

**IN THE INCOME TAX APPELLATE TRIBUNAL  
“SMC” BENCH : BANGALORE**

BEFORE SHRI PRASHANT MAHARISHI, VICE PRESIDENT

ITA No.286/Bang/2025
Assessment year : 2018-19

Prathamik Krushi Pattin Sahakar Sangh Niyamit Chimmad, 100, Chimmad, Jamakhandi – 587 312. <b>PAN: AAAAP 2467M</b>	Vs.	The Income Tax Officer, Ward 1 & TPS, Bagalkot.
APPELLANT		RESPONDENT

Appellant by	:	Shri Ashok Mudnur, CA
Respondent by	:	Shri Ganesh R. Ghale, Standing Counsel for the Revenue.

Date of hearing	:	10.06.2025
Date of Pronouncement	:	04.08.2025

**ORDER**

1. This appeal is filed by Prathamik Krushi Pattin Sahakar Sangh Niyamit, (appellant/assessee) for assessment year 2018 – 19 against the appellate order passed by the National Faceless Appeal Centre, Delhi (the learned CIT – A) dated 21/1/2025 wherein the appeal filed by the assessee against the assessment order dated 31/3/2021 passed under section 143 (3) of The Income - Tax Act, 1961 (the Act) passed by the National e-Assessment Centre, Delhi (the learned AO) whereby

the denial of deduction under section 80 P of the act of ₹ 2,146,478/- was confirmed.

2. The appeal is preferred substantively on ground number 2 and 3 of the appeal wherein it challenged the confirmation of the order of the assessing officer denying deduction claimed of ₹ 2,146,478/- under section 80 P (2) (a) (i)/(d) being interest on from cooperative banks and further as per ground number 3 it was not considered that the net interest offered to tax is only ₹ 646,052.
3. The assessee filed its return of income for assessment year 2018 – 19 and 30/9/2018 at ₹ 646,050/- after claiming deduction of ₹ 2,196,478 under the provisions of section 80 P (2) (a) (i) of the act. The assessee is an employee cooperative society engaged in the business of providing credit facilities to its members. The return of income was processed and was selected for complete scrutiny by issue of notice for verification of claim of deduction under section 80 P of the act. Necessary notices were issued, and the assessee was asked that it has earned interest income from loan given to its members of Rs. 1,40,92,555/- and interest received from Bagalkot district Central cooperative bank of ₹ 2,387,580 and interest received from savings account of ₹ 178,460 –.
4. Assessee submitted that it is registered as a co-operative society under the Karnataka cooperative societies act, 1959. It is engaged into providing service to its own members by providing credit facilities to its members and receives contribution from the members. Out of that

receipt, surplus amount was deposited into various banks including cooperative banks and earned interest income thereon. Assessee submitted that it is the business income of the assessee and therefore it is entitled to claim of deduction under section 80P of the act.

5. The learned assessing officer held that the claim of the assessee of deduction under section 80P towards the interest income from cooperative banks and other banks is not correct. Accordingly, the learned assessing officer disallowed the claim of ₹ 2,146,478/- to the assessee and rejected the alternative claim of the assessee that as interest is received from a Central cooperative bank, it is also entitled to deduction under the provisions of section 80 P (2) (d) of the act. Consequently, the assessment order was passed on 31/3/2021.
6. The assessee challenged in appeal before the Id. CIT (A) who dismissed the claim of the assessee following the decision of the honourable Karnataka High Court in case of 83 taxmann.com 140. Therefore, assessee is in appeal before us.
7. We have heard the contentions of the learned authorised representative as well as the standing counsel for the Department. The only issue involved in this appeal is whether the assessee is entitled to deduction under section 80 P (2) (d) of the Act and the interest income earned by the assessee of ₹ 2,146,478 from Bagalkot district Central cooperative bank or not. The interest received by the assessee from that cooperative bank is ₹ 2,387,580. Assessee has earned interest income of Rs 23,87,580/- from deposits placed with the Bagalkot district cooperative

central bank which is a registered cooperative bank and is also a co-operative society. The learned lower authorities have denied the deduction to the assessee under section 80 P (2) (d) of the act. It was held that assessee has earned interest from cooperative societies which is carrying on the business of banking and therefore the deduction u/s 80 P (2) (d) is denied to the assessee relying up on the decision of honourable Karnataka High court in case of PCIT V Totagar Cooperative Sales Society (2017) 395 ITR 611 ( Karnataka ) dated 16 June, 2017.

8. We find that honourable Supreme court has rendered two decisions after that in case of (i) Mavilayi Service Co-operative Bank Ltd. vs. Commissioner of Income Tax, Calicut, [TS-12-SC-2021] [2021] 123 taxmann.com 161 (SC)/[2021] 279 Taxman 75 (SC)/[2021] 431 ITR 1 (SC)[12-01-2021] and (ii) Kerala State Co-Operative Agricultural & Rural Development Bank Ltd. vs. Assessing Officer [2023] 154 taxmann.com 305 (SC)/[2023] 295 Taxman 675 (SC)/[2023] 458 ITR 384 (SC)[14-09-2023] which now binds us .
9. Honourable supreme court in Mavilayi Service Co-operative Bank Ltd. vs. Commissioner of Income Tax, Calicut [ supra] has extracted certain definitions as under: -

What is the Definition of cooperative Societies under the Income -tax Act, 1961?

"2. In this Act, unless the context otherwise requires, --

(19) "co-operative society" means a co-operative society registered under the Co- operative Societies Act, 1912 (2

of 1912), or under any law for the time being in force in any State for the registration of co-operative societies."

What quantum and characteristics of Income is eligible for deduction u/s 80 P (2)(d) of the Act

(d) in respect of any income by way of interest or dividends derived by the co-operative society from its investments with any other co-operative society, the whole of such income.

The definition of cooperative bank in Explanation to section 80 P (4) applies only to that sub-section and not to the whole section 80 P of the Act.

Definition of cooperative bank as per section 56 of the banking Regulation Act 1949 in

(cci) "co-operative bank" means a state cooperative bank, a central co- operative bank, and a primary co-operative bank.

15. Further the Karnataka state cooperative societies Act 1959 defines a cooperative bank in section 2 (b1) as under:

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[(b1) —Co-operative Bank means a Co-operative Society which is doing the business of banking. Explanation.--For the purpose of this clause —banking shall have the meaning assigned to it in section 5 of the Banking Regulation Act, 1949 (Central Act 10 of 1949).]

10. Thus, a cooperative bank is necessarily a cooperative society first under The Karnataka State Cooperative Societies Act. Therefore , the Interest income earned from the Investment in another Cooperative Societies, even if investee is carrying on the business of banking, being a cooperative bank as per the Karnataka Cooperative Societies Act 1959, qualifies for the deduction u/s 80 P (2) (d) of the Act.
11. If the interest earned is not from investments but from business operations, it necessarily qualifies for deduction u/s 80 P (2) (a) itself.

12. Thus, according to me, the assessee is entitled to the deduction u/s 80 P (2) (a) if it is business income chargeable to tax under the head ' profit and gains of business and Profession" or under section 80 P (2)(d), if it is investments income chargeable to tax under the head ' income from Other sources". In both the cases it forms part of the 'Gross Total income' of the Assessee.
13. In view of above, I reverse the orders of the Id. Lower authorities and hold that assessee is eligible for deduction on interest income earned from Bagalkot District central cooperative bank Limited u/s 80P (2) (a) if it is business income of the assessee and otherwise u/s 80 P (2) (d) of the Act if it is income from other sources. Hence Ground no 2 of the appeal is allowed.
14. In view of our decision in Ground no 2, all other grounds of appeal are infructuous and hence, dismissed.
15. In the result appeal of the assessee is partly allowed.

Pronounced in the open court on this 04<sup>th</sup> day of August, 2025.

Sd/-

( PRASHANT MAHARISHI )  
VICE PRESIDENT

Bangalore,

Dated, the 04th August, 2025.

/Desai S Murthy /

Copy to:

1. Appellant
2. Respondent
3. Pr. CIT
4. CIT(A)
5. DR, ITAT, Bangalore.

By order

Assistant Registrar  
ITAT, Bangalore.