

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

**BEFORE SHRI LAXMI PRASAD SAHU, ACCOUNTANT MEMBER
AND
SHRI SOUNDARARAJAN K., JUDICIAL MEMBER**

ITA Nos. 2293 & 2294/Bang/2024
Assessment Years : 2018-19 & 2020-21

M/s. Syndicate Rythara Seva Sahakara Sangha Niyamitha, 392, Attibele Hobli, Bangalore – 562 107. Karnataka. PAN: AAAJS0871K	Vs.	The Deputy Commissioner of Income Tax, Circle – 4(3)(1), Bangalore.
APPELLANT		RESPONDENT

Assessee by	:	Shri Sandeep Chalapathy, CA
Revenue by	:	Shri Kiran D, CIT-DR

Date of Hearing	:	12-08-2025
Date of Pronouncement	:	28-08-2025

ORDER

PER SOUNDARARAJAN K., JUDICIAL MEMBER

These are the appeals filed by the assessee challenging the order of the NFAC, Delhi both dated 30/09/2024 in respect of the A.Ys. 2018-19 and 2020-21.

2. Both these appeals are related to the same assessee and the issue involved in both the appeals are similar and therefore we decided to take up both the appeals together and pass a common order for the sake of convenience.

3. We will take up the appeal in ITA No. 2293/Bang/2024 for A.Y. 2018-19 as the lead case and the result arrived in the said appeal will apply mutatis mutandis to the appeal in ITA No. 2294/Bang/2024 for A.Y. 2020-21. Since the grounds raised by the assessee in both the appeals are identical, grounds of appeal raised for the A.Y. 2018-19 in ITA No. 2293/Bang/2024 is reproduced herein below for reference.

“1. That the order of the learned Commissioner of Income-Tax (Appeals) in so far it is prejudicial to the interests of the appellant and erroneous in law and against the facts and circumstances of the case.

2. That the learned Commissioner of Income-Tax (Appeals) erred in law and facts in not providing an opportunity of being heard by way of video conferencing even though such opportunity was specifically sought for in the written submissions filed.

3. That the learned Commissioner of Income-Tax (Appeals) erred in law and facts in confirming the disallowance of Rs. 6,41,72,414/- claimed u/s. 80P(2)(a)(i) of the Act.

4. That the learned Commissioner of Income-Tax (Appeals) erred in law and facts in holding that the appellant is not entitled to deduction of interest on investments with Co-operative Banks and Nationalised banks on the ground that the said institutions are not members of the appellant.

5. That the learned Commissioner of Income-Tax (Appeals) erred in law and facts in not providing deduction of Rs. 30,74,634/- u/s. 80P(2)(d) of the Act on the ground that the said interest income is earned from investment made with Co-operative Banks and not Cooperative Society.

6. That the learned Commissioner of Income-Tax (Appeals) erred in law and facts in not considering interest income of Rs. 35,96,334/- earned from Karnataka State Government Apex Bank as deduction u/s. 80P(2)(d) of the Act on the ground that the said bank is a scheduled bank.

7. That the learned Commissioner of Income-Tax (Appeals) erred in law and on facts in not allowing the deduction u/s. 57 of the Act against the entire interest income from the investment in Co-operative Banks and Nationalised banks on the ground that the said expenditure is not incurred wholly and exclusively for earning the income.

8. Without prejudice to the above grounds, that the Commissioner of Income-Tax (Appeals) ought to have restricted the deduction to the extent of Rs. 3,04,86,876 being the amount claimed as deduction u/s. 80(P)(2)(a)(i) under Chapter VI A of the Act.

Each of the above grounds is without prejudice to one another, the appellant seeks the leave of the Hon'ble Income Tax Appellate Tribunal, Bangalore to add, delete, amend or otherwise modify each or any of the grounds of appeal either before or at the time of hearing this appeal."

4. The assessee is a co-operative society registered under the provisions of the Karnataka Co-operative Societies Act. The assessee is giving credit facilities to the farmers at the lesser rate of interest. During the A.Y 2018-19, the assessee filed their return of income and claimed deduction of Rs. 3,04,86,876/- u/s. 80P of the Act. The return was selected for limited scrutiny. Thereafter notices u/s. 143(2) and 142(1) were issued. The assessee submitted their reply to the said notices. Finally the AO concluded that the assessee had earned interest from co-operative banks, commercial banks and other financial institutions and therefore not entitled for deduction u/s. 80P(2)(a)(i) of the Act. The AO also rejected the claim that the assessee is entitled for deduction u/s. 80P(2)(d) of the Act. The AO treated the said interest income received as income from other sources and proposed to tax the same u/s. 56 of the Act. In spite of the detailed submissions made by the assessee, the AO had disallowed the interest received from the co-operative banks as well as from the commercial banks as not eligible for deduction u/s. 80P(2)(a)(i) of the Act. As against the said order of the AO, the assessee filed appeals before the Ld.CIT(A). Before the Ld.CIT(A), the assessee also filed a statement showing the interest amounts received from the scheduled banks as well as the co-operative banks and prayed that the interest received from the co-operative banks are eligible for deduction u/s. 80P(2)(a)(i) of the Act and if at all the interest income received from the scheduled banks could not be granted deduction u/s. 80P(2)(a)(i) of the Act, the same should be assessed u/s. 56 of the Act after giving the benefit of cost of funds, etc. The Ld.CIT(A) had dismissed the appeals by relying on several judgments and orders of the Tribunal.

5. As against the said orders, the assessee is in appeals before this Tribunal.

6. At the time of hearing, the Ld.AR submitted that the assessee is a co-operative society and earned interest income not only from the co-operative societies but also from the scheduled banks and therefore the said interest income is attributable to the business activities carried on by the assessee and submitted that the same are eligible for deduction u/s. 80P(2)(a)(i) of the Act. By way of an alternative submission, the Ld.AR submitted that the authorities should have granted the deduction on the interest income earned from the co-operative banks and should have assessed the interest income earned from the scheduled banks u/s. 56 of the Act and prayed that the said submission may be considered on the above said lines of argument. The Ld.AR also filed an order of the Coordinate Bench of this Tribunal in case of ITO vs. M/s. Bangalore Credit Co-operative Society Ltd. in ITA Nos. 2347 & 2348/Bang/2024 & C.O. Nos. 4 & 5/Bang/2025 vide order dated 30/06/2025 in support of its case and prayed that the necessary reliefs may be granted.

7. The Ld.DR relied on the orders of the lower authorities and prayed to dismiss the appeals.

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

9. From the facts narrated by the assessee, we understand that the assessee is a co-operative society and had made investments in co-operative banks as well as in the scheduled banks and received interest income during the year. The following table furnished by the assessee would establish the break-up of the deposits made into the various banks.

Sl. No.	Name of the Bank	Type of investment	Interest in Rs.
1	Karnataka State Co-operative Apex Bank	Fixed Deposits	35,96,335
2	Primary Co-operative Agricultural Rural Development Bank, Bangalore	Fixed Deposits	30,74,634
3	Syndicate Bank, Bidaraguppe Branch	Fixed Deposits	28,34,079
4	Syndicate Bank	Fixed Deposits	5,46,67,366
	Total		6,41,72,414

10. From the said table, the assessee had fixed deposits in the Karnataka State Co-operative Apex Bank and Primary Co-operative Agricultural Rural Development Bank, Bangalore. Apart from that, the assessee had also received interest from Syndicate Bank on the fixed deposits held with them. The first two banks i.e. Karnataka State Co-operative Apex Bank and Primary Co-operative Agricultural Rural Development Bank are registered under the provisions of the Karnataka Co-operative Societies Act and the Apex Bank is acting as a Apex body in respect of the co-operative institutions within the State of Karnataka. Similarly, the Primary Co-operative Agricultural Rural Development Bank is also a co-operative society registered under the provisions of the Act and therefore the said bank could not be treated as a co-operative bank within the meaning of section 80P(4) of the Act. If we consider the said facts, the assessee is entitled for deduction u/s. 80P(2)(a)(i) of the Act in respect of the interest income earned from the said Karnataka State Co-operative Apex Bank and Primary Co-operative Agricultural Rural Development Bank. We, therefore allow the said claim made by the assessee which amounts to Rs. 66,70,969/- u/s. 80P(2)(a)(i) of the Act.

11. Insofar as the interest income earned from the scheduled bank, we have considered the arguments made by the assessee that the said sums were deposited as per the mandatory provisions contained in the Karnataka Co-operative Societies Act and therefore interest received from the said mandatory deposits are eligible for deduction u/s. 80P(2)(a)(i) of the Act even though the said deposits were made in the scheduled banks. We have also considered the alternative submission made by the assessee that the interest income earned from the scheduled banks are liable to be assessed u/s. 56 of the Act if the said claim of deduction u/s. 80P(2)(a)(i) of the Act was not granted.

12. It is an admitted fact that the assessee had deposited the surplus amounts in the Syndicate Bank and earned interest income. It is the case of the assessee before the Ld.CIT(A) that the surplus funds were mandatorily deposited by the modes prescribed u/s. 58 of the Karnataka Co-operative Societies Act. Further, as per section 57(2) of the said Act, every co-operative society should transfer 25% of the net profits in any year to the reserve fund. Therefore the Societies Act mandated that 25% of the net profits should be transferred to the reserve fund which could be invested in any co-operative bank or with any scheduled bank regulated by the Reserve Bank of its choice, as prescribed u/s. 58 of the said Act. The said submissions were not considered by the Ld.CIT(A) and wrote the very lengthy order and dismissed the claim made by the assessee.

13. We are of the view that if the assessee had deposited its surplus funds as reserve funds, in compliance with the statutory provisions, the interest income earned from the said deposits would be granted the benefit of deduction u/s. 80P(2)(a)(i) of the Act. It is for the assessee to establish the fact that whether the interest income has been earned out of compulsion or not. In the event the assessee was able to demonstrate that the fixed deposits were made in the scheduled banks pursuant to the mandatory condition available in the Societies Act, we are of the view that the said interest income is eligible for deduction. If the assessee was not able to

establish the said fact, then also the said income could be classified as income from other sources subjected to tax under the provisions of section 56 of the Act and to arrive the above said conclusion, we also relied on the order of the Coordinate Bench of this Tribunal furnished by the assessee in case of ITO vs. M/s. Bangalore Credit Co-operative Society Ltd. in ITA Nos. 2347 & 2348/Bang/2024 & C.O. Nos. 4 & 5/Bang/2025 vide order dated 30/06/2025. In such circumstances, the necessary cost of expenses etc should be granted by the AO while making the assessment.

14. We, therefore, set aside the issue on the interest income earned from the scheduled banks and remitted the issue to the file of the AO for denovo consideration and if the assessee is able to prove his case that the said deposits are made in compliance with the provisions of the Karnataka Co-operative Societies Act, then the assessee is entitled for deduction to that extent u/s. 80P(2)(a)(i) of the Act. We also make it clear that if the assessee fails to prove the said claim, they are entitled to be assessed u/s. 56 of the Act and the necessary deductions as provided u/s. 57 should be granted to the assessee while computing the said income from other sources. With the above directions, we remit this issue to the file of AO for denovo consideration.

15. In the result, both the appeals filed by the assessee are partly allowed for statistical purposes.

Order pronounced in the open court on 28th August, 2025.

Sd/-
(LAXMI PRASAD SAHU)
Accountant Member

Sd/-
(SOUNDARARAJAN K.)
Judicial Member

Bangalore,
Dated, the 28th August, 2025.
/MS /

Copy to:

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

By order

Assistant Registrar,
ITAT, Bangalore