

IN THE INCOME TAX APPELLATE TRIBUNAL  
PANAJI 'SMC' BENCH : PANAJI  
(THROUGH VIRTUAL HEARING)  
BEFORE SHRI SATBEER SINGH GODARA, JUDICIAL MEMBER

ITA.No.46/PAN/2021  
Assessment Year 2017-2018

The Bhagwati Urban Co-op Credit Society Ltd., S-1 Market Subyard Near Bank of Maharashtra, Pednem, Goa – 403 524	vs.	The Income Tax Officer, Ward-1(3), Panaji.. Goa – 403 001
(Appellant)		(Respondent)

For Assessee :	Shri Rajendra Bhobe
For Revenue :	Shri N. Shrikant

Date of Hearing :	23.11.2022
Date of Pronouncement :	25.11.2022

**ORDER**

This assessee's appeal for assessment year 2017-18, arises against the National Faceless Appeal Centre Delhi's order dated 29.11.2021, in DIN & Order No.ITBA/NFAC/S/250/2021-22/1037319684(1), in proceedings u/s. 143(1) of the Income Tax Act, 1961 (in short "the Act").

2. Heard both the parties. Case file perused.
3. Coming to the sole substantive grievance of the x that both the lower authorities have erred in law and on facts in declining its 80P(2)(a)(i) deduction of Rs.19,56,156/- inter alia for twin reasons that it is only a Urban Co-operative Bank

then a cooperative society and the said interest income represents deposits made in a cooperative bank and thus not entitled for the relief in issue as per section 80P(4). It is noted with the able assistance coming from both the parties that neither of these reasons deserves to be accepted.

3.1. So far as learned lower authorities findings' that this assessee is not a cooperative credit society but a cooperative bank, the Learned DR could hardly dispute that hon'ble apex court recent landmark decision in Mavilayi Service Co-operative Bank Ltd., vs., CIT [2021] 431 ITR 1 (SC) has settled the law that even such a registered cooperative society is also entitled for the impugned deduction. The legal position would be hardly any different qua the latter issue of interest income derived from cooperative banks u/s. 80P(4) wherein this tribunal's recent coordinate bench common order in ITA.Nos.170 & 171/Pune/2018 dated 04.04.2022 in The Belagavi Manufacturers cooperative Industrial Estate Ltd., Udyambag – Belagavi and others vs., ITO, Ward-1(1), Belagavi as follows :

“4. Brief fact is that all the cooperative societies invested their surplus funds in Cooperative Bank and accordingly the interest was earned. The assessee claimed the interest as deduction u/s 80P but the Ld. AO disallowed the deduction for violation of Section 80P(2)(d) of the Income Tax Act (in brevity the Act). In

relation to restriction u/s 80P(4) of the Act. The interest was added back with the total income as income amount of Rs.857,533/- as income from other sources. The Revenue authorities had relied on the order of Hon'ble Supreme Court in the case of Totgar Cooperative Sales Society Ltd. V. ITO 188 Taxman 282 (SC). Accordingly the interest earned from Cooperative Bank was added back with the total income of the assessee society. The assessee filed an appeal before the Ld. CIT(A) and the Ld. CIT(A) upheld the order of the Ld. AO, so the assessee filed the appeal for further adjudication before the ITAT.

5. The Ld. Counsel of the assessee vehemently argued and placed a paper book which is kept in record. According to the Ld. counsel the assessee invested his fund to the Cooperative Bank so the interest earned from the bank is liable for the exemption u/s 80P of the Act. Section 80P(4) is not affected in this particular deduction. The Revenue is wrongly interpreted the section 80P(4) and the judgment of the Hon'ble Supreme Court in the case of Totgars Co-operative Sales Society Ltd, supra.

6. The Ld. DR vehemently argued and relied that the assessee invested in Cooperative Bank and the interest earned from the Cooperative Bank is not eligible u/s 80P(4). Section 80P(4) only

restricted investment in the Cooperative Society not in bank. So the order of the Ld. CIT(A) is maintainable. ITA Nos. 170&171/PAN/2018 & Ors The Begaum Manufacturers Coop.& Ors v. ITO 8

7. The Ld. counsel further argued that the assessee is registered under Cooperative Society Distt. Belagavi under department of Cooperative, Government of Karnataka bearing certificate no. 10161 dated 29.11.2003. The assessee is eligible for deduction of the interest or dividend derives by its investment which other Co-operative Society & also from co-operative bank. It was argued that the assessee has earned interest from Cooperative Bank which are primarily Cooperative society. So, the assessee is rightly eligible for deduction u/s 80P(2)(d).

8. The Ld. AO took the following observations related explanation of section 80P(4) of the Act as per the assessment order page 3 para 5 and 6 which are recasted as under:-

“5. Explanation to Section 80P(4) of the Income-tax Act, 1961 says that the Cooperative Bank and Primary Agricultural Credit Society shall have the meanings respectively assigned to them in Part-V of the Banking Regulation Act, 1949. The following definitions under

Banking Regulation Act, 1949 will help in determining whether any particular Co-operative Society can be treated as Co-operative Bank/ Primary Co-operative Bank or not.

<i>Sl. No</i>	<i>Category</i>	<i>Clause/section of Banking Regulation Act, 1949</i>	<i>Definition</i>
1	<i>Co-operative Bank</i>	<i>Clause (cci) of Section 5</i>	<i>Co-operative Bank means a State Co-operative Bank, a Central Co-operative Bank and a</i>
2	<i>Primary Co-operative Bank</i>	<i>Clause (ccv) of Section 5</i>	<p><i>Primary Co-operative Bank means a Co-operative Society other than a Primary Agricultural Credit Society-</i></p> <p><i>(1) the primary object or principal business of which is the transaction of banking business;</i></p> <p><i>(2) the paid up share capital and reserves of which are not less than one lakhs of rupees;</i></p> <p><i>(3) the bye-laws of which do not permit admission of any other co-operative society as a members.</i></p>
3	<i>Primary Credit Society</i>	<i>Clause (ccvi) of Section 5</i>	<p><i>Primary Co-operative Society means a Co-operative society other than a primary agricultural credit society –</i></p> <p><i>(1) the primary object or principal business of which is the transaction of banking business;</i></p> <p><i>(2) the paid up share capital and reserves of which are not less than one lakh of rupees; and</i></p> <p><i>(3) the bye laws of which do not permit admission of any other co-operative society as a member.</i></p>

6. From the above chart, it is clear that Co-operative Bank includes Primary Cooperative Bank and Primary Co-operative Bank and Primary Co-operative Bank means Co-operative Society- (1) the primary object or principal business of which is the transaction of banking business; (2) the paid up share capital and reserves of which are not less than one lakh of rupees; and (3) the bye-laws of which do not permit admission of any other co-operative society as a member.”

9. We heard the rival submissions and perused the material available on record.

10. Having discharge the matter in the issue of section 80P(2)(a)(i), the claim of assessee for deduction is viewed as follows:-

10.1. The Cooperative Bank wherein the assessee deposited out of its surplus funds for earning interest. Then, the only interest was earned by the assessee on the deposit would be eligible for deduction u/s 80P(2)(d). The definition of the Cooperative Society is bought in larger umbrella under which the Cooperative Banks is performed. In this consideration we relied on the catena of judgments which are as follows:-

a) In the case of Tumukur Merchants Souhard credit coop limited Vs. The income Tax officer ward-1 Tumkur, [2015] 55 taxmann.com 447 (Karnataka)

“10. In the instant case, the amount which was invested in banks to earn interest was not an amount due to any members. It was not the liability. It was not shown as liability in their account. In fact this amount which is in the nature of profits and gains, was not immediately required by the assessee for lending money to the members, as there were no takers. Therefore they had deposited the money in a bank so as to earn interest. The said interest income is attributable to carrying on the business of banking and therefore it is liable to be deducted in terms of Section 80P(1) of the Act. In fact similar view is taken by the Andhra Pradesh High Court in the case of CIT v. Andhra Pradesh State co-operative Bank Ltd., [2011] 200 Taxman 220/12 taxmann.com 66. In that view of the matter, the order passed by the appellate authorities denying the benefit of deduction of the aforesaid amount is unsustainable in law. Accordingly it is hereby set aside. The substantial question of law is answered in favour of the assessee and against the revenue. Hence, we pass the following order”

b) In the case of The Commissioner of Income tax vs Gulshan Mercantile Urban Co-Operative Bank Ltd [2013] 29 taxmann.com 8  
(All.)

“10. The question as to whether the business is derived from or attributable to SLR or non-SLR funds would not make any difference for the purposes of qualifying the interest earned by the cooperative bank under Section 80P(2)(a)(i) as the deposits of surplus idle money available from working capital, including reserves, excess collection of interest tax and other incomes are all attributable to the business of banking. The interest from such deposits cannot be said to be beyond the legitimate business activities of the bank.

11. For the aforesaid reasons, we do not find that the Income Tax Appellate Tribunal committed any error in arriving at findings that the interest are not deposits of non-SLR funds and the cooperative bank will qualify for exemption under Section 80P(2)(a)(i) of the Act.”

c) In the case of Kaliandas Udyog Bhavan Memises Co-op Society Ltd. v. Income-tax Officer-21(2)(1), 6547/MUM/2017, AY 14-15 (ITAT-Mumbai), Date of Order-25/04/2018.

“9. We thus in the backdrop of our aforesaid observations are unable to persuade ourselves to be in agreement with the view taken by the lower authorities that the assessee would not be entitled for claim of deduction under Sec. 80P(2)(d), in respect of the interest

income on the investments made with the co-operative bank. We thus set aside the order of the lower authorities and conclude that the interest income of Rs.27,48,553/- earned by the assessee on the investments held with the co-operative bank would be entitled for claim of deduction under Sec. 80P(2)(d).”

d) In the case of Tirupati Campus PH. II CO-OP HOUSING SOCIETY MARYADIT VERSUS THE INCOME TAX OFFICER WARD -7 (4), PUNE (ITAT\_Pune) ITA No.1429/PUN/2018, AY-2015-16, Date of Order 28/02/2019.

“5. I have heard the rival submissions and perused the material on record. The issue in the present ground is with respect to denial of claim of deduction u/s 80P(2)(d) of the Act. The claim of deduction by the assessee was denied by the AO with respect to the interest income earned from Saraswat Co-operative Bank on the ground that the same is not a Co-operative Society. I find that the Co-ordinate Bench of the Delhi Tribunal in the case of M/s. The Veer Cooperative Group Housing Society Limited (supra) has held that Saraswat Co-operative Bank to be a Cooperative Society and the interest earned therein to be entitled to claim deduction u/s 80P(2)(d) of the Act. I further find that Co-ordinate Bench of the Mumbai Tribunal in the case of Lady Ratan Tower Cooperative Housing Society Ltd., (supra) and after relying on the decision in the case of Kaliandas Udyog Bhavan Premises Cooperative Society Ltd., (supra) has held that the interest earned on investments

held with the Co-operative Banks would be eligible for deduction u/s 80P(2)(d) of the Act.”

10.2. In relation to the judgment of Hon’ble Supreme Court, Totgars Co-operative Sales Society Ltd, supra the counsel has made a comparative chart which is inserted as follows:

“... of generation and distribution of electricity.”

**Clarification regarding non applicability of decision of Totagar Co-operative sale society v/s Principal commissioner of Income Tax, Hubballi due to following factual differences and position of the law.**

Sl. No	Point of difference	Totagar Co-operative sale society	Facts of our own case
1	Activity of the society	Engaged in multiple activities.	Engaged in multiple activities.
2	Source of funds	Source was out of fund retained by it out of sale proceeds payable to the members	In the instant case, the amount which was invested in banks to earn interest was not an amount due to any members. It was not the liability.
3	Nature of fund invested	It is not operational fund society.	It is operational fund of the society.
4	Obligation to deposit	There was no obligation on the part of the society to invest funds in the banks it should have paid the same members from whom goods were bought.	As per provisions of section 58 of co operative society act it is obligatory on us to invest our funds into the modes specified and to maintain the liquidity in the kind of business done by us we cannot lend our entire fund to the members.
5	Nature of interest earned and its nexus to business	Interest income is not attributable to its main business.	Interest income is attributable to its main business, as the society has entered into binding MOU with DCC bank (copy enclosed), which mandates society to invest its entire funds with the DCC bank
6	Maintenance of liquidity	The society is under no obligation to maintain liquidity to the extent of kind of fund invested by it	The society is under obligation to maintain liquidity to the extent of kind of fund invested by it so as to safeguard the interest of depositors in the form of safety, liquidity and return.

10.3. Thus we also find that section 80P(2)(d) of the Act allows whole deduction of income by way of interest or dividend derived by Cooperative Society from its investments with any other co-operative society. This provision does not make any distinction with regard to the source of investment because this section envisages deduction in respect of any income derived by co-operative society from in his investment with a co-operative society. So the Revenue is not required to look another of investment whether it was formed as required within time or otherwise.

10.4. We have heard the considered of the case of Totagars Co-operative Sales Society Ltd. Supra which was relied by the Ld. DR and find that the Hon'ble Apex Court has dilapidated on the issue of deduction u/s 80P(2)(a)(i) but not on section 80P(2)(d). We also observed that in the case of Totagars Cooperative Sales Society Ltd, [2017] 78 taxmann.com 169 (Karnataka) itself the Hon'ble High Court of Karnataka has allowed the claim of deduction u/s 80P(2)(d) vide order dated 05.01.2017.

10.5. Considering all the judgments of the different High Courts & Tribunals we hereby hold that the investment of assessee in cooperative bank is eligible investment

u/s 80P(2)(d) of the Act. The interest of the said investment related to Cooperative Society, assessee is eligible for deduction u/s 80P(2)(a)(i) of the Act.

Accordingly the appeals of the assessee are allowed.”

3.2. I, therefore, direct the Assessing Officer to frame necessary computation after treating the assessee as eligible for the impugned section 80P deduction.

4. This assessee’s appeal is allowed in above terms. No other ground or argument has been raised during the course of hearing.

Order pronounced in the open court on 25.11.2022.

Sd/-  
[SATBEER SINGH GODARA]  
JUDICIAL MEMBER

Pune, Dated 25<sup>th</sup> November, 2022

VBP/-

Copy to

1.	The appellant
2.	The respondent
3.	The Ld. CIT(A) concerned.
4.	The CIT concerned
5.	D.R. ITAT, Panaji ‘SMC’ Bench, Panaji
6.	Guard File.

//By Order//

Assistant Registrar, ITAT, Pune Benches,  
Pune.