

Commissioner of Income Tax, Lucknow v. U.P. Cooperative Federation Ltd.

Civil Appeal No. 1228 (NT) of 1975 — Revenue special-leave appeal concerning two surviving questions from the Allahabad High Court reference.

[1989] 1 SCR 586 | 1989-02-10

Section 14(3)(iii) of the 1922 Act exempted interest on the federation's profit-generating funding of member cooperative societies, but did not exempt interest on its separate contractual agency-security deposit. The character and purpose of each placement had to be examined (SCR 590-595).

Indian Income-tax Act, 1922 | 1922 Act: 14(3)(iii)

2-judge bench | R.S. Pathak, C.J. | Ranganath Misra, J.

01 FACTS OF THE CASE

The apex cooperative federation regulated distribution through member societies. For assessment year 1961-62, it claimed exemption for Rs.9,000 interest from Bazpur Cooperative Sugar Factory on a Rs.2 lakh security deposit and Rs.51,295 interest on advances financing member societies' sugar distribution. The security earned 4½ per cent; the member funding earned 6 per cent. The tax authorities and Tribunal refused exemption for both, while the Allahabad High Court allowed it. Only two of six reference questions survived; counsel confined the second issue to Rs.51,295, leaving Rs.58,937 outside the appeal's dispute (SCR 588-591).

Source: [SCR 586-595; physical PDF pages 1-10](#)

02 DISCUSSION BY THE HON'BLE COURT

Ranganath Misra J., with Pathak C.J., treated the security according to its contractual function. It secured the agent's performance, allowed adjustment for losses or expenses, required replenishment if depleted, and was repayable after the agreed period and account adjustment. Earning interest did not convert that security into an investment. Member funding had a different purpose: the societies lacked the finance required to procure and distribute sugar, and the money was necessary to run that business and generate profits. The term investment was not statutorily defined and could encompass loans. The provision of money, its business purpose and the contractual interest return justified treating those advances as investments with other cooperative societies (SCR 590-594).

Source: [SCR 586-595; physical PDF pages 1-10](#)

03 JUDICIAL DECISION

The Rs.9,000 security interest was taxable; the Tribunal had correctly denied exemption on that item. The Rs.51,295 interest on member-society advances fell within section 14(3)(iii). The Court also endorsed liberal construction to fulfil the provision's cooperative-development purpose, while maintaining the distinction between the two receipts (SCR 591, 594-595).

Source: [SCR 586-595; physical PDF pages 1-10](#)

04 OUTCOME / IN WHOSE FAVOUR

Mixed: Revenue on security interest; assessee on member-funding interest The appeal was disposed of with divided success: the High Court was reversed on security interest and sustained on the member-funding interest. There was no order as to costs and no remand (SCR 590-591, 595). Historical income-tax questions decided within the issue limits stated in this note No current-law or comprehensive later-treatment certification.

Source: [SCR 586-595; physical PDF pages 1-10](#)

05 AKHB REVIEW POINT

The operative exemption is section 14(3)(iii) of the 1922 Act. Section 80P(2)(d) appears in the editorial headnote, not as an independently analysed operative provision in the judgment. Avoid equating every cooperative deposit or loan with qualifying investment. Later treatment and current 1961/2025 equivalence are unverified.

Source: [SCR 586-595; physical PDF pages 1-10](#)

ASSESSMENT YEARS AND LIMITS

Years: 1961-62

Qualification: Only years material to the issues described are listed; different claims may cover different years as stated in the facts.

REPORTED CITATION

Supplied SCR report citation; no machine-generated neutral citation substituted.

STATUTORY CONTEXT

Income-tax Act, 1961, section 80P(2)(d), named in the editorial headnote only

SOURCE & VERIFICATION

Original reported Supreme Court judgment

Unchanged supplied SCR report; catalog identifies a CC-BY-4.0 public eSCR mirror. Not represented as a separately fetched official signed PDF. Headnote SCR 586-588; jurisdiction/counsel and sole Ranganath Misra J. judgment start SCR 588; disposition SCR 595. No adjacent judgment included.

Open cited source rendition

The judicial decision is expressly confined to Rs.9,000 and Rs.51,295; the Rs.58,937 mentioned in the reference is no longer disputed.

The source table totals Rs.51,295.24 while the reference and final answer use Rs.51,295.

SCR 594 contains the garbled sentence 'Admittedly the finding was the cooperative societies'; the funding conclusion is supported by the surrounding reasons. SCR 592 intentionally omits several agreement clauses with ellipses; no omitted terms are reconstructed.

STATUTORY SCOPE

Indian Income-tax Act, 1922. The historical operative enactment is identified. Other enactment references are source context only unless expressly identified as operative; no 2025 mapping is asserted.

LATER TREATMENT

Source checked 2026-10-09. Subsequent appeals, review proceedings, stays, reversals and later treatment have not been comprehensively checked. This is not a citator status certificate.

AI DISCLOSURE

AI-assisted research. The AKHB Review Point is editorial analysis, not part of the Court's judgment.

PROFESSIONAL DISCLAIMER

AI-assisted legal research note for general information and professional research. Verify the original judgment, applicable statutory version and later treatment before reliance. The AKHB Review Point is editorial analysis.