

IN THE INCOME TAX APPELLATE TRIBUNAL
PUNE BENCH "B" : PUNE

BEFORE SHRI SATBEER SINGH GODARA, JUDICIAL MEMBER
AND
DR. DIPAK P. RIPOTE, ACCOUNTANT MEMBER

I.T.A.No.260/PUN./2023
Assessment Year 2018-2019

Subordinate Engineers Association MSEB Co.OP Credit Society Ltd., C.S.No.227/1, Plot No.5, E-Ward, Tarabai Park, Near Kran Bunglow, Kolhapur. PIN -416 003 Maharashtra. PAN AACAM3801A	vs.	The Income Tax Officer, Ward – 2 (2), 31-C/2, E-Ward, Tara Bai Park, Kolhapur. Maharashtra.
(Appellant)		(Respondent)

For Assessee :	-None-
For Revenue :	Shri M.G. Jasnani

Date of Hearing :	01.05.2023
Date of Pronouncement :	01.05.2023

ORDER

PER SATBEER SINGH GODARA, J.M. :

This assessee's appeal for assessment year 2018-2019, arises against the National Faceless Appeal Centre [in short the "NFAC"] Delhi's Din and Order No. ITBA/NFAC/S/250/2022-23/1048733828(1), dated 16.01.2023, involving proceedings u/s. 143(3) of the Income Tax Act, 1961 (in short "the Act").

Despite issue of notice, none appears at assessee's behest. It is accordingly proceeded ex-parte.

2. Coming to the assessee's sole substantive grievance challenging correctness of both the learned lower authorities action imposing sec.270A penalty of Rs.1,71,722/- regarding twin disallowances of sec.80P(2)(a)(i) deduction of Rs.3,85,654/- derived from various banks which was treated as "income from other sources" u/s.56 of the Act and sec.40A(7) gratuity disallowance of Rs.1 lakh, respectively, we note that there is hardly any much a need for us to delve deeper in the relevant factual matrix. This is for the precise reason that the assessee's former sec.80P deduction disallowance itself is not found to be as per law, *per se* in light of this tribunal's recent various judicial precedents namely Lokmangal Nagri Sahakari Path Sanstha Maryadit, Solapur vs. PCIT-4, Pune in ITA.No.231/PUN./2022 decided on 29.11.2022 as follows :

"3. Briefly, the facts of the case are as under :

The appellant is a cooperative society formed under the Maharashtra Co-operative Societies Act, 1960. It is engaged in the business of accepting deposits from members and providing credit facilities to its members. The original Return of Income for the assessment year 2017-18 was filed on 18.10.2017 disclosing total income of Rs.3,11,740/-. Subsequently, the assessee revised the return of income declaring Rs.Nil income after claiming deduction of Rs.6,32,86,382/- under the provisions of section 80P

of the Income Tax Act, 1961 ('the Act'). Against the said return of income, the assessment was completed by the Assessing Officer accepting the returned income vide order dated 19.11.2019 passed u/s 143(3) of the Act.

4. Subsequently, on examination of the assessment order, the ld. PCIT formed an opinion that failure the Assessing Officer to examine the taxability of interest earned on the investments made with the cooperative banks, as the same constitutes business income, rendered the assessment order erroneous. Accordingly, the ld. PCIT issued a show cause notice dated 08.03.2022 u/s 263 calling upon the appellant society to explain as to why the assessment order dated 19.11.2019 should not be treated as erroneous and prejudicial to the interests of the revenue. In response to the show cause notice, the appellant filed a detailed submission stating that the interest income earned by the cooperative bank on the investments made with the other cooperative bank is eligible for deduction under the provisions of section 80P(2)(a)(i) as well as under the provisions of section 80P(2)(d) placing reliance on the following decisions :

- (i) Gurumauli Nagari Sahkari Pat Sanstha vs. PCIT order dated 13.01.2022 (Pune – Trib.).*
- (ii) Tumkur Merchants Souharda Credit Cooperative Ltd. vs. ITO 230 Taxman 309 (Kar – HC).*

- (iii) *Sureshdada Jain Nagari Sahakari Patsanstha Maryadit (ITA No.713/PUN/2016).*
- (iv) *Nasik Road Nagri Sahakari Patsanstha (ITA No.1700/PUN/2017 order dated 27.12.2021).*
- (v) *ITO vs. Shri Laxmi Narayan Nagari Sahakari Pathsanstha (ITA No.2827/PUN/2016 order dated 19.09.2018).*
- (vi) *Sant Motiram Maharaj Patsanstha Ltd. vs. ITO, 120 taxmann.com 10.*

5. *It is further submitted that the Assessing Officer had allowed the claim of exemption after due application of mind on the issue in appeal and, therefore, the Explanation 2 to section 263 cannot be invoked. However, the ld. PCIT on due consideration of explanation filed by the appellant held that the failure of the Assessing Officer to examine the issue rendered the assessment erroneous and prejudicial to the interests of the revenue. Accordingly, ld. PCIT set aside the assessment order with a direction to examine the assessee's claim of deduction u/s 80P(2)(a)(i) as well as interest of Rs.19,88,77,712/- u/s 80P(2)(d) after affording reasonable opportunity of being heard to the appellant.*

6. *Being aggrieved, the appellant is in appeal before us in the present appeal.*

7. *The ld. AR submits that the issue of eligibility of income earned on the investment made with the cooperative bank was*

examined by the Co-ordinate Bench of this Tribunal in the case of M/s. Jan Kalyan Nagri Sahakari Pat. Limited Sanstha in ITA No.825/PUN/2019 for A.Y. 2014-15 order dated 26.08.2022. The ld. AR submits that the issue is covered in favour of the appellant. In support of this proposition, ld. AR relied on the following judicial precedents :-

- (i) Nashik Road Nagari Sahkari Patsanstha Limited vs. ITO (ITA No.1700/PUN/2017 dated 27.12.2021).*
- (ii) Rena Sahakari Sakhar Karkhana Ltd. vs. Pr.CIT (ITA No.1249/PUN/2018 dated 07.01.2022).*
- (iii) Shri Chandraprabhu Urban Co-operative Credit Society Ltd. vs. ITO (ITA No.61 & 62/PAN/2018 dated 10.05.2022).*

8. Thus, it was contended that when the issue was stands covered and decided in favour of the assessee, then it cannot be said that the assessment order is erroneous as well as prejudicial to the interests of the revenue.

9. On the other hand, ld. CIT-DR placing reliance on the order of the ld. PCIT submits that failure of the Assessing Officer to examine the taxable income earned on the investments from cooperative bank rendered assessment order erroneous and prejudicial to the interests of the revenue. Therefore, he submits that the ld. PCIT was justified in exercising the power of revision u/s 263 of the Act.

10. *We heard the rival submissions and perused the material on record. The issue in the present appeal relates to the validity of assumption of jurisdiction u/s 263 by the ld. PCIT. The Parliament had conferred the power of revision on the Commissioner of Income Tax u/s 263 of the Act in case the assessment order passed is erroneous and prejudicial to the interests of revenue. In order to invoke the power of revision, the above two conditions are required to be satisfied cumulatively. References in this regard can be made to the decision of the Hon'ble Supreme Court in the case of Malabar Industrial Co. Ltd. vs. CIT, 243 ITR 83 (SC) and in the case of CIT vs. Max India Ltd., 295 ITR 282 (SC). The error in the assessment order should be one that it is not debatable or plausible view. In a case where the Assessing Officer examined the claim, took one of the plausible views, the assessment order cannot be termed as an "erroneous". In the present case, we find that admittedly the interest income was earned from the cooperative banks, the cooperative bank is also a specie of cooperative society, therefore, the interest income earned by the cooperative society from the cooperative banks qualifies for deduction u/s 80(P)(2)(d) of the Act. Such interest also qualifies for exemption u/s 80P(2)(a)(i) as held by the Co-ordinate Bench of*

Pune Tribunal in the case of Nashik Road Nagari Sahkari Patsanstha Limited (supra) wherein the Tribunal held as under :-

“9. We heard the rival submissions and perused the material on record. Admittedly, the appellant is a Cooperative society formed under the provisions of Maharashtra Cooperative Societies Act, 1960 with the objective of accepting deposits and lending money to its members. The money which is not immediately required for the purpose of lending to the members is deposited with Bank of Baroda in the form of Fixed Deposit. The question is whether the interest so earned qualifies for exemption u/s. 80P(2)(a)(i) of the Act. The AO as well as the CIT(A) were of the opinion that the interest earned from third parties or non-members does not qualify for exemption u/s. 80P. It is an admitted position that the interest so earned should be taxed as ‘income from other sources’ There is a cleavage of judicial opinion among several High Courts on the issue of eligibility of this kind of income for exemption u/s. 80P(2)(a)(i) of the Act. The Hon’ble Punjab & Haryana High Court in the case of CIT vs. Punjab State Cooperative Federation of Housing Building Societies Ltd. 11 taxmann.com 448, the Hon’ble Gujarat High Court in the case of State Bank of India Vs. CIT 389 ITR 578 (Guj.), the Hon’ble Delhi High Court in the case of Mantola Co-operative Thrift & Credit Society Ltd. Vs. CIT 50 taxmann.com 278, the Hon’ble Punjab & Haryana High Court in the case of CIT Vs. Punjab State Cooperative Agricultural Development Bank Ltd. 389 ITR 68 and the Hon’ble Kolkata High Court in the case of CIT Vs. Southern Eastern Employees Cooperative Credit Society Ltd. 390 ITR 524 took a view that the income arising on the surplus invested in short term deposits and securities cannot be attributed to the activities of the society and, therefore, not eligible for exemption u/s. 80P(2)(a)(i) of the Act. However, the Hon’ble Karnataka High Court in the case of Tumkur Merchants Souharda Credit Cooperative Ltd. Vs. ITO (2015) 230 taxmann 309 (Kar.) and the Hon’ble Telangana and Hon’ble Andhra

Pradesh High Court in the case of Vaveru Co-operative Rural Bank Ltd. v CIT [(2017) 396 ITR took a view that such interest income is attributable to the activities of the society and, therefore, eligible for exemption u/s.80P(2)(a)(i) of the Act. The Coordinate Bench of Pune Benches in the case of M/s. Ratnatray Gramin Bigar Sheti Sah. Pat Sanstha Maryadit Vs. ITO (ITA Nos.559/560/PUN/2018, dated 11-12-2018) has taken view in favour of the assessee following the judgment of Hon'ble Karnataka High Court in the case of Tumkur Merchants Souharda Credit Cooperative Ltd. (supra). Respectfully following the decision of the Coordinate Bench, we hold that the interest income earned on the investment of surplus money with banks is also eligible for exemption u/s.80P(2)(a)(i) of the Act. Thus, the grounds of appeal No. 1 & 2 stands allowed.”

11. Thus, we find that the issue which is subject matter of revision is covered in favour of the assessee by judicial precedents. Therefore, it cannot be said that the assessment order is erroneous or prejudicial to the interests of the revenue. Therefore, we are of the considered opinion that the order of revision passed by the ld. PCIT u/s 263 of the Act cannot be sustained in the eyes of law. Hence, the grounds of appeal raised by the assessee stand allowed.”

3. Learned CIT-DR could also not dispute that the hon'ble jurisdictional high court's latest decision [2023] 149 taxmann.com 94 (Bom.) Mumbai Postal Employees Co.Op Credit Society Ltd., vs. ITO has already rejected the Revenue's identical stand in initiating sec.148 proceedings for the

purpose of assessing similar interest income derived from co-operative banks and other institutions.

4. The factual position is hardly any different regarding the impugned penalty pertaining to the latter issue of sec.40A(7) gratuity disallowance of Rs.1 lakh which is covered as per CBDT's circular No.37/2016 dated 02.11.2016 making it clear to the field authorities that such a reduction of expenditure claim only increases an assessee's business income otherwise eligible for Chapter-VI deduction. These quantum disallowances are not even sustainable in law in very terms. We draw strong cue therefrom to conclude that the learned lower authorities have erred in law and on facts in imposing the impugned penalty of Rs.1,71,722/- regarding the above twin disallowances of sec.80P deduction of Rs.3,85,654/- and sec.40A(7) gratuity amount of Rs.1 lakh, respectively. The same is directed to be deleted. Ordered accordingly.

5. This assessee's appeal is allowed in above terms.

Order pronounced in the open Court on 01.05.2023.

Sd/-
[DR. DIPAK P. RIPOTE]
ACCOUNTANT MEMBER
Pune, Dated 01st May, 2023
VBP/-

Sd/-
[SATBEER SINGH GODARA]
JUDICIAL MEMBER

Copy to

1.	The appellant
2.	The respondent
3.	The CIT(A), Kolhapur
4.	The PCIT, Kolhapur.
5.	D.R. ITAT, Pune "B" Bench, Pune
6.	Guard File.

//By Order//

Assistant Registrar, ITAT, Pune Benches,
Pune.