IN THE INCOME TAX APPELLATE TRIBUNAL
'A' BENCH, BANGALORE

BEFORE SHRI WASEEM AHMED, ACCOUNTANT MEMBER AND
SHRI KESHAV DUBEY, JUDICIAL MEMBER

ITA No. 217, 218 & 219/Bang/2023
Assessment Years: 2016-17, 2017-18 & 2018-19

The South Canara District Central Co-operative Bank Ltd., Head Office: Utkrishta Sahakari Soudha K.S Rao Road, Kodialbail, Mangaluru – 575 003. **PAN – AABAT 6621 N**	Vs.	The Dy. Commissioner of Income Tax, Central Circle – 1, Mangaluru.
APPELLANT		RESPONDENT

ITA No. 2331, 2332 & 2333/Bang/2024
Assessment Years: 2016-17, 2017-18 & 2018-19

The Asst. Commissioner of Income Tax, Circle – 1(1) & TPS, Bengaluru.	Vs.	The South Canara District Central Co-operative Bank Ltd., Head Office : Utkrishta Sahakari Soudha K.S Rao Road, Kodialbail, Mangaluru – 575 003. **PAN – AABAT 6621 N**
APPELLANT		RESPONDENT

Assessee by	:	Smt. Sheetal Borkar – Advocate
Revenue by	:	Ms. Nandini Das, CIT (DR)

Date of hearing	:	18.12.2025
Date of Pronouncement	:	04.03.2025

O R D E R

PER WASEEM AHMED, ACCOUNTANT MEMBER:

These appeals filed by the assessee as well as the Revenue are against the order passed by the CIT(A)-2, Panaji all dated 27/01/2023 for the assessment years 2016-17, 2017-18 and 2018-19

First, we take up Revenue appeal in ITA No. 2331/Bang/2024 for A.Y. 2016-17.

2. The interconnected issue raised by the Revenue in ground Nos. 1, 5, 6 and 7 of appeal memo is that the Ld. CIT-A erred in holding that the hybrid/mixed system of accounting followed by the assessee does not violate the provisions of section 145 of the Act and accordingly erred in deleting the addition made by the AO on account of disallowing the interest income from standard assets/regular advance, interest income from sub-standard advances, interest income on zero coupon bond and interest income on Non-SLR investment.

3. The facts in brief are that the assessee is a District Co-Operative Bank registered under Karnataka Co-Operatives Societies Act and engaged in the Banking business in accordance with the License RC 3412011-12 issued under section 22(1) of the Banking Regulation Act, 1949 by the Reserve Bank of India.

4. The assessee is engaged mainly in providing credit facilities to its members who are primarily farmers and Primarily Agricultural Co-Operative Societies (PACS) belonging to Dakshina Kannada. The

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assessee has 101 branches spread across all over the district including head office at Mangalore.

5. As per schedule 21 of financial statement highlighting the significant accounting policies, the assessee recognized income and expenses on mixed/hybrid system of accounting. In other words, the assessee has accounted for certain transactions on accrual basis and certain transactions were accounted for on a cash basis.

6. The assessee, as per the said schedule-21, recognized interest income on loans and advances (except interest on MKCC loan), interest income on Non-SLR investments and income on account of commission, services charges, execution fee, insurance commission, rents and other miscellaneous income on cash/realization basis whereas interest income on SLR investments and zero coupon bonds were recognized in the books on accrual basis. Likewise, the expenses such as interest on deposit accepted, employee cost, lighting charges, audit fee, telephone charges were recognized on payment/cash basis.

7. The assessee, during the assessment proceeding further submitted that it follows a mercantile system of accounting, however such a system is subject to restrictions by the regulatory authorities. Accordingly, during the year recognized interest income on all the loans and advances on cash basis except for Mangala Kisan Credit Card (MKCC) Loan on which interest was recognized/accounted for on accrual basis. In earlier years, recognition of interest income on nonperforming advances on cash basis was upheld in its favour by the learned CIT(A) and by the ITAT against which no appeal was preferred by the revenue.

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Further, the assessee submitted that until immediate previous financial year i.e. 2014-15 the income on investments were also accounted for on cash basis, however from the year under consideration onward the investment was categorized in SLR investment and Non SLR investment and thereby income on SLR investment was accounted on accrual basis and the income on the rest was accounted on cash basis.

8. The AO, however, rejects the contentions of the assessee. The AO held that the assessee is free to maintain its books of accounts as per any applicable laws or regulations for the time being in force but while filing the return of income, the assessee has to mandatory comply with the provisions of the Income Tax Act. The provisions of section 145 of the Act, which is mandatory to follow clearly specify that the income from business and profession would only by accounted by following either mercantile or cash system. The guidelines/regulations issued by RBI or set norms to accounting of banking/financial institution are only to protect the interest of public/investors but the same could not override the provisions of section 145 of Act. Thus, the hybrid/mix model of accounting system employed by the assessee is in contravention of the mandatory provision of the Act which the assessee has consistently violated. Further, the provision of section 145 of the requires the accounting system adopted shall be followed consistently whereas the assessee is changing the method frequently for accounting the same transaction which is evident from the fact that the assessee till F.Y. 2014-15 recognized income from SLR investment on cash basis whereas in the year under consideration change the method to accrual basis. Likewise, the assessee in notes to significant accounting policies disclosed that income on zero coupon bond recognized on an accrual

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basis but in reality, income offered only on cash/realization basis. Thus, the assessee even not following its disclosed accounting policy properly.

9. Based on the above observation the AO held that the accounting method followed by the assessee does not reflect the true/correct income. The AO found that the assessee has declared mercantile system as preferred method, therefore adopting the same as accounting method, thus, the AO proceeded to assess the income of the assessee from different types of transactions which are discussed in following paragraphs.

Interest accrued on Standard/Regular Advances.

10. The AO found that during the year interest income on standard/regular advances accrued for Rs. 9,92,09,156/- was not offered to tax which needs to be brought to tax on accrual basis. The AO further found that the identical addition was made in earlier year in the own case of the assessee which was confirmed at the ITAT level.

10.1 On the contrary, the assessee submitted that interest income amounting to Rs. 5,86,96,558/- was accrued on 31st March 2015 i.e. relates to immediate previous F.Y. 2014-15 which was offered in the current year on receipt basis. Accordingly, they claimed setoff of the same.

10.2 The claim of the assessee was rejected by the AO by holding that the return for A.Y. 2015-16 relevant to F.Y. 2014-15 was not selected for scrutiny, hence the tax on accrued basis in previous assessment year did

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not suffer to tax. Thus, the AO added entire amount of Rs. 9,92,09,156.00 to the total income of the assessee without providing setoff as claimed by the assessee.

Interest accrued on Sub-Standard Advances;

11. The AO found interest on substandard/non-performing advances for the year under consideration accrued for Rs. 5,54,20,146/- which was not offered to tax on an accrual basis. The AO also rejected the assessee claim for setoff for the income accrued in previous year financial but offered to tax in the year under consideration on cash basis on the same reasoning as discussed above in relation to standard assets. Hence, the AO added the same to the total income of the assessee.

Interest accrued on Non-SLR Investment;

12. The AO noted that there is no difference in investment of SLR Investment and Non-SLR Investment. However, the assessee has recorded the income from SLR Investment on an accrual basis while the income from Non-SLR Investment on cash basis. The AO accordingly considered the income from Non-SLR investment of Rs. 14,33,13,597/- also on accrual basis. The AO also rejected the assessee's claim for set off of interest accrued previous financial i.e. 2014-15 on the same reasoning as discussed above in relation to standard assets and offered in the current year on receipt basis. Hence the AO made, addition of Rs. 14,33,13,597/- to the total income.

Interest accrued on zero-coupen bonds;

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13. The AO noted that the assessee in the profit and loss account credited interest on zero coupon bond for Rs. 2,76,32,931/- but the same was reduced from the computation of total income claiming the same as taxable on a cash basis. Thus, the AO brought the same to the tax on an accrual basis.

14. The aggrieved assessee preferred an appeal to the learned CIT(A). The assessee before the Ld. CIT (A), reiterated that it has consistently followed the same accounting policy since it became an assessee. It argued that right to receive interest/income on non-SLR investment as well as on zero coupon bond arises on record day only. Accordingly, the interest accrued on a time basis cannot be brought to tax when the right to receive the same does not arise. Therefore, the same was offered to tax on receipt basis. Likewise, the assessee reiterated that interest on advances whether standard or substandard offered on cash basis following RBI guidelines and guidelines of cooperative Act and bylaws.

14.1 The learned CIT(A) after considering the submissions made by the assessee deleted the addition of interest income on accrual basis with regard to non-performing advance, Non-SLR Investment and Zero-Coupon bond by holding that identical addition in the own case of the assessee for earlier years has been deleted by ITAT. Likewise, the learned CIT(A) deleted the addition of interest on performing/standard advance by holding that the assessee has consistently/regularly followed the accounting method.

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15. Being aggrieved by order of the learned CIT(A) the Revenue is in appeal before us.

16. The learned DR before us raised the contentions by referring the findings contained in the assessment order. The learned DR has also filed written submissions running into 3 pages vide letter dated 18 December 2024 in support of the findings of the AO.

17. On the other hand, the learned AR before us filed two paper books running from pages 1 to 52 and 1 to 78 besides the grounds wise submission and vehemently supported the finding of the learned CIT-A.

18. We have heard the rival contentions of both the parties and perused the materials available on record. The present case involves a District Co-Operative Bank (the assessee), operating under the Karnataka Co-Operatives Societies Act, which primarily offers credit facilities to members, predominantly farmers and agricultural societies in the Dakshina Kannada district. The assessee follows a hybrid/mixed system of accounting to recognize income and expenses, citing the policy followed consistently. The assessee accordingly offered tax on interest income/income earned on loans & advances and on certain types of investment on receipt/realization or cash basis. However, the AO brought tax on those income on accrual basis and accordingly, made addition to the total income which was subsequently deleted by the learned CIT(A). Now, the issues raised before us by the revenue in its appeal, we proceed to adjudicate each item of dispute in the following paragraphs.

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Interest on loan & advances whether standard or substandard advances.

18.1. We note that in the A.Y. 2010-11, the assessee has offered tax on interest income from loan & advances whether standard or substandard on cash or receipt basis. The AO, however, held that the assessee, as per the provision of section 145 of the Act, is required to account for interest income on loan & advances whether standard or substandard on an accrual/mercantile basis and accordingly made addition of Rs. 19,05,85,839 which included interest in standard advances at Rs. 2,15,86,760/-. On subsequent appeal by the assessee the leaned CIT(A) by following judicial precedence held that interest income on sub-standard advances cannot be taxed on accrual basis and deleted the addition of interest income in relation to substandard advances but confirmed the addition in relation to interest on standard assets. The assessee did not prefer appeal against the finding of learned CIT(A) meaning thereby the issue of taxability of interest income on standard advances on accrual basis reached to finality in the own case of the assessee in A.Y. 2010-11.

18.1.1. On the other hand, the revenue had preferred appeal before this tribunal in ITA No. 34/Bang/2014 against the deletion of interest income on substandard advances. The Tribunal vide order 4-09-2015 confirmed the view taken by the learned CIT(A). Thus, the issue of taxability of interest income on substandard advances also reached finality at this level.

18.1.2. In view of the above discussion and considering the principle laid down by the ITAT, we hereby confirm the finding of the

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learned CIT(A) in relation to deletion of addition of interest income on substandard advances/NPA and direct the AO to delete the addition of Rs. 5,54,20,146/-.

18.1.3. Regarding the taxability of interest income on standard/regular advances, we agree with the view taken by the AO that the same should be brought to tax on an accrual/mercantile basis. However, the we note that the assessee sought a set-off of interest accrued on 31st March 2015 i.e. in the previous assessment A.Y. 2015-16 for Rs. 5,86,96,558/- which was offered on receipt basis in the current assessment year. The plea of the assessee was rejected by the AO by holding that the return of the assessee for A.Y. 2015-16 was not taken up for scrutiny, hence the same was not taxed on an accrual basis in A.Y. 2015-16. To this extent, we agree with the view of the AO that the impugned amount was not taxed in A.Y. 2015-16. But there is ambiguity regarding the fact whether the amount of Rs. 5,86,96,558/- included in the amount of accrued interest of 9,92,09,156/- worked out by the AO for making addition in the year under consideration. If such amount included in the total amount of addition of Rs. 9,92,09,156/- then setoff to the extent of amount offered on cash basis in current year shall allowed to the assessee otherwise same will amount to double taxation.

18.1.4. Before parting, it is imperative to note that under the concept of accrual system of accounting viz a viz cash system of accounting, the only difference is this that the income of one-year shifts to another year. The assessee is showing the income based on cash system of accounting whereas the revenue is computing the income of the assessee based on accrual system of accounting. In such a scenario, we find pertinent to direct the revenue while calculating the income

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based on accrual system of accounting should doubly sure that the income should not be added for the purpose of charging the tax twice. Such double addition is against the provisions of law. With this observation, we hold that the interest income from the standard has to be calculated based on an accrual basis, but the revenue shall ensure that there should not be any double addition to the total income of the assessee. Hence, in view of the above the ground of appeal of the revenue in relation to the addition of interest income on standard/regular advances allowed for statistical purposes whereas the revenue's ground of appeal in relation to addition of interest on substandard/non-performing advances is hereby dismissed.

Interest/income accrued on non-SLR investment

18.2 At the outset, we note that the assessee in A.Y. 2011-12 on similar reasoning as explained in the year under consideration did not offer the income accrued from the investments made. In the A.Y. 2011-12 also, the AO brought the income to tax on an accrual basis and made addition to the total income of the assessee. The dispute reached to this Tribunal in revenue's appeal bearing ITA No. 1244/Bang/2014. The Tribunal vide order dated 24-09-2015 decided the issue in favour of the assessee by observing as under:

> *49. We have heard the rival submissions. We have given a careful consideration to the rival submissions. At the time of hearing before us, it was agreed by the parties that the issue raised by the revenue in this appeal has already been decided by the Hon'ble Madras High Court in the case of CIT v. Tamil Nadu Mercantile Bank Ltd., 291 ITR 137 (Mad). The question of law before the Hon'ble Madras High Court was as follows:-*
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> > *"Whether, on the facts and circumstances of the case, the Tribunal was right in law in holding that interest on securities is taxable only on specified dates when it became due for payment and not on accrued basis?"*

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The Hon'ble Madras High Court held as follows:-

> *" In view of the deletion of section 18 of the Income-tax Act, 1961, with effect from 1st April, 1989, the third proviso to section 145(1) was inserted with effect from April 1, 1989, which is a saving clause. Although the amendment was with effect from April 1, 1989, it clearly provides that any income by way of interest on securities shall be chargeable to tax as the income of the previous year in which such interest is due to the assessee only where no method of accounting is regularly employed by the assessee. In other words, if the assessee is maintaining cash system of accounting, the aforesaid proviso would not apply. The legislative intent is that when the assessee is maintaining the cash system of accounting, income by way of interest on securities will have to be charged to tax only when the assessee actually receives the interest and not on the date on which interest on such securities might become due.*
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> *The assessee, while filing the return of income for the assessment years 1989-90 and 1990-91, claimed exclusion of the sums representing the accrued interest for the periods till March 31, 1989, and till March, 31, 1990, for the respective assessment years, in respect of the securities held by it on the ground that it did not become due in the respective previous years and that even after the omission of section 18, the interest on securities should be charged only when it became due for payment as it did not accrue on day-to-day basis. The Assessing Officer, however, disallowed the claims of the assessee, holding that after the omission of section 18 of the Act, i.e., after July 8, 1988, interest is to be assessed under the head "Business" or "Other Sources" as the case may be, and therefore, the interest which accrued up to the end of the accounting year became taxable as the income of the previous year. The Commissioner of Income-tax (Appeals) held that the Assessing Officer was not justified in holding that the interest accrued up to the last day of the accounting year should be subjected to tax. This was upheld by the Tribunal.*
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> *On appeal to the High Court: Held, dismissing the appeal that even though section 18 of the Act was deleted, the assessee was taxable for interest on securities only on specified dates when it became due for payment, in view of the third proviso to section 145(1) of the Act, which was in force during the relevant assessment years."*

50. It is not in dispute before us that identical decision has also been rendered by the Hon'ble High Court of Kerala in the case of CIT v. Federal Bank, 301 ITR 188 (Ker) and the Hon'ble Karnataka High Court in the case of Karnataka Bank Ltd. in ITA No.433/2005 dated 12.9.2013.

51. In the present case, the assessee has been following the method of offering interest on securities to tax on receipt basis on maturity and the same has been accepted by the revenue in the past. In view of the aforesaid decision, we are of the view that the order of the CIT(A) does not call for any

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interference. Consequently, the relevant grounds of appeal raised by the revenue are dismissed.

18.2.1. There is no material difference in the facts involved in the year under consideration and the facts involved for A.Y. 2011-12. However, we note that the assessee in earlier years including A.Y. 2011-12 offered tax on income earned from entire investment on cash/realization basis but, in the year under consideration, the assessee categorized the investment in SLR and Non-SLR investment. The assessee from the year under onward offered tax on income earned from SLR investment on accrual basis and continued to offer tax on non-SLR on cash basis whereas the nature/type of units/securities/bond in which SLR and non-SLR investment are same. Thus, the question arises whether the assessee can take different stand for investment in same securities merely for the reason that part investment was made to comply with statutory requirements.

18.2.2. As far as, the interest on the investment made by the assessee under the category of SLR investment, there is no ambiguity. It is for the reason that the assessee is offering income from such investment based on accrual method of accounting. But the assessee has not adopted the same approach with respect to non-SLR investment which represents an inconsistent approach of the assessee. In our considered opinion, the assessee should maintain the consistency with respect to the income for the investment made under SLR and non-SLR category. Thus, we do not find any infirmity in the order of the AO.

18.2.3 We are also conscious about the fact that the Tribunal in the own case of the assessee in the earlier assessment year i.e. 2011-12 has directed the revenue to tax the income from the investment for the

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broken period based on the right to receive accrued to the assessee. This, we can understand with the help of an example detailed below:

The Assessee made investment in security "A" on 1st April 2016. The interest on the same is paid twice in a year i.e. as on 30th June and 31st December. In this scenario, the interest accrued to assessee from 1st April 2016 to 30th June 2016 and from 1st July 2016 to 31st December 2016 will duly be accounted in the year 2016-17 whereas the right to receive interest for the period from 1st January 2017 to 31st March will arise on 30th June 2017 which will fall in the next financial year.

18.2.4. However, now there is some factual change with respect to the principles laid down by the Tribunal in the own case of the assessee as discussed above viz-a-viz with the facts in the year under consideration. As such, the assessee in the year under consideration has changed its own stand by the recognizing the income from the SLR investment based on accrual, therefore we are of the view that the assessee should also adopt the same approach in order to maintain consistency with respect to the income from the investment under non-SLR category. Accordingly, we are of the considered opinion that the principles laid down by the ITAT in the own case of the assessee cannot be applied for the year under consideration.

18.2.5. Before parting, it is equally important to note that there should not be any double taxation to the income of the assessee merely because of change in the method of accounting from cash to accrual for the investment which are giving rise to the income and right to the assessee to receive such income in different assessment years. With this observation, we are inclined to set aside the issue to the file of the AO

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for deciding the issue on hand afresh in the light of the above stated discussion and as per the provisions of law. Hence the ground of appeal of the Revenue is hereby allowed for statistical purposes.

Zero coupon bond.

18.3. At the outset, we note that investment made under the head non-SLR, and zero-coupon bond are identical. Therefore, the findings given for accounting of interest on non-SLR investment vide paragraph no. 18.2 to 18.2.5 of this order shall be applied in toto for accounting of interest income from investment in zero coupon bond. Hence, the ground appeal of the revenue is hereby allowed for statistical purposes.

19. Hence, the grounds of appeal raised by the revenue are partly allowed for statistical purposes.

20. The **issue** raised by the Revenue at ground No. 2 is that the learned CIT(A) erred in deleting the addition of amortization of premium paid on government securities made by the AO by treating the government securities classified by the assessee as held for maturity as capital in nature.

20.1 The assessee has made investments in government securities and at the time of making the investments paid certain amounts as premium. The premium paid in relation to investment held was amortized by the assessee in equal proportion over the period of maturity as per the RBI norms. The assessee accordingly in the year under consideration claimed amortization cost of Rs. 8,16,10,183/- only.

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21. The AO held that the premiums were paid on investments which were held to maturity i.e. permanent long-term investment meaning thereby that the same is of capital nature and not the stock in trade. Therefore, premium costs paid on such investment cannot be charged or treated as revenue item. The AO further relied on the decision of Hon'ble Madras High Court in case of TN Power Finance and Infrastructure Development Corporation Ltd. vs. JCIT reported in 280 ITR 491 and held that RBI norms/guidelines cannot override the mandatory provision of Income Tax Act. Thus, the AO disallows the sum of Rs. 8,16,10,183/- and added to the total income of the assessee.

22. On appeal by the assessee, the learned CIT(A) deleted the disallowance made by the AO by observing that issue is covered in the favour of the assessee in own of the assessee for earlier years.

23. Being aggrieved by order of the learned CIT(A), the Revenue is in appeal before us.

24. The Ld. DR reiterated the findings contained in the assessment order in support of his contentions.

25. On the other hand, the Ld. AR before us vehemently supported the order of the ld. CIT-A.

26. We have heard rival contentions of both the parties and perused the materials available on record. At the outset, we note that the identical disallowance was made by the AO in the case of the assessee for A.Y. 2010-11. The dispute traveled before this Tribunal in revenue's

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appeal bearing ITA No. 34/Bang/2014 and the coordinate bench vide order dated 04-09-2015 decided the dispute in favour of the assessee by observing as under:

> *39. We have heard the rival submissions. The issue raised by the assessee in ground No.8 & 9 is no longer res integra and has been decided by this Tribunal in the case of M/s. Sir M. Visweswaraya Cooperative Bank Ltd. Vs. JCIT, ITA No.1122/Bang/2010 for AY 07-08 order dated 11.5.2012. The following were the relevant observations of the Tribunal:*
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> > *"03. Let us first take up the issue relating to amortization of premium on investment in government securities. Relevant grounds read as under :*
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> > *" i) The learned Commissioner (Appeals) ought to have appreciated that the appellant has to invest surplus fund in Government Securities as per RBI guidelines and the premium paid while investing in Government Securities that are bought in open market would have to be amortized till the maturity date of the security and thus the premium was written off was liable to be allowed as depreciation of value of securities ;*
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> > *ii) The learned Commissioner (A) ought to have appreciated that the classification of securities for RBI purposes would not take away the benefit which the appellant was entitled to and he ought to have appreciated that the case law referred were distinguishable and accordingly he ought to have allowed the deduction as claimed in full."*
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> > *04. The brief facts pertaining to this issue are that while framing the assessment u/s.143(3) of the IT Act, for the assessment year 2007-08, the Assessing Officer noticed that the assessee has claimed a sum of Rs.26,40,237/- under amortization of premium on investments and the assessee had no explanation for the claim. Hence, he disallowed the same. While disallowing the same, the Assessing Officer followed the decision of the Madras High Court in the case of TN Power Finance and Infrastructure Development Corporation Ltd., v. JCIT (2006) 280 ITR 491. Aggrieved, the assessee moved the matter in appeal before the first appellate authority.*
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> > *05. The learned Commissioner of Income-tax (Appeals) after considering the submissions made before him and following the decision of the Madras High Court cited supra, came to the conclusion that the Hon'ble Madras High Court has that merely because the RBI had directed the assessee to provide for nonperforming assets, that direction cannot override the mandatory provisions of the Income-tax Act contained in section 36(1)(viia) which stipulate for deduction not exceeding 5 per cent of the total income only in respect of the provision for bad and doubtful debts which are predominantly revenue in nature or trade related and not for provision for non-performing assets which are of predominantly capital nature. Thus, he was of the view that the assessee was not entitled to deduction of amortization of premium on investments u/s.36(1)(vii). Aggrieved, the assessee is in second appeal before us with this issue.*

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06. The learned counsel for the assessee submitted that the Commissioner of Income-tax (Appeals) had failed to see the reason that a issue similar to that of the present one had been allowed by various benches of the Hon'ble Tribunals, namely :

- *Catholic Syrian Bank Ltd., v. ACIT – Cochin (2010) 38 SOT 553 ;*
- *Khanapur Coop.Bank Ltd., v. ITO in ITA.141/PNJ/2011 (Panaji);*
- *Corporation Bank v. ACIT, M'lore in ITA.112/Bang/2008 (Bang)*

The learned counsel also placed reliance on Board's Instructions No.17 of 2008(vii) and pleaded that the claim of the assessee be allowed as the assessee had the powers to debit in its P&L account a sum of Rs.29,02 lakhs of amortization of premium.

07. Per contra, the learned DR was unable to controvert to the submissions of the learned counsel for the assessee.

08. We have carefully considered the rival submissions and perused the relevant facts and materials on record. We have also considered the findings of the various benches of the Tribunal, as under :

(i) Catholic Syrian Bank Ltd v. ACIT – (2010) 38 SOT 553 (Coch) :

An identical issue to that of the subject matter under consideration had arisen before the Cochin Bench. After analyzing the issue in depth, the bench has observed that with regard to amortization of premium on purchase of Government securities, it was clarified that this was made as per the prudential norms of the RBI. Following the Tribunal decision in the assessee's own case and considering that the assessee bank is following consistent and regular method of accounting system, there is no justification in interfering with the order of the Commissioner of Income-tax (Appeals) on this issue of amortization of premium on government securities. United Commercial Bank v. CIT (1999) 156 CTR (SC) 380 ; (1999) 240 ITR 355 (SC) and South Indian Bank Ltd., (ITA No.126/Coch/2004, dated.___ Sept, 2005 followed."

(ii) The Khanapur Co-op Bank Ltd v. ITO – ITA No.141/PNJ/2011, dated.8.9.2011 :

The Hon'ble Bench of Panaji Tribunal had recorded its findings that "6. Likewise, the premium amortized at Rs.1,78,098/- is claimed to be in respect of securities held under the category 'held to maturity'. The Assessing Officer has taken them as long term investments. In other words, he has accepted the assessee's claim that the securities are 'held to maturity'. That being so and having regard to the CBDT Instruction No.17 of 2008 dated.26.11.2008 as reproduced herein above, the premium paid on such government securities is required to be amortized over the period remaining to maturity ……."

(iii) In the case of Corporation Bank v. ACIT, M'lore in ITA.112/Bang/2008 (Bang), for the assessment year 2004-05, the earlier bench had also held a similar view. In the light of the above discussion and the case laws discussed supra, taking into account the totality of the facts and materials, we are of the considered view that the assessee is entitled to claim this deduction and hence we allow the grounds of the assessee relating to this issue."

40. We are of the view that in the light of the decision on the issue considered by the Tribunal, the claim made by the assessee was rightly allowed by CIT(A). Accordingly, the relevant ground of appeal is dismissed.

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27. Before us, no material has been placed on record by the Revenue demonstrating that the decision of the Tribunal in the own case of the assessee discussed above has either been set aside/stayed or overruled by the Higher Judicial Authorities. Before us, no material was placed on record pointing out any distinguishing features in the facts of the case of earlier AY and the year under consideration. Thus, respectfully following the order of the Tribunal in the own case of the assessee discussed above, we do not find any infirmity in the finding of the learned CIT(A). Thus, the ground of appeal raised by the revenue is hereby dismissed.

28. The **next issue** raised by the revenue vide ground No. 3 of its appeal is that the learned CIT(A) erred deleting the addition of Rs. 5,34,98,667/- on account of depreciation claimed on value of investment.

29. The assessee during the year claimed expenditure on account of depreciation on investment for Rs. 5,34,98,667/- only. During the assessment proceeding, the assessee submitted that the impugned claim was made on the advice of the statutory auditor. The impugned amount was worked out as difference between holding value of investment made by the assessee in different instrument and the buy price released by Fixed Income Money Market and Derivative Association of India (FIMMDA) for such instrument. The assessee further claimed that the in subsequent year i.e. F.Y. 2016-17 the impugned claim was reversed as income as per the NABARD inspection recommendation. The assessee in support of its claimed filed affidavit from the statutory auditor and copy of journey entry for reversal in F.Y. 2016-17.

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30. However, the AO did not accept the explanation of the assessee and disallowed the claim of the assessee and added the same to the total income by holding that profit of the current year was affected/ disturbed by passing such entry therefore same should be brough to tax in the year under consideration.

31. On appeal by the assessee, the learned CIT(A) deleted the addition made by the AO by holding that the assessee in subsequent year has reversed the claim and offered the same to tax. Therefore, the questioned of disallowing the claim in the year under consideration does not arise.

32. Being aggrieved by the order of the learned CIT(A) the Revenue is in appeal before us.

33. The Ld. DR before us reiterated the findings contained in the assessment order in support of his contentions.

34. On the other hand, the Ld. AR before us vehemently supported the order of the ld. CIT-A.

35. We have heard the rival contentions of both the parties and perused the materials available on record. Admittedly, the assessee on the advice of statutory auditor debited its profit and loss account on account of difference between the holding value of investment and by the value of the same released by FIMMDA. However, the assessee on realization of mistake as pointed during NABARD inspection, reversed

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the claim in the immediate subsequent year i.e. F.Y. 2015-16. There is no material brought on record by the revenue to suggest that the assessee has not reversed the claim in F.Y. 2015-16 and not paid tax liability on the same. Therefore, in the given facts and circumstances, we are of the opinion that making the disallowance of the claim of the assessee in current year will amount to double taxation of the same amount which is not desirable under the Act. Accordingly, we hold that the learned CIT(A) rightly deleted the addition as the impugned amount suffered tax in subsequent year. Hence, the ground of appeal of the revenue is hereby dismissed.

36. The next **issue** raised by the Revenue through ground No. 4 of its appeal is that the learned CIT(A) erred in deleting the disallowance of Rs. 1,46,13,000/- made on account of provisions for standard assets.

37. The AO during the assessment proceedings found that the assessee in the profit and loss account claimed an amount of Rs. 4,38,49,000/- as provision for NPAs. However, such amounts include an amount of Rs. Rs. 1,46,13,000/- which represent provision on regular/standard made as per RBI prudential norms for banks.

38. The AO held that the provision under section 36(1)(via) of the Act allows the claim of provision only in relation to bad and doubtful debts whereas regular/standard assets are not bad or doubtful debt. Hence, the claim of provision on standard assets for Rs. 1,46,13,000/- cannot be allowed as deduction as the same was not covered under the provision of 36(1)(via) of the Act. The AO accordingly disallows the provision

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made for standard assets of Rs. 1,46,13,000/- and added to the total income of the assessee.

39. The aggrieved assessee preferred an appeal before the learned CIT(A) and contended that as per the provision of section 36(1)(via) of the Act, the assessee is eligible to claim deduction up to 7.5% of total income and 10% of total advances made by the rural branches but not exceeding the provision made in the books of accounts. It was further submitted that the deduction of 7.5% of total income under the first limb of section 36(1)(viia) of the Act is eligible for all types of loans & advances by the bank. Similarly, deduction of 10% of rural advances under second limb section 36(1)(viia) is also applicable for all types of advances made by rural branches. The assessee to buttress its argument relied on the decision of Hon'ble Kerala High Court in the case of Kannur District Co-operative Bank Limited vs. CIT reported in 365 ITR 343.

40. The Learned CIT(A) after considering the facts in totality deleted the additions made by the AO by holding that the assessee is eligible to claim deduction under both limbs of provision of section 36(1)(viia) of the Act which allowed deduction on all types of loans & advances extended by the bank.

41. Being aggrieved by order of the learned CIT(A), the Revenue is in appeal before us;

42. The Ld. DR reiterated the findings contained in the assessment order in support of his contentions.

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43. On the other hand, the Ld. AR before us vehemently supported the order of the ld. CIT-A.

44. We have heard the rival contentions of both the parties and examined the relevant material available on record. The primary issue for consideration is whether the assessee is entitled to claim a deduction of ₹1,46,13,000/- under section 36(1)(viia) of the Act in respect of the provision made for standard assets.

44.1 The AO disallowed the deduction on the ground that section 36(1)(viia) allows a deduction only for bad and doubtful debts, whereas the provision for standard assets does not pertain to such debts. The AO, therefore, held that the claim of the assessee was beyond the permissible scope of the provision. However, the learned CIT(A), after analysing the statutory provisions and judicial precedents, concluded that the deduction under section 36(1)(viia) is not restricted to only bad and doubtful debts but extends to all types of loans and advances, including standard assets, subject to the specified limits.

44.2 We find merit in the conclusion drawn by the learned CIT(A). The first limb of section 36(1)(viia) permits a deduction of up to 7.5% of the total income, which is a general deduction available to banks on their total advances. The second limb further allows an additional deduction of 10% of the rural advances made by rural branches. The provision does not explicitly restrict the deduction to bad and doubtful debts alone, but rather, it allows a general deduction computed as a percentage of total income and rural advances. We note that this view

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has been further fortified by Tribunal in different cases detailed as under:

(i) ITAT Amritsar Bench in Dy. CIT v. Nawanshahr Central Co-operative Bank Ltd. [IT Appeal No. 61 (Asr) of 2017, dated 3-1-2018]

(ii) ITAT Mumbai Bench in Model Co-operative Bank v. Dy. CIT [IT Appeal No. 5522 (Mum) of 2017, dated 24-7-2019]

(iii) ITAT Indore Bench in Vikramaditya Nagarik Sahakari Bank v. ACIT [IT Appeal No. 36 (Ind) of 2017, dated 20-3-2018].

44.3 In view of the above, we uphold the order of the learned CIT(A) and hold that the assessee is eligible for the deduction under section 36(1)(viia) to the extent of the specified limits. The disallowance made by the AO is, therefore, rightly deleted. Accordingly, the Revenue's appeal on this ground is dismissed.

44.4 In the result the appeal of the revenue is hereby partly allowed for statistical purposes.

Coming to the ITA No. 217/Bang/2023, an appeal by the assessee for A.Y. 2016-17.

45. The only issue raised by the assessee is that the Leaned CIT(A) erred in confirming the disallowances of advertisement & training expenses for Rs. 20,19,000/- only.

46. The AO during the assessment proceeding noticed that the assessee in the books of accounts claimed expenditure under the head miscellaneous expenditure for Rs. 3.6 crores. The expenditure under the impugned head includes financial assistance given to temple, basadis,

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samithis, certain individual etc. advertisement given in newspaper & other media for wishing or welcoming individuals and politician etc. and amount incurred for accommodation provided to government officials.

47. The assessee before the AO claimed that out of impugned expenditure an amount of Rs. 8.7 Lakh identified as not for the purpose of business and voluntary disallowed. Therefor no further disallowance should be made.

48. However, the AO rejected the assessee submission by holding the expenses incurred on wishing individual or politician and financial assistance etc are not for business purposes and same was far more than the suo moto disallowance made. Thus, the AO based on material available on record worked out the amount of expenditure incurred not for the purpose of business at Rs. 28,89,000/- and after excluding the benefit of suo moto disallowance of Rs. 8.7 lakh made an addition of Rs. 20.19 lakh to the total income of the assessee.

49. The aggrieved assessee preferred an appeal before the learned CIT(A), who confirmed the disallowances made by the AO by holding that expenditure incurred for giving advertisement, wishing politician and other expenses being financial assistance etc to individuals cannot be held as business expenditure.

50. Being aggrieved by the order of the Learned CIT(A), the assessee is in appeal before us.

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51. The Learned AR before us filed a page written submission contending that the expenses were incurred by the assessee in the course of the business and therefore the same cannot be disallowed under the provisions of section 37(1) of the Act.

52. On the other hand, the Ld. DR reiterated the findings contained in the order of authorities below in support of his contentions.

53. We have heard the rival contentions of both the parties and perused the materials available on record. The primary issue for our consideration is whether the disallowance of advertisement and training expenses amounting to Rs. 20,19,000/- was justified.

53.1 The AO disallowed the expenditure on the ground that it was incurred for giving advertisements wishing politicians and providing financial assistance to individuals, which, in his view, was not related to business. The Learned CIT(A) upheld the AO's decision, stating that such expenses cannot be considered business expenditures.

53.2 The assessee, however, has voluntarily disallowed Rs. 8.7 lakh, acknowledging that portion of the expenses was not incurred for business purposes. This demonstrates the assessee's bona fide intent and adherence to the provisions of the Income Tax Act.

53.3 Further, the advertisement expenses incurred by the assessee in newspapers and other media serve the purpose of maintaining goodwill and public relations, which is essential for business growth. The business necessity and commercial expediency of such expenses cannot be

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overlooked. The Hon'ble Supreme Court and various High Courts have time and again held that expenses incurred for business promotion, including goodwill enhancement, are allowable under section 37(1) of the Income Tax Act.

53.4 Additionally, the financial assistance extended to certain organizations and individuals should not be outrightly treated as non-business expenditure without examining whether such contributions indirectly benefit the assessee's business operations. If such expenditures result in business goodwill or favorable commercial conditions, they are to be considered as business expenses.

53.5 The AO has disallowed the expenses without establishing any direct nexus between the expenditure and any personal benefit derived by the assessee. In the absence of such findings, a blanket disallowance is not justified. Given the facts and legal precedents, we find that the disallowance made by the AO and confirmed by CIT(A) is not sustainable. The expenditure incurred on advertisements and other business-related activities should be allowed as a deduction under section 37(1) of the Act.

53.6 In light of the above discussion, we hold that the advertisement and training expenses of Rs. 20,19,000/- incurred by the assessee were for business purposes and should not have been disallowed. The disallowance made by the AO and upheld by the CIT(A) is hereby deleted. Hence the ground of appeal of the assessee is allowed.

54. In the result appeal of the assessee is allowed.

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Coming to ITA No. 2332/Bang/2024, an appeal by the Revenue for A.Y. 2017-18

55. The issue raised by the Revenue through ground No. 1 of its appeal is that the learned CIT(A) erred in deleting the addition made on account of accrued interest on substandard advances for Rs. 1,06,86,118/-.

56. At the outset, we note that the issue raised by the Revenue in its grounds of appeal for the AY 2017-18 is identical to the issue raised by the Revenue in ITA No. 2331/Bang/2024 for the assessment year 2016-17. Therefore, the findings given in ITA No. 2331/Bang/2024 shall also be applicable for the assessment year 2017-18. The appeal of the Revenue for the A.Y. 2016-17 has been decided by us vide paragraph No. 18.1 to 18.1.4 of this order wherein the issue been decided against the Revenue. The learned AR and the DR also agreed that whatever will be the findings for the assessment year 2016-17 shall also be applied for the assessment year 2017-18. Hence, the ground of appeal filed by the Revenue is hereby dismissed.

57. The **next issue** raised by the Revenue vide ground No. 2 of its appeal is that the learned CIT(A) erred in deleting the disallowance of claim of amortization of premium paid on investment held for maturity.

57.1 At the outset, we note that the issue raised by the Revenue in its grounds of appeal for the AY 2017-18 is identical to the issue raised by the Revenue in ITA No. 2331/Bang/2024 for the assessment year 2016-

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17. Therefore, the findings given in ITA No. 2331/Bang/2024 shall also be applicable for the assessment years 2017-18. The appeal of the Revenue for the A.Y. 2016-17 has been decided by us vide paragraph No. 26 & 27 of this order wherein the issue been decided against the Revenue. The learned AR and the DR also agreed that whatever will be the findings for the assessment year 2016-17 shall also be applied for the assessment year 2017-18. Hence, the ground of appeal filed by the Revenue is hereby dismissed.

58. The **next issue** raised by the Revenue through ground No. 3 of its appeal is that the learned CIT(A) erred in deleting the addition made by the AO on account of accrued interest/income on non-SLR investments.

59. At the outset, we note that the issue raised by the Revenue in its grounds of appeal for the AY 2017-18 is identical to the issue raised by the Revenue in ITA No. 2331/Bang/2024 for the assessment year 2016-17. Therefore, the findings given in ITA No. 2331/Bang/2024 shall also be applicable for the assessment years 2017-18. The appeal of the Revenue for the A.Y. 2016-17 has been decided by us vide paragraph No.18.2 – 18.2.5 of this order in favour of the revenue for statistical purposes. The learned AR and the DR also agreed that whatever will be the findings for the assessment year 2016-17 shall also be applied for the assessment year 2017-18. Hence, the ground of appeal filed by the Revenue is hereby partly allowed for statistical purposes.

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60. The **last issue** raised by the Revenue through ground No. 4 of its appeal is that the learned CIT(A) erred in deleting the addition made by the AO on account of accrued interest on standard advances.

61. At the outset, we note that the issues raised by the Revenue in its grounds of appeal for the AY 2017-18 is identical to the issue raised by the Revenue in ITA No. 2331/Bang/2024 for the assessment year 2016-17. Therefore, the findings given in ITA No. 2321/Bang/2024 shall also be applicable for the assessment years 2017-18. The appeal of the Revenue for the A.Y. 2016-17 has been decided by us vide paragraph No.18.1 – 18.1.4 of this order wherein the issue been decided in favour of the revenue for statistical purposes. The learned AR and the DR also agreed that whatever will be the findings for the assessment year 2016-17 shall also be applied for the assessment year 2017-18. Hence, the ground of appeal filed by the Revenue is hereby allowed for statistical purposes.

62. In the result appeal of the revenue is hereby partly allowed for statistical purposes.

Coming to ITA No. 2333/Bang/2024 by the Revenue for A.Y. 2018-19

63. The **first issue** raised by Revenue vide ground No. 1 of its appeal is that the learned CIT(A) erred in deleting the disallowance of the claim of amortization of premium paid on investment held for maturity.

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64. At the outset, we note that the issue raised by the Revenue in its grounds of appeal for the AY 2018-19 is identical to the issue raised by the Revenue in ITA No. 2331/Bang/2024 for the assessment year 2016-17. Therefore, the findings given in ITA No. 2331/Bang/2024 shall also be applicable for the assessment year 2018-19. The appeal of the Revenue for the A.Y. 2016-17 has been decided by us vide paragraph No. 26 & 27 of this order wherein the issue been decided against the Revenue. The learned AR and the DR also agreed that whatever will be the findings for the assessment year 2016-17 shall also be applied for the assessment year 2018-19. Hence, the ground of appeal filed by the Revenue is hereby dismissed.

65. The **next issue** raised by the Revenue through ground No. 2 of its appeal is that the learned CIT(A) erred in deleting the disallowance of provision for NPA for Rs. 2,3254,441/- only.

66. At the outset, we note that the issue raised by the Revenue in its grounds of appeal for the AY 2018-19 is identical to the issue raised by the Revenue in ITA No. 2331/Bang/2024 for the assessment year 2016-17. Therefore, the findings given in ITA No. 2331/Bang/2024 shall also be applicable for the assessment year 2018-19. The appeal of the Revenue for the A.Y. 2016-17 has been decided by us vide paragraph No. 44 of this order against the revenue. The learned AR and the DR also agreed that whatever will be the findings for the assessment year 2016-17 shall also be applied for the assessment year 2018-19. Hence, the ground of appeal filed by the Revenue is hereby dismissed.

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67. The last raised by the Revenue through ground No. 3 of its appeal is that the learned CIT(A) erred in deleting the addition made on account of accrued interest on substandard advances.

68. At the outset, we note that the issue raised by the Revenue in its grounds of appeal for the AY 2018-19 is identical to the issue raised by the Revenue in ITA No. 2331/Bang/2024 for the assessment year 2016-17. Therefore, the findings given in ITA No. 2331/Bang/2024 shall also be applicable for the assessment years 2018-19. The appeal of the Revenue for the A.Y. 2016-17 has been decided by us vide paragraph No.18.1 – 18.1.4 of this order wherein the issue been decided against the Revenue. The learned AR and the DR also agreed that whatever will be the findings for the assessment year 2016-17 shall also be applied for the assessment year 2018-19. Hence, the ground of appeal filed by the Revenue is hereby dismissed.

69. In the result, the appeal of the revenue is hereby dismissed.

Coming to ITA No. 218 & 219/Bang/2023, appeals by the assessee for A.Ys. 2017-18 and 2018-19

70. The only issue raised by the assessee is that Leaned CIT(A) erred in confirming the disallowance of advertisement & training expenses.

71. At the outset, we note that the issues raised by the assessee in its grounds of appeal for the AY 2017-18 and 2018-19 is identical to the issue raised by the assessee in ITA No. 217/Bang/2023 for the

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assessment year 2016-17. Therefore, the findings given in ITA No. 217/Bang/2023 shall also be applicable for the assessment years 2017-18 and 2018-19. The appeal of the assessee for the A.Y. 2016-17 has been decided by us vide paragraph No. 53 of this order in favour of the assessee. The learned AR and the DR also agreed that whatever will be the findings for the assessment year 2016-17 shall also be applied for the assessment year 2017-18 and 2018-19. Hence, the ground of appeal filed by the assessee are hereby allowed.

72. In the result, the appeals of the assessee for A.Ys. 2017-18 and 2018-19 are hereby allowed.

73. In the combined result the revenue appeals for A.Y. 2016-17 and 2017-18 are partly allowed for statistical purposes whereas the revenue appeal for A.Y. 2018-19 is dismissed. Likewise, the assessee appeal for A.Y. 2016-17, 2017-18 and 2018-19 are allowed.

Order pronounced in court on 4th day of March, 2025

Sd/-	Sd/-
(KESHAV DUBEY)	**(WASEEM AHMED)**
Judicial Member	Accountant Member

Bangalore
Dated, 4th March, 2025
/ vms /
Copy to:
1. The Applicant
2. The Respondent
3. The CIT
4. The CIT(A)
5. The DR, ITAT, Bangalore.
6. Guard file

By order

Asst. Registrar, ITAT, Bangalore

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