

Bank of Rajasthan Ltd. v. Commissioner of Income Tax

Civil Appeal Nos. 3291-3294 of 2009 and connected proceedings (full list below)

[2024] 10 S.C.R. 860 : 2024 INSC 781 | 2024-10-16

Whether banks may deduct broken-period interest paid when acquiring government securities, and how the answer differs where a security is stock-in-trade or an investment, including the HTM category.

28 | 37

Two-judge bench | Abhay S. Oka, J. | Pankaj Mithal, J.

Assessment years: 1990-91, 1991-92, 1992-93

01 FACTS OF THE CASE

Banks buying a government security between coupon dates pay the seller the interest accrued since the preceding coupon date. The purchaser subsequently receives the full coupon, including that pre-acquisition period. Bank of Rajasthan traded in government securities, treated them as stock-in-trade and consistently netted broken-period interest paid against interest recovered, offering the net interest to tax. For the lead AYs 1990-91 to 1992-93, the Assessing Officer accepted that treatment, but the CIT revised the assessments under section 263, relying on Vijaya Bank Ltd. The Tribunal restored the deduction; the Rajasthan High Court reversed it. The lead bank appealed, while the connected appeals were brought by the Revenue against decisions allowing the deduction. All concerned the period after repeal of sections 18-21.

Source: [official signed judgment / paragraphs 2-7 / PDF pages 2, 3, 4, 5 / judgment](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court distinguished Vijaya Bank Ltd., where the claim had arisen under the former separate head of interest on securities and sections 19-20. It followed the distinction accepted in American Express International Banking Corporation and approved by the Supreme Court in Citi Bank NA: where the securities are trading assets and income is assessed as business income under section 28, broken-period interest can be revenue expenditure. The Court also reviewed the commercial role of readily realisable securities in banking and the possibility of separate investment and trading portfolios.

For AFS and HFT securities, the Court held that they are stock-in-trade and that the broken-period deduction is available, with the entire interest earned or accrued brought to tax. HTM securities require a factual inquiry. The Court identified actual retention to maturity without prior transfer and purchase at cost or face value as indicators of investment treatment; the deduction is unavailable where the security is found to be an investment and available where it is a trading asset. It also observed that disallowed broken-period interest would form acquisition cost, reducing profit on a later sale. That timing observation must be read with the express HTM qualification. On the lead bank's facts, the Tribunal had found stock-in-trade treatment, which the High Court displaced only by applying Vijaya Bank.

Source: [official signed judgment / paragraphs 10-13 / PDF pages 13, 14, 15, 16, 17, 18, 19, 20, 21, 22 / judgment](#); [official signed judgment / paragraphs 17-24 / PDF pages 38, 39, 40, 41, 42 / judgment](#)

03 JUDICIAL DECISION

Broken-period interest on the lead bank's government securities was revenue expenditure because those securities were held as stock-in-trade and the related income fell under section 28. The Supreme Court set aside the High Court judgment and restored the Tribunal's decisions dated 29 May 2003 and 15 July 2004. It dismissed the connected Revenue appeals, with paragraph 30 expressly preserving the clarification concerning HTM securities. No costs were awarded.

Source: [official signed judgment / paragraphs 24-31 / PDF pages 42, 43, 44, 45 / judgment](#)

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee banks

Civil Appeal Nos. 3291-3294 of 2009 allowed; impugned High Court judgment set aside and Tribunal decisions restored; all other civil appeals dismissed; no order as to costs

Broken-period interest deduction issue decided, subject to factual investment-versus-stock-in-trade treatment of HTM securities

The decision does not make every HTM security a trading asset, does not overrule Vijaya Bank for its own statutory and factual setting, and does not certify current RBI classification or 2025 Act treatment.

Source: [official signed judgment / paragraphs 30-31 / PDF pages 44, 45 / judgment](#)

05 AKHB REVIEW POINT

For a bank's legacy-year claim, build the evidence security by security: portfolio classification, purpose of purchase, acquisition terms, actual holding or transfer history, ledger treatment and the income head accepted in assessment. Reconcile the amount paid to the seller, the full coupon received, acquisition cost and sale proceeds so that the computation cannot produce a double deduction. An HTM label alone does not decide the tax issue; the judgment requires proof of investment or trading-asset character. When citing the result, preserve the HTM qualification and distinguish the 1961 Act version and facts from those in Vijaya Bank rather than describing that decision as overruled.

Source: [official signed judgment / paragraphs 18-24, 30 / PDF pages 38, 39, 40, 41, 42, 44, 45 / judgment](#)

APPEAL AND PROCEEDING NUMBERS

Civil Appeal Nos. 3291-3294 of 2009 / Civil Appeal Nos. 11200-11201 of 2024 (arising out of SLP (C) Nos. 1445-1446 of 2021) / Civil Appeal No. 11202 of 2024 (arising out of SLP (C) No. 4843 of 2020) / Civil Appeal No. 11203 of 2024 (arising out of SLP (C) No. 7055 of 2021) / Civil Appeal No. 11204 of 2024 (arising out of SLP (C) No. 7404 of 2021) / Civil Appeal No. 11205 of 2024 (arising out of SLP (C) No. 15281 of 2021) / Civil Appeal No. 11196 of 2024 (arising out of SLP (C) No. 1686 of 2021) / Civil Appeal No. 11197 of 2024 (arising out of SLP (C) No. 1687 of 2021) / Civil Appeal No. 11198 of 2024 (arising out of SLP (C) No. 8968 of 2018) / Civil Appeal No. 11199 of 2024 (arising out of SLP (C) No. 24841 of 2019) / Civil Appeal No. 4755 of 2023 (arising out of SLP (C) No. 16299 of 2023)

SOURCE-RENDITION BOUNDARIES

Primary judicial text pdf pages: 2; 45

Primary paragraphs: 1-31

Primary headnotes: None

Reported judicial text pdf pages: 3; 33

Reported editorial material: PDF pp. 1-3 before Judgment / Order of the Supreme Court; result/headnote-credit text after paragraph 31 on p. 33 is editorial

Adjacent case text found: False

PROVISION-SPECIFIC SCOPE

1.

Section: 28

Role: core_holding

Description: Business-income character of interest from securities held as stock-in-trade; broken-period interest deductible in computing that business income.

Pinpoints

1.

Source url: [Open cited source](#)

Paragraphs: 10, 19, 23-24

Pdf pages: 13; 14; 39; 41; 42

Source role: judgment

2.

Section: 37

Role: supporting_computation_framework

Description: General revenue-expenditure provision explained in paragraph 10; the Court's specific deduction conclusion turns on stock-in-trade treatment under section 28.

Pinpoints

1.

Source url: [Open cited source](#)

Paragraphs: 10, 24

Pdf pages: 14; 42

Source role: judgment

3.

Section: 263

Role: procedural_history

Description: CIT revision of the lead bank's assessments; the judgment does not lay down a separate general test of section 263 jurisdiction.

Pinpoints

1.

Source url: [Open cited source](#)

Paragraphs: 6

Pdf pages: 4; 5

Source role: judgment

4.

Section: 18-21

Role: historical_distinction

Description: Repealed with effect from 1 April 1989; explains why Vijaya Bank, decided under the former interest-on-securities regime, does not govern the trading-asset business-income facts.

Pinpoints

1.

Source url: [Open cited source](#)

Paragraphs: 5, 10-13

Pdf pages: 3; 4; 13; 14; 15; 21; 22

Source role: judgment

5.

Section: 14; 36(1)(iii); 56; 57

Role: contextual_statutory_framework

Description: Heads of income, interest on borrowed capital and other-sources deductions outlined in paragraph 10; no independent deduction dispute under these provisions is finally adjudicated.

Pinpoints

1.

Source url: [Open cited source](#)

Paragraphs: 10

Pdf pages: 13; 14

Source role: judgment

SOURCE & VERIFICATION

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

Identified source rendition: 45 PDF pages; SHA-256

c7bd39108703b09f60df1501bd9a4281d1e4a880baf78f28ef494dd6f1d187a5. Original bytes preserved.

[Open cited source rendition](#)

The signed original prints HMT twice in paragraphs 21-22 although the defined category is HTM; the SCR rendition uses HTM. The note uses the defined abbreviation and leaves both PDFs unchanged.

Paragraphs 8-9 are submissions, including the argument that Vijaya Bank was per incuriam; the Court's holding is not reported as overruling or declaring that precedent per incuriam.

The body's dismissal of Revenue appeals must be read with paragraph 30's HTM qualification; no blanket HTM deduction is asserted.

References to the Income-tax Act, 1922 occur in quoted precedents and do not change this decision's core 1961 Act classification.

Neutral citation, appeal numbers, author and decision date checked against the official signed PDF (pp. 1-2, 45); SCR citation checked against the reported rendition (p. 1).

Paragraph 6 identifies AYs 1990-91 to 1992-93 in the lead bank's regular assessments revised under section 263. Separate assessment years for each connected Revenue appeal are not stated and have not been inferred. AYs 1982-83 and 1989-90 in paragraph 23 describe historical departmental treatment; AYs in quoted precedents are not this case's disputed years.

STATUTORY SCOPE

1961 Act provisions as considered in the judgment for the years and proceedings in issue

No mapping to the Income-tax Act, 2025 or certification of current reassessment, deduction, banking or accounting rules is represented.

LATER TREATMENT

Source checked 2026-10-04. Subsequent review proceedings, stays, reversals and later judicial treatment have not been comprehensively checked. This note is not a citator status certificate.

IDENTIFIED SOURCE LINKS

[official signed judgment - PDF pages: 45](#)

SHA-256: c7bd39108703b09f60df1501bd9a4281d1e4a880baf78f28ef494dd6f1d187a5

[reported alternate rendition - PDF p. 1 / SCR p. 860 - PDF pages: 33](#)

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