

**IN THE INCOME TAX APPELLATE TRIBUNAL  
'B' BENCH : BANGALORE**

**BEFORE SHRI WASEEM AHMED, ACCOUNTANT MEMBER  
AND  
SHRI SOUNDARARAJAN K., JUDICIAL MEMBER**

<b>ITA Nos. 1982 &amp; 1983/Bang/2024</b>
<b>Assessment Years : 2018-19 &amp; 2020-21</b>

M/s. Maravanthe Badakere Vyavasaya Seva Sahakari Sangha Ltd., Navunda, Byndoor Taluk, Udupi Dist. – 576 224. <b>PAN: AAAAM3847J</b>	<b>Vs.</b>	The Income Tax Officer, Ward – 1 & TPS, Udupi.
<b>APPELLANT</b>		<b>RESPONDENT</b>

Assessee by	:	Shri Mahesh R Uppin, Advocate
Revenue by	:	Shri Subramanian .S, JCIT-DR

Date of Hearing	:	09-04-2025
Date of Pronouncement	:	30-04-2025

**ORDER**

**PER SOUNDARARAJAN K., JUDICIAL MEMBER**

These are the appeals filed by the assessee challenging the orders of the NFAC, Delhi dated 16/08/2024 and 06/08/2024 in respect of A.Ys. 2018-19 and 2020-21 respectively and raised the following concise grounds:

Assessment Year 2018-19:

*“1. Was C.I.T. (A) justified in sustaining the addition for Interest on Investment income of Rs. 51,59,510/- derived by the appellant from SCDCC Bank holding the same as chargeable u/s. 56 of the Act.*

*2. Whether or not the Dividend income of Rs. 3,92,183/- derived from SCDCC Bank against the share capital*

*invested with said Bank qualifies for deduction u/s. 80P(2)(d) of the Act in view of the law laid down by Hon. High Court of Kerala in ITA No. 142/2019 — Prl. C.I.T., Thiruvananthapuram vs. Vilappil Service Co-operative Bank Ltd, Peyad.*

*3. Both the below authorities erred in denying the benefit of deduction to appellant u/s. 80P(2)(a)(i) of the Act to such portion of the interest from SCDCC Bank in respect of mandatory maintenance of fluid resources as required under appellant's governing statute and not charging only the balance of interest u/s. 56 of the Act.*

*4. Without prejudice, the appellate authority failed to allow deduction u/s. 57(iii) of the Act in respect of the cost of funds used for investment in Term Deposits while holding the said income as chargeable to tax u/s. 56 of the Act.*

*5. Both the authorities below passed the impugned Orders contrary to established principles laid down by the Hon'ble Supreme Court and jurisdictional High Court.”*

Assessment Year 2020-21:

*“1. Was C.I.T. (A) justified in sustaining the addition for Interest on Investment income of Rs. 61,75,361/- derived by the appellant from SCDCC Bank holding the same as chargeable u/s. 56 of the Act.*

*2. Whether or not the interest on Reserve Fund investments of Rs. 8,84,060/- derived from SCDCC Bank which is statutorily invested u/s. 58 of Karnataka Co-op. Societies Act, 1959 read with Rule 23 (2) of Karnataka Co-op. Societies Rules, 1960 qualifies for deduction u/s. 80P(2)(a)(i) of the Act.*

*3. Both the below authorities erred in denying the benefit of deduction to appellant u/s. 80P(2)(a)(i) of the Act to such portion of the interest from SCDCC Bank in respect of mandatory maintenance of fluid resources as required under appellant's governing statute and not charging only the balance of interest u/s. 56 of the Act.*

*4. Without prejudice, the appellate authority failed to allow deduction u/s. 57(iii) of the Act in respect of the cost of funds used for investment in Term Deposits while holding the said income as chargeable to tax u/s. 56 of the Act.*

*5. Both the authorities below passed the impugned Orders contrary to established principles laid down by the Hon'ble Supreme Court and jurisdictional High Court.”*

**2.** Both these appeals are related to the same assessee and the issue involved in both the appeals are similar, therefore we have decided to take up both the appeals together and pass a common order for the sake of convenience. We will take up the appeal in ITA No 1982/Bang/2024 as the lead case and the decision arrived will be applicable to the other year mutatis mutandis.

**3.** The brief facts of the case are that the assessee is a co-operative society registered under the provisions of the Karnataka Co-operative Societies Act and they filed their return of income on 19/09/2018 and claimed the deduction u/s. 80P of the Act. Thereafter the case of the assessee was selected for limited scrutiny through CASS and the assessment was completed u/s. 143(3) of the Act in which the AO had disallowed the interest income received from the SCDCC Bank and also the dividend derived from the said bank accounts' share capital. As against the said order, the assessee filed appeals before the Ld.CIT(A). The Ld.CIT(A) had dismissed the appeal insofar as the interest income and the dividend income received from the SCDCC bank. Insofar as the dividend income received from the other co-operative banks, the Ld.CIT(A) had accepted the case of the assessee. As against the said order, the assessee filed these appeals before this Tribunal.

**4.** At the time of hearing, the Ld.AR submitted that the interest income received from the SCDCC Bank is from the mandatory deposit of amounts as required under the Karnataka Co-operative Societies Act and therefore the said interest is eligible for deduction u/s. 80P(2)(a)(i) of the Act. Insofar as the dividend received from the said bank, the Ld.AR submitted that the assessee had received the said dividend income against the share capital invested with the said bank and therefore the same is eligible for deduction

u/s. 80P(2)(d) of the Act. Alternatively, the Ld.AR submitted that the deductions eligible u/s. 57 should be granted if the above said incomes were treated as income from other sources.

**5.** The Ld.DR relied on the order of the lower authorities and prayed to dismiss the appeal.

**6.** We have heard the arguments of both sides and perused the materials available on record.

**7.** It is the case of the assessee that the funds were deposited in the SCDCC Bank as per the mandatory requirement under the Karnataka Co-operative Societies Act and therefore the said interest income is eligible for deduction u/s. 80P(2)(a)(i) of the Act. The assessee had not raised this plea before the authorities below and therefore the authorities had no occasion to consider the said claim while passing the orders. No doubt if the amount was deposited based on the mandatory requirement of the Karnataka Co-operative Societies Act, the assessee is entitled for deduction u/s. 80P(2)(a)(i) of the Act. This view was upheld by the various orders of this Tribunal as well as by the Hon'ble High Courts. But the said fact has to be verified by the authorities.

**8.** Similarly, the dividend income also seems to be a mandatory one and if so, the same is also entitled for deduction u/s. 80P of the Act. Moreover, the dividend income was received from the South Canara District Central Co-operative (SCDCC) Bank which is also a co-operative society registered under the provisions of the Karnataka Co-operative Societies Act.

**9.** In order to verify the said facts, we are remitting these issues to the file of the AO with the direction to consider the plea raised by the assessee about the statutory requirements of keeping the funds in the said bank and if so allow the deduction claimed u/s. 80P(2)(a)(i) of the Act. Otherwise the

said income should be assessed u/s. 56 of the Act for which necessarily the eligible deductions have to be granted as per section 57 of the Act.

**10.** In the result, both the appeals filed by the assessee are allowed for statistical purposes.

Order pronounced in the open court on 30<sup>th</sup> April, 2025.

Sd/-  
(WASEEM AHMED)  
Accountant Member

Sd/-  
(SOUNDARARAJAN K.)  
Judicial Member

Bangalore,  
Dated, the 30<sup>th</sup> April, 2025.  
/MS /

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|---------------|------------------------|
| 1. Appellant  | 2. Respondent          |
| 3. CIT        | 4. DR, ITAT, Bangalore |
| 5. Guard file | 6. CIT(A)              |

By order

Assistant Registrar,  
ITAT, Bangalore