deployment defeated the three cumulative mutuality conditions

In whose favour: Revenue

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 23; 24; 25; 26; 27; 28

Paragraphs: 25-34

Source role: judicial text

2.

Issue: Underlying members' facility surplus

Result: Existing mutual character of the surplus before bank deposit distinguished from subsequent interest

In whose favour: Assessee on this distinction; no separate relief ordered

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 27; 28

Paragraphs: 32-33

Source role: judicial text

ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS

2(24)(vii); 260A

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

D.K. Jain, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

VERIFIED RELATIONSHIPS BETWEEN SPECIFIED JUDGMENTS

1.

Earlier case id: sc-2013-01-14-bangalore-club-income-tax

Later case id: sc-2023-08-17-secundrabad-club

Relationship: expressly followed reconsideration and per incuriam challenge rejected

Evidence

1.

Source url: [Open cited source](#)

Pdf pages: 72; 73; 74

Paragraphs: 43(ii), (iii), (v), (vii) and disposition

Source role: judicial text

Scope limit: Only this specific later treatment verified; no complete citator or current-law certification.

SOURCE & VERIFICATION

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

Identified source rendition: 28 PDF pages; SHA-256

6264508ec802262d6ceb34e3ab2d05993110d2f7334165d2b9ca63343ad4eb7e. Original bytes preserved.

Judgment paragraphs 1-34 on physical pages 8-28 (SCR 274-294). Physical pages 1-7 contain editorial headnotes, references, identity and jurisdiction material; judicial reasoning begins on page 8.

[Open cited source rendition](#)

The nine years are expressly listed in paragraph 3. No 1991-92 or 1992-93 year is inferred and no appeal-to-year allocation is supplied.

Paragraph 7 discusses the income definition and the special statutory mutual-business context in section 2(24)(vii). This is not an insurance-profit computation ruling. Section 260A appears in the procedural history. The Court holds the interest taxable without a separate head-of-income computation determination; the Assessing Officer's business-income characterisation is reported as history.

This is the 14 January 2013 income-tax decision, not the 8 September 2020 Bangalore Club wealth-tax judgment.; The reported PDF is preserved unchanged. Its headnote and case-law reference list are not used as substitutes for the Court's reasons.; The non-member-bank tax payment is an admitted procedural fact in paragraphs 3 and 25, not a separate contested issue decided in this appeal.; The observation about no special segregated treatment in paragraph 29 does not decide the tax consequences of a hypothetical arrangement with such treatment.; The section 2(24)(vii) reference is contextual; no free-standing section 56 or section 28 computation issue is inferred.

STATUTORY SCOPE

Historical assessment-year and statutory settings only. No automatic mapping to the Income-tax Act, 2025 and no present-law certification.

LATER TREATMENT

Source checked 2026-10-04. Only the express conclusions in Secundrabad Club, 17 August 2023, paragraph 43 and disposition (official physical pages 72-74), were checked as subsequent treatment. Comprehensive later judicial treatment remains not verified.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 28](#)

SHA-256: 6264508ec802262d6ceb34e3ab2d05993110d2f7334165d2b9ca63343ad4eb7e

[official signed judgment - PDF pages: 74](#)

SHA-256: baaa6c53027e0304a115b9d0f9febf3d0684bb2e199d42cbecc36e466b82fbb4

[Related note: Secundrabad Club etc. v. C.I.T.-V etc.](#)

AI DISCLOSURE

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