

**IN THE INCOME TAX APPELLATE TRIBUNAL
COCHIN BENCH**

BEFORE SHRI INTURI RAMA RAO, AM

**ITA No. 724/Coch/2924
Assessment Year: 2018-19**

Olavanna Service Co-op. Bank Ltd.
Olavanna P.O., Kozhikode 673019
[PAN: AAAAO3624P]

..... Appellant

Vs.

The Income Tax Officer
Ward - 2(3), Kozhikode

..... Respondent

Appellant by: Ms. Lakshmi Menon, Advocate
Respondent by: Smt. Leena Lal, Sr. D.R.

Date of Hearing: 12.12.2024
Date of Pronouncement: 12.12.2024

ORDER

This appeal filed by the assessee is directed against the order of the National Faceless Appeal Centre, Delhi [CIT(A)] dated 30.07.2024 for Assessment Year (AY) 2018-19.

2. Brief facts of the case are that the assessee is primary agricultural credit co-operative society registered under the Kerala Co-Operative Societies Act, 1969. The assessee is carrying on the business of banking or providing credit facilities to its members as well as some non-members but claimed deduction u/s. 80P(2)(a)(i) of the Income Tax Act, 1961 (the Act). The Assessing Officer (AO) observed that the assessee society incorrectly claimed deduction even as it was doing business with non-members and public at large. He also observed that the assessee

derived interest income by depositing surplus funds with the State Bank of India. Therefore he disallowed the claim of deduction u/s. 80P(2)(a)(i) of the Act in respect of interest earned from State Bank of India of Rs. 17,41,035/-.

3. Being aggrieved, an appeal was filed before the CIT(A), who vide the impugned order confirmed the action of the AO.

4. Being aggrieved, the assessee is in appeal before us in the present appeal.

5. We have heard the rival contentions of both the parties and perused the material available on record. The issue of interest income received from Treasury, Scheduled Banks, etc. is no longer res integra, as it is covered by the judgement of the Hon'ble Jurisdictional High court in the case of CIT vs. Sahyadri Co-operative Credit Society Ltd. in ITA No. 63 of 2019, wherein it was held as under: -

“The question that arises therefore is whether, merely because the assessee chooses to deposit its surplus profit in a permitted bank or financial institution, and earns interest on such deposits, such interest would cease to form part of its profits and gains attributable to its business of providing credit facilities to its members? In our view that question must be answered in the negative, since we cannot accept the contention of the Revenue that the interest earned on those deposits loses its character as profits/gains attributable to the main business of the assessee. It is not as though the assessee in the instant case had used the surplus amount (the profit earned by it) for an investment or activity that was unrelated to its main business, and earned additional income by way of interest or gain through such activity. The assessee had only deposited the profit earned by it in the manner mandated under Section 63 of the Multi-State Co-operative Societies Act, or permitted by Section 64 of the said Act. In other words, it dealt with the surplus profit in a manner envisaged under the regulatory Statute that regulated, and thereby legitimized, its business of providing credit facilities to its members. Under those circumstances, if the assessee managed to earn some

additional income by way of interest on the deposits made, it could only be seen as an enhancement of the profits and gains that it made from its principal activity of providing credit facilities to its members. The nature and character of the principal income [profits earned by the assessee from its lending activity) does not change merely because the assessee acted in a prudent manner by depositing that income in a bank, instead of keeping it in hand. The provisions of the I.T. Act cannot be seen as intended to discourage prudent financial conduct on the part of an assessee.”

6. Respectfully following the above decisions of the Hon'ble Jurisdictional High Court we hold that the assessee is entitled for deduction under section 80P(2)(a)(i) of the Act on account of interest received from State Bank of India.

7. In the result, the appeal filed by the assessee is allowed.

Order pronounced in the open court on 12th December, 2024

Sd/-
(INTURI RAMA RAO)
ACCOUNTANT MEMBER

Cochin, Dated: 12th December, 2024

n.p.

Copy to:

1. The Appellant
2. The Respondent
3. The Pr. CIT concerned
4. The Sr. DR, ITAT, Cochin
5. Guard File

Assistant Registrar
ITAT, Cochin