

M/s. State Bank of Patiala through General Manager v. Commissioner of Income Tax, Patiala

Civil Appeal Nos. 5212-5220 of 2007 and connected appeals listed at SCR p.247

[2015] 12 SCR 243 | 2015-11-18

Interest-tax: overdue compensation on discounted bills and guarantee fees were outside the narrow statutory definition of interest.

Interest-tax Act, 1974: sections 2(7) and 4 | Negotiable Instruments Act, 1881: section 32 | Income-tax Act, 1961: section 2(28A), contrasted

2-judge bench | A. K. Sikri, J. | Rohinton Fali Nariman, J.

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

Historical Interest-tax definition

This decision does not exempt the receipts under the Income-tax Act. The Court expressly contrasted its broader interest definition with the narrower Interest-tax provision.

01 FACTS OF THE CASE

Banks purchased and discounted bills of exchange. When the parties paid after the stipulated date, the banks charged compensation calculated at a fixed percentage for the period of default and credited it to their interest accounts. Conflicting High Court decisions had treated those receipts differently under the Interest-tax Act, 1974. The connected appeals also raised whether guarantee fees recovered from borrowers in relation to the Deposit Insurance and Credit Guarantee Corporation fell within the statutory interest definition.

Source: [Facts and issues: paragraphs 2-5; guarantee fees: paragraph 19](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court treated section 2(7)'s means-and-includes definition as exhaustive. It separately included discount on bills, which would be unnecessary if discounting were already a loan or advance for this provision. Compensation after default arose from the bill obligation and section 32 of the Negotiable Instruments Act, rather than from delayed repayment of a bank loan or advance. The Court rejected the contrary Karnataka reasoning and explained that the word 'on' required a direct connection to the specified loan or advance. It contrasted Income-tax Act section 2(28A), whose broader language covers interest in respect of money borrowed and includes service fees and other charges. Section 2(7) contained no equivalent service-fee inclusion, and merely booking a receipt as interest did not establish the charge.

Source: [Statutory distinction and Court's reasoning: paragraphs 15-19](#)

03 JUDICIAL DECISION

Overdue compensation on the discounted bills was not interest chargeable under section 2(7). The guarantee-fee receipts at issue also did not fall within that definition. The Court dismissed Revenue's appeals, allowed the assessee's appeals and set aside the judgments favouring Revenue.

Source: [Holdings and final order: paragraphs 16-20](#)

04 OUTCOME / IN WHOSE FAVOUR

The assessee succeeded on both Interest-tax questions addressed by the common judgment. The result concerns the nature and statutory connection of these particular receipts; it does not decide their treatment under the distinct Income-tax Act definition or establish that every payment received after a due date is exempt.

Source: [Limits and operative result: paragraphs 18-20](#)

05 AKHB REVIEW POINT

AKHB analysis: identify the charging statute and legal source of the payment before adopting its accounting label. Preserve the bill, discounting terms, due date, default clause and fee-recovery documents, and distinguish discount, compensation and service charges. This historical definition comparison cannot replace a separate analysis of the applicable current provision or subsequent judicial treatment.

Source: [AKHB analysis based on the statutory distinction in paragraphs 15-20](#)

SOURCE & VERIFICATION

[Supreme Court Reports scan - public eSCR mirror](#)

Full 20-page SCR report read. Editorial headnotes and reproduced High Court passages were distinguished from the Supreme Court's judicial text beginning at SCR p.247 / PDF p.5.

[Open cited source rendition](#)

Exact source hash and 20-page count match catalogue asset 2015_12_243_262; all pages were read.

The SCR report verifies the date, two-judge bench and lead Civil Appeal Nos. 5212-5220 of 2007; connected appeals are listed at SCR p.247. They form one common judgment, not separate additions.

The catalogue's neutral-citation metadata 2015INSC843 is not printed in this report and is not independently certified here.

Neither the catalogue nor this reviewed common judgment supplies one uniform assessment year for every connected appeal; no assessment year is invented.

The 1996 State Bank of Patiala bad-debt-reserve decision is a distinct judgment.

STATUTORY SCOPE

The holding concerns the historical Interest-tax Act, 1974 definition in section 2(7). It expressly distinguishes the broader Income-tax Act definition in section 2(28A); no current exemption or present statutory equivalence is asserted.

LATER TREATMENT

Source checked 2026-10-10. Comprehensive subsequent treatment and present-law applicability have not been verified; this is not current citator clearance.

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