

South Indian Bank Ltd. v. Commissioner of Income Tax

Civil Appeal No. 9606 of 2011 / Civil Appeal No. 5610 of 2021 / Civil Appeal Nos. 9609, 9610, 9611, 9615, 9608, 9612, 9614, 9613 and 9607 of 2011 / Civil Appeal Nos. 3367 and 2963 of 2012
[2021] 6 SCR 154 | 2021-09-09

Whether section 14A permits a proportionate interest disallowance for tax-free bonds, securities or shares purchased from mixed funds when the banks have sufficient interest-free own funds exceeding the investments, merely because no separate fund accounts were maintained.

14A

Two-judge bench | Sanjay Kishan Kaul, J. | Hrishikesh Roy, J.

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

01 FACTS OF THE CASE

The appellants were scheduled banks carrying on an indivisible banking business and investing in bonds, securities, company shares and UTI units that generated exempt interest or dividends. The Court used South Indian Bank's Civil Appeal No. 9606 of 2011 as the factual illustration for the common issue. The banks did not maintain separate accounts identifying the funds used for the exempt-yielding investments (paragraphs 1-7).

The Assessing Officer calculated proportionate interest disallowance by reference to the average cost of deposits, and the Commissioner (Appeals) agreed. The Tribunal found that the bank had surplus funds and reserves, that its investments formed part of its banking business and stock-in-trade, and that the investments could not be attributed exclusively to interest-bearing funds. It deleted the disallowance. The High Court reversed that conclusion, principally because purchases had been made from mixed accounts rather than separately maintained interest-free funds (paragraphs 8-10 and 16).

Source: [reported judgment / paragraphs 1-10; 16 / PDF pages 5, 6, 7, 9 / judgment](#)

02 DISCUSSION BY THE HON'BLE COURT

Section 14A excludes expenditure incurred in relation to income that does not enter total income. The relevant question was the connection between the interest sought to be disallowed and the exempt investments, not the mere coexistence of borrowing and exempt income. The banks maintained that their available interest-free funds substantially exceeded those investments (paragraphs 5-6 and 11-16).

Where sufficient interest-free funds and borrowed funds form a common pool, the Court recognised the presumption that the relevant investments were made from the interest-free funds. It relied on Reliance Industries and approved the same approach in HDFC Bank, Suzlon Energy, Microlabs and Max India. The stated condition matters: the available non-interest-bearing funds must be sufficient to meet, and in the formulation applied here exceed, the tax-free investments. The absence of a separately segregated bank account did not itself justify an estimated proportionate interest disallowance (paragraphs 17-20).

The Court distinguished S.A. Builders and the then-pending Tulip Star issue, which concerned loans to sister concerns, from these investments in bonds and securities. It also rejected reliance on Honda Siel as establishing a separate-account obligation. Honda Siel concerned reopening and inadequate disclosure. The duty to disclose material facts remained, but Revenue identified no statutory provision requiring separate accounts for each type of fund (paragraphs 21-22).

Discussing Maxopp and Godrej and Boyce, the Court emphasised the connection required between the expenditure and exempt income. Its account of Maxopp included the need for the Assessing Officer to record the relevant dissatisfaction before rejecting an assessee's apportionment. These references explain the statutory setting; they do not create an exemption for every expense of a bank or decide the treatment of every investment held as stock-in-trade (paragraphs 23-24).

The Court also considered CBDT Circular No. 18 of 2015 dated 2 November 2015 and banking-stock-in-trade authorities. Revenue had not contended that the securities were held to maintain the Statutory Liquidity Ratio in the category discussed. That factual observation accompanied, rather than removed, the central sufficient-own-funds and expenditure-nexus reasoning (paragraphs 25-28).

Source: [reported judgment / paragraphs 5-6; 11-16 / PDF pages 5, 6, 7, 8, 9 / judgment](#); [reported judgment / paragraphs 17-20 / PDF pages 9, 10 / judgment](#); [reported judgment / paragraphs 21-22 / PDF pages 10, 11 / judgment](#); [reported judgment / paragraphs 23-24 / PDF pages 11, 12, 13, 14 / judgment](#); [reported judgment / paragraphs 25-28 / PDF pages 14, 15 / judgment](#)

03 JUDICIAL DECISION

The Court held that proportionate interest disallowance under section 14A was unwarranted for the exempt-yielding investments where the banks' available interest-free own funds exceeded those investments. The necessary nexus between the disallowed expenditure and the exempt income had not been established, and the asserted separate-account obligation had no identified statutory basis. It agreed with the Tribunal's view, answered the common issue against Revenue and allowed the assessee banks' appeals, without costs (paragraphs 27-30). No fresh computation, quantified refund or further remand was ordered in this judgment.

Source: [reported judgment / paragraphs 27-30 / PDF pages 14, 15 / judgment](#); [official signed judgment / paragraphs 27-30 / PDF pages 19, 20, 21 / judgment](#)

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee banks

Common issue answered against Revenue; assessee appeals allowed; no order as to costs

Merits determination of the mixed-funds interest-disallowance issue

Relief rests on sufficient interest-free own funds exceeding the exempt investments and the absence of the necessary expenditure nexus. It is not a blanket exclusion of banks, stock-in-trade or all administrative expenditure from section 14A.

Source: [official signed judgment / paragraphs 30 / PDF pages 21 / judgment](#)

05 AKHB REVIEW POINT

For a comparable interest-disallowance dispute, establish the relevant fund position from the accounts: identify interest-free own funds, the exempt-yielding investments and any evidence directly linking a borrowing to them. This judgment supports the sufficient-own-funds presumption in a common pool; merely pointing to a mixed account is not enough to sustain proportionate interest disallowance. Full disclosure and evidence remain important even though a separate-account mandate was rejected.

Keep the claim confined to the issue decided. Administrative expenses, insufficient own funds, demonstrated borrowing nexus, other investment categories and assessment-year-specific statutory or Rule 8D changes require separate analysis. Do not use the banking-stock-in-trade passage as a universal exemption or the source's historical reopening discussion as a present limitation calculator. Later treatment and any application under the Income-tax Act, 2025 require fresh verification.

Source: [reported judgment / paragraphs 17-22; 27-28 / PDF pages 9, 10, 11, 14, 15 / judgment](#)

ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS

14; 147; 154; 80M

PROVISION-SPECIFIC SCOPE

1.

Act: Income-tax Act, 1961

Section: 14A

Role: principal provision construed

Basis: Proportionate interest disallowance on exempt-yielding investments funded from a common pool where sufficient interest-free own funds exist.

2.

Act: Income-tax Act, 1961

Section: 14

Role: background classification

Basis: Paragraph 5 describes heads of income.

3.

Act: Income-tax Act, 1961

Section: 147; 154

Role: historical proviso and precedent context

Basis: Sections occur in the quoted section 14A proviso and reopening discussion; no independent reopening limitation issue is decided.

4.

Act: Income-tax Act, 1961

Section: 80M

Role: analogy in cited precedent

Basis: Bombay Dyeing is discussed in paragraph 17 to explain the sufficient-interest-free-funds presumption; no section 80M claim is decided.

5.

Act: Income-tax Rules, 1962

Section: Rule 8D

Role: context from Maxopp

Basis: Paragraph 23 discusses the satisfaction requirement and apportionment; this judgment does not prescribe a universal Rule 8D calculation.

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Hrishikesh Roy, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

Hon'ble Supreme Court source PDF (official signed judgment)

Identified source rendition: 22 PDF pages; SHA-256

004fdda57381799ebe127026156e618971f233d39dc11c51199f017c5f795191. Original bytes preserved.

Cover on page 1; judgment paragraphs 1-30 begins on page 2; signatures on page 21; date alone on page 22.

Official cover, connected appeal list, author, core reasoning, disposition and signature/date checked against the fully read reported judicial text. Full independent rereading of every official-rendition page is not claimed.

Open cited source rendition

The official original leaves the new 2021 civil appeal number blank; the reported jurisdiction block supplies 5610 of 2021.

Paragraph 6 narrates the historical reopening protection using an assessment-year description that differs from the quoted proviso in paragraph 11. The note supplies neither a corrected date nor a limitation calculation.

The Maxopp quotation in paragraph 23 contains an apparent missing negative in one sentence; the note follows the unambiguous section 14A text and this judgment's own operative holding, not the isolated inverted wording.

No comprehensive subsequent-treatment review; the description of Tulip Star as pending is historical to this judgment.

Reported citation verified on the source cover. No neutral citation is inferred from unverified catalogue metadata.

Paragraph 6 describes disallowances for assessment years commencing from 2001-02 onwards or pending assessments; it does not enumerate the individual assessment years of every appeal. No complete range or lead-case assessment year is invented.

The reported jurisdiction block supplies Civil Appeal No. 5610 of 2021. The official original leaves the number of the 2021 appeal arising from SLP(C) No. 32761 of 2018 blank; that blank is not treated as an additional appeal. One common judgment decides the batch.

STATUTORY SCOPE

Section 14A and historical context as examined in the judgment for the batch; no comprehensive later statutory or Rule 8D amendment audit.

No automatic 2025 Act mapping, current exemption status or later-treatment certification.

LATER TREATMENT

Source checked 2026-10-04. Subsequent judicial treatment and statutory amendments have not been comprehensively verified. The discussion of pending Tulip Star proceedings records the position described in this 2021 judgment, not their present status.

IDENTIFIED SOURCE LINKS

official signed judgment - PDF pages: 22

SHA-256: 004fdda57381799ebe127026156e618971f233d39dc11c51199f017c5f795191

reported judgment - PDF pages: 15

SHA-256: da0a9d64e23c3efb9e40bb6e1ce1649c1b0a3de40825e3957ad43ad22d941c05

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