

SUPREME COURT OF INDIA
RECORD OF PROCEEDINGS

CIVIL APPEAL NO(s). 6724-6729 OF 2003

COMMNR. OF INCOME TAX, KARNATAKA

Appellant (s)

VERSUS

M/S. CANARA BANK

Respondent(s)

(With office report)

Date: 30/07/2007 This Petition was called on for hearing today.

CORAM :

HON'BLE MR. JUSTICE S.H. KAPADIA
HON'BLE MR. JUSTICE B. SUDERSHAN REDDY

For Appellant(s) Mr. M.Parasaran,ASG.

Ms. Alka Sharma,Adv.
Mr.Raghvendra Rao,Adv.
Mr. Kailash Pandey,Adv.

Mr. B.V. Balaram Das,Adv.

For Respondent(s)

Mr. G.S.Sarangan,Sr.Adv.
Mr. Sanjay Kunur,Adv.
Mr. R.N.Keshwani,Adv.

Mr. N.N. Keshwani,Adv.

UPON hearing counsel the Court made the following
ORDER

The Civil appeals are disposed of with no order as to costs.

(Suman Wadhwa)
Court Master

(Madhu Saxena)
Court Master

Signed order is placed on the file.
IN THE SUPREME COURT OF INDIA

CIVIL APPELLATE JURISDICTION

CIVIL APPEAL NOS.6724-6729 OF 2003

Commnr. of Income Tax, Karnataka

... Appellant

Versus

M/s. Canara Bank

... Respondent

ORDER

A short question which arise for determination in this batch of civil appeals is: whether

the Tribunal was justified in holding that an amount representing rediscounting interest paid on

promissory note/bill did not accrue or arise to the assessee-bank by reason of diversion of such

discount through overriding title in favour of Industrial Development Bank of India (IDBI) and hence did not form part of chargeable interest under Section 2(7) of the Interest-tax Act, 1974

(for short, 'the 1974 Act').

The facts giving rise to these civil appeals are as follows.

Assessee-bank is a nationalized bank. In the assessment years 1979-80, 1980-81, 1981-82, 1982-83, 1983-84, 1984-85, 1985-86 the assessee did not include rediscounting charges received from IDBI in its chargeable interest. According to the Department, rediscounting charges represented assessee's Interest Income and, therefore, rediscounting charges were taxable as "chargeable interest" as defined under Section 2(7) read with Section 5 of the 1974 Act.

The short question which arises for determination in these civil appeals concerns the meaning of rediscounting charges under the Scheme of rediscounting by IDBI. The Bills

Rediscounting Scheme was introduced in April, 1965, in terms of the powers vested in the IDBI under Section 9(1)(b) of its statute, which authorized IDBI to accept, discount or rediscount bills

of exchange, promissory notes of industrial concerns. The object of the Scheme is two-fold, i.e.,

to increase the sales of indigenous machinery/capital equipment by offering to the prospective buyers/users deferred payment facilities. While the manufacturers received the value of the machinery within a few days of delivery by discounting the bills with the banker, the buyer/user

could utilize the machinery acquired and repay its costs over a number of years. Therefore, the

Scheme facilitates sales of machinery, thereby contributing to the industrial progress of the country. Under the Scheme, IDBI itself does not discount the bills but rediscounts those

discounted by nationalized banks. The buyers of the machinery under the Scheme have to obtain through their banks prior clearance of IDBI for discounting the bills and for determination

of the quantum of assistance. Under the Scheme, the discounting bank, availing itself of the rediscounting facilities from IDBI, cannot charge the seller/manufacturer discount at a rate

higher than the rate prescribed by IDBI. The seller/manufacturer is also prohibited from

charging interest for the deferred payment at an amount higher than the amount paid to the bank. IDBI under Scheme has a right to refuse rediscounting of bills of such

sellers/manufacturers who do not comply with the requirements under the Scheme. Therefore,

the Scheme is enacted basically to give financial assistance to manufacturers of indigenous machinery. Under the Scheme, every bill or pro-note is required to be accepted at offices of IDBI. The proforma of bills is also prescribed by IDBI. In each and every document in support of bill or pro-note, IDBI has to be party. Under the Scheme, the discounting bank such as the assessee, availing itself of rediscounting facilities from the IDBI, was not entitled to charge the

seller/manufacturer discount at rates higher than 1.75 per cent over the discount rates charged

by IDBI. Under the Scheme, the discounting bank, like the assessee, has to take back the bill or promissory note from IDBI against payment, three working days in advance of their due dates and obtain payment thereof from the acceptor/guarantor of the bills/pro-notes.

Under the

Scheme, the primary responsibility for payment to IDBI is placed on the seller's bank which in the present case is the assessee-bank. Therefore, the rediscounting charges of IDBI collected by the assessee-bank cannot be "chargeable interest" under Section 2(7) of the 1974 Act since even before the said amount could reach the hands of the assessee-bank, it is impressed with the character of rediscounting charges payable to IDBI. The Scheme, viewed as a whole, makes it clear that the assessee-bank is only the medium for the disbursement of the development fund for the implementation of the Scheme for which the assessee-bank is allowed to retain 1.75 per cent, which accrues to the assessee-bank and, therefore, it is not possible to

bifurcate the transaction which has to be read in its entirety.

For the aforesaid reasons, we answer the above question in affirmative, i.e., in favour of the assessee-bank and against the Department. Accordingly, the civil appeals are disposed of with no order as to costs.

.....J.
(S.H. KAPADIA)

.....J.
(B. SUDERSHAN REDDY)

New Delhi;
JULY 30, 2007.