

SUPREME COURT OF INDIA

Commnr. Of Income Tax, Karnataka

Vs.

M/s. Canara Bank

Appeal (civil) 6724-6729 of 2003

(S.H. Kapadia and Sudershan Reddy)

30/07/2007

JUDGEMENT

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.