

**IN THE INCOME TAX APPELLATE TRIBUNAL
"DB" BENCH, COCHIN**

**SHRI INTURI RAMA RAO, ACCOUNTANT MEMBER
SHRI RAHUL CHAUDHARY, JUDICIAL MEMBER**

**ITA No.553/COCH/2025
(Assessment Year:2020-2021)**

Thottippal Service Co-operative Bank Ltd.

Thottippal Service Co-operative Bank Ltd.,
Thottippal, Thrissur, Kerala- 680310
[PAN: AACAT4740M]

..... **Appellant**

Vs

**The Income Tax Officer, Ward2(5),
Thrissur**

Central Revenue Building,
I.S. Press Road., Kerala- 682018

..... **Respondent**

Appearance

For the Appellant/Assessee : Smt. Divya Ravindran
For the Respondent/Department : Smt. Leena Lal, Sr. AR

Date

Conclusion of hearing : 20.08.2025
Pronouncement of order : 01.09.2025

ORDER

Per Rahul Chaudhary, Judicial Member:

1. The present appeal preferred by the Assessee is directed against the order, dated 23/05/2025, passed by the National Faceless Appeal Centre (NFAC), Delhi [hereinafter referred to as 'the **CIT(A)**'] whereby the Ld. CIT(A) under Section 250 of the Income Tax Act, 1961 [hereinafter referred to as 'the **Act**'] whereby the Ld. CIT(A) had dismissed the appeal against the Assessment Order, dated 26/09/2022, passed under Section 143(3) r.w.s. 144B of the Act for the Assessment Year 2020-2021.
2. The Assessee has raised following grounds of appeal :

"A. The Assessing officer and CIT(A) for the Ay 2020-21, have erred

in denying the deduction under Section 80P(2)(d) in respect of interest income earned from deposits made with scheduled banks. The said income is eligible for deduction, as it constitutes income derived from investments made with other cooperative societies or banks, and is not taxable as income from other sources, particularly when such investments are made in compliance with regulatory or statutory requirements.

- B. The authorities below have failed to follow the binding decision of the Hon'ble Supreme Court in Mavilayi Service Co-operative Bank Ltd. u. CIT ft2021) 123 taxmann.com 161 (sc)I and in case of Principal CIT. vs Peroorkada Service Co-operative Bank (ITA No. 323 OF 2019), where it was categorically held that cooperative societies not engaged in banking business and not licensed under the Banking Regulation Act, 1949 are eligible for deduction.*
- C. The fixed deposits and savings bank interest earned by the appellant arise from the temporary investment of surplus funds, which are part of the regular business operations of the society. The income is attributable to the business of the society and is thus eligible for deduction under Section 80P(2)(a)(i), in line with Mavilayi and other authorities.*
- D. The assessment was concluded without granting the appellant sufficient and meaningful opportunity to represent its case, especially during pandemic-affected periods. The proceedings were conducted ex parte, despite genuine attempts by the appellant to seek adjournments and clarify its position. This constitutes a denial of natural justice.*
- E. The levy of interest under Sections 234A, 234B, and 234C is consequential and not automatic. In the event the addition is deleted or reduced, the interest levied would also require re-computation. The appellant reserves the right to challenge the levy of interest in view of the above."*

3. The Assessee is a registered co-operative society engaged in providing credit facilities to its members. During the relevant previous year the Assessee earned interest income through statutory investments in bank fixed deposits and savings bank accounts. In the return of income the Assessee claimed deduction in respect of the same under Section 80P(2)(a)(i) of the Act. However, the Assessing Officer was of the view that the aforesaid interest income earned by the Assessee was in the nature of 'Income from Other Sources' and therefore, the Assessing Officer denied deduction as claimed by the Assessee under Section 80P(2)(a)(i) of the Act and

made addition of INR.2,81,62,951/-.

4. In appeal, the CIT(A) granted limited relief to the Assessee by directing the Assessing Officer to grant deduction for proportionate cost, administrative and other expenses in respect of interest income of INR.2,81,62,951/- while computing net interest income taxable in the hands of the Assessee.
5. Being aggrieved, the Assessee has preferred the present appeal before the Tribunal. All the grounds raised by the Assessee are directed against the denial of deduction claimed by the Assessee under Section 80P(2)(a)(i) of the Act in respect of interest income.
6. Having considered the rival submission and on perusal of the record, we are of the view that the issue raised in the present appeal stands decided in favour of the Assessee by the judgment of the jurisdictional High Court in the case of **PCIT vs. Sahyadri Co-op. Credit Society Ltd. (166 taxmann.com 445)**, which has been consistently been followed by the Cochin Bench of the Tribunal. The relevant extract of the aforesaid judgment of the Hon'ble Kerala High Court reads as under:

*"7. On a consideration of the rival submissions, we are of the view that for the reasons stated hereinafter, the question of law that arises for consideration before us must be answered against the Revenue and in favour of the assessee. The permissible deduction that is envisaged under Section 80P(2) of the I.T. Act for a Co-operative Society that is assessed to tax under the head of 'Profits and Gains of Business or Profession' is of the whole of the amount of profits and gains of business attributable to any one or more of its activities. Thus, all amounts as can be attributable to the conduct of the specified businesses by a Co-operative Society will be eligible for the deduction envisaged under the statutory provision. **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.

8. We also find force in the submission of the learned Senior counsel, distinguishing the decision of the Supreme Court in *M/s. The Totgars' Cooperative Sale Society Limited (supra)*, on the ground that the Court in that case had found that the Society concerned had appropriated amounts forming part of surplus receipts which were due to its members, and invested the same to earn interest during the period when the surplus receipts were in its hands. It was therefore that the court found that the interest earned by the Society through deposit of such receipts with banks in fact ought to have accrued to the benefit of the individual members and not to the Society itself; that in relation to the Society, it was to be treated as income from other sources since the interest income had lost its nexus with the principal income earned by the Society. The facts in the instant cases are entirely different and the investment concerned was of amounts that had already attained the character of surplus profits in the hands of the assessee. On this issue, therefore, we find ourselves in agreement with the view taken by the Andhra Pradesh and Karnataka High Courts respectively in *The Vavveru Co-operative Rural Bank Ltd. (supra)* and *Tumkur Merchants Souharda Credit Co-operative Ltd. (supra)*.
9. As for the argument of the learned Standing Counsel for the Revenue, with reference to the provisions of Section 80P(2)(d) of the I.T. Act, we might only observe that, while it may be a fact that interest income of the nature specified therein is specifically allowed as a deduction in the case of Co-operative Societies in general, in the light of our discussion above as regards the nature of the interest income earned by the

assessee Society in the instant cases, it would follow that the interest income dealt with by us in the instant cases is not akin to the one contemplated under Section 80P(2)(d). We are of the view that the latter provision deals with interest income other than what can be attributable to the main business of the Society.

In the result, we dismiss these I.T. Appeals preferred by the Revenue, in so far as they relate to the question as to "whether or not the income received by the respondent Society by way of interest on deposits of surplus profits earned by it, would qualify for the deduction contemplated under Section 80P(2)(a) of the I.T. Act, for profits and gains of business attributable to its activity of providing credit facilities to its members?" by answering the said question against the Revenue and in favour of the assessee. " (Emphasis Supplied)

7. On perusal of the above, it becomes clear that answering the issue in favour of the Assessee, the Hon'ble held that income received by a co-operative society by way of interest on deposits of surplus profits earned by it would qualify for the deduction under Section 80P(2)(a) of the Act. Accordingly, respectfully following the above judgment of the jurisdictional High Court we direct the Assessing Officer to grant deduction under Section 80P(2)(a) of the Act in respect of interest income as claimed by the Assessee in the return of income. In terms of the aforesaid, Ground No. A to C raised by the Assessee are allowed while Ground No. D & E are dismissed as infructuous.
8. In result, as per Paragraph 7 above, the present appeal preferred by the Assessee is allowed.

Order pronounced on 01.09.2025.

Sd/-
(Inturi Rama Rao)
Accountant Member

Sd/-
(Rahul Chaudhary)
Judicial Member

मुंबई Mumbai; दिनांक Dated : 01.09.2025

Disha Raut, Stenographer

आदेश की प्रतिलिपि अग्रेषित/Copy of the Order forwarded to :

1. अपीलार्थी / The Appellant
2. प्रत्यर्थी / The Respondent.
3. आयकर आयुक्त/ The CIT
4. प्रधान आयकर आयुक्त / Pr.CIT
5. विभागीय प्रतिनिधि ,आयकर अपीलीय अधिकरण ,मुंबई / DR,
ITAT, Mumbai
6. गार्ड फाईल / Guard file.

आदेशानुसार/ BY ORDER,

सत्यापित प्रति //True Copy//

उप/सहायक पंजीकार / (Dy./Asstt. Registrar)
आयकर अपीलीय अधिकरण, मुंबई / ITAT, Mumbai