IN THE INCOME TAX APPELLATE TRIBUNAL
"A" BENCH : BANGALORE

BEFORE SHRI PRASHANT MAHARISHI, VICE PRESIDENT
AND
SHRI SOUNDARARAJAN K., JUDICIAL MEMBER

ITA No.819/Bang/2025
Assessment year : 2020-21

Honnali Urban Credit Co-operative Society Ltd., Nyamathi Road, Honnali – 577 217. **PAN: AAAAH 5867M**	Vs.	The Principal Commissioner of Income Tax, Bengaluru-1, Bengaluru.
APPELLANT		RESPONDENT

Appellant by	:	Shri Siddesh N. Gaddi, CA
Respondent by	:	Shri Shivanand Kalkeri, CIT(DR)(ITAT), Bengaluru.

Date of hearing	:	27.11.2025
Date of Pronouncement	:	03.02.2026

O R D E R

Per Prashant Maharishi, Vice President

1. This appeal is filed by Honnali Urban Credit Co-operative Society Ltd. (the assessee/appellant) for the assessment year 2020-21 against the revisionary order passed u/s. 263 of the Income Tax Act, 1961 [the Act] by the ld. Principal Commissioner of Income Tax, Bengaluru-1

[PCIT], Bengaluru dated 10.02.2025, wherein he held that the assessment order passed by the learned assessing officer [AO] u/s. 143(3) r.w.s. 144B of the Income Tax Act, 1961 [the Act] dated 17/9/2022 is erroneous and prejudicial to the interests of the Revenue so far as the allowance of deduction u/s. 80P(2)(a)(i) of the Act is allowed. According to him, the deduction should have been allowed to the assessee, if any, considering the interest income earned by the assessee on investment of ₹ 4,473,688/– as income from other sources u/s. 56 of the Act.

2. The assessee is aggrieved with the above revisionary order passed by the ld. PCIT raising the fact and grounds that the assessee is entitled to deduction u/s. 80P(2)(a)(i) of the Act and also u/s. 80P(2)(d) of the Act.

3. Briefly stated the fact shows that assessee is a credit cooperative society giving loan to its members, filed its return of income on 16.12.2020 at a total income of Rs.2,26,970 after claiming deduction u/s. 80P(2)(a)(i) of the Act of ₹ 6,411,029. The assessee's case was selected for scrutiny under the limited scrutiny and deduction from total income was the issue. The assessee was issued several notices and also a show cause notice. The assessee was asked the eligibility of deduction under the provisions of section 80 P of the Act. The assessee replied on 1.9.2022 in response to notice u/s. 142 (1) of the Act and further show cause notice was issued to the assessee on 5.9.2022 which was also replied on 10.9.2022. The claim of the assessee was that interest income received by the assessee is eligible for deduction u/s.

80P(2)(a)(i) of the Act for the purpose that the deduction is available to the assessee of the income which is attributable to the business of providing credit facilities to the members. The assessee has received interest income from several banks amounting to ₹ 4,473,688. The assessee also contested that even otherwise, the assessee is also eligible to get deduction u/s. 80P(2)(d) of the Act of the interest income received of ₹ 4,359,396 from Devanagari Urban Cooperative Bank Ltd, ₹ 42,017 from Devanagari DCC Bank, Honnali and the same bank of ₹ 44,771. It was further shown that the assessee has received interest from ICICI Bank of ₹ 60,308 which is entitled for deduction u/s. 80P(2)(a)(i) of the Act. The ld.AO was also shown the several judicial precedents of the Hon'ble jurisdictional High Court. But the ld.AO in the show cause notice relied upon the decision of the Hon'ble Karnataka High Court wherein it has been held that interest income earned by the cooperative society on its investment with cooperative bank would be eligible for claim for deduction under the head 'income from other sources'. Thus according to the AO in the show cause notice this income is chargeable to tax u/s. 56 of the Act. However after considering the explanation of the assessee, he disallowed a sum of ₹ 60,308/– but has granted the deduction of interest received from cooperative banks u/s. 80P(2)(a)(i) of the Act.

4. Thus the ld.AO held that interest income earned by the assessee from ICICI Bank of ₹ 60,308 is required to be taxed u/s. 56 of the Act. Based on this, the assessment order was passed on 17/9/2022 wherein the returned income of the assessee of Rs.2,26,970 is assessed at ₹

3,157,451/–. There were several other additions of ₹ 2,837,369 as unexplained investment which is not material or relevant for deciding this issue. The only issue is that the AO has allowed the claim of the assessee of interest income received from the cooperative banks u/s. 80P(2)(a)(i) of the Act.

5. The ld. PCIT perused the records of the assessment and found that assessee has received the interest income on investment of ₹ 4,473,688 which has been granted by the AO as deduction to the assessee u/s. 80P of the Act and therefore a show cause notice was issued on 17/9/2022. The assessee replied the same by filing a written submission stating that assessee has been carrying on the credit business of accepting deposits from members and lending to the members only in accordance with the provisions of the Karnataka State Cooperative Societies Act. The assessee also submitted that the decision of the Hon'ble Supreme Court and the Hon'ble Karnataka High Court is distinguishable and not applicable as the claim of the assessee is allowable u/s. 80P(2)(d) of the Act because it is a bonafide business investment done in the ordinary course of the business and the interest income earned from such cooperative banks/cooperative society is attributable to the business activities of the assessee.

6. The ld. PCIT rejected the contention of the assessee and held that the income should have been chargeable to tax u/s. 56 of the Act and assessee is not entitled to deduction of such income as it is not business income attributable to the business of the assessee but is income from

other sources and further as the assessee has earned interest from cooperative banks, the deduction is also not available to the assessee u/s. 80P(2)(d) of the Act. Therefore it was held that the order of the ld.AO granting the assessee deduction of ₹ 44 lakhs u/s. 80P is erroneous and prejudicial to the interests of the Revenue in view of the decision of the Hon'ble Karnataka High Court in 83 taxmann.com 140. Accordingly the AO was directed to pass a fresh assessment order in light of the decision of the Hon'ble Supreme Court in 188 Taxman 282. The revisionary order under section 263 of the Act was passed on 10.2.2025.

7. The assessee aggrieved with the same has preferred an appeal before us. The learned authorized representative has filed a paper book containing 153 pages wherein he has relied upon the several judicial precedents of the coordinate benches as well as the decision in case of the assessee also. The main claim of the ld. AR was that the interest income earned by the assessee from the cooperative banks is a business income of the assessee as the income is attributable to the business. This view is upheld by the two decisions of the Hon'ble Karnataka High Court in case of Tumkur Merchants Co-op. Society Ltd as well as the decision of the Totagars Co-op. Sale Society. He further stated that that both these decisions are covering the issue of deduction u/s. 80P(2)(a)(i) of the Act and are directly on the point. He submits that the ld. PCIT has relied upon another decision of the Hon'ble Karnataka High Court which is on the other issue. It was further stated that even otherwise it has been held by the Hon'ble Supreme Court that when

two views are possible and if the AO follows one of the views, the said order cannot be held to be erroneous and prejudicial to the interests of the Revenue as per the decision of CIT v. Max India Ltd., 295 ITR 282. He therefore submitted that this order passed by the ld. PCIT cannot be sustained. He further referred to several judicial precedents of the coordinate benches where on the identical facts and circumstances, the order passed u/s. 263 of the Act was quashed.

8. The learned departmental representative, Shri Shivanand Kalakeri, CIT(DR) vehemently supported the orders of the learned PCIT. It was stated that the jurisdictional High Court has decided this issue based on the decision of the Hon'ble Supreme Court which has not been followed by the ld. AO and therefore not following the order of the jurisdictional High Court makes the order erroneous and prejudicial to the interests of the Revenue. He further stated that the assessee has received interest income of ₹ 44 lakhs which was not shown to have been received and is attributable to the business of the assessee of providing credit facilities to its members.

9. We have carefully considered the rival contention and perused the orders of the learned lower authorities. We find that the ld.AO during the course of assessment proceedings has issued a specific show cause notice to the assessee on limited scrutiny that the deduction claimed by the assessee under chapter VIA of the Act is required to be examined. He specifically noted that the assessee has received interest income from cooperative banks as well as interest income from ICICI bank. On

the basis of his examination and on the basis of the reply furnished by the assessee in response to show cause notice, he examined the claim of deduction under Chapter VIA of the Act. He found that assessee is eligible for deduction u/s. 80P of the Act with respect to the interest income earned by the assessee from cooperative societies/cooperative banks. However he was of the view that interest income earned by the assessee of ₹ 60,308/– is not eligible for deduction u/s. 80P, but is chargeable to tax u/s. 56 of the Act and as this income is received from ICICI bank but not from the cooperative society, he did not grant deduction u/s. 80P(2)(d) of the Act.

10. The ld. PCIT issued a show cause notice on examination of the record holding that the assessing officer should have followed the order of the Hon'ble Karnataka High Court wherein it has been held that that interest income earned by the assessee from cooperative society and cooperative banks and other banks is required to be taxed u/s. 56 of the Act and assessee is not eligible for any deduction u/s. 80P(2) of the Act. The ld. PCIT on perusal of the record also noted that the learned assessing officer has applied the same decision of the Hon'ble High Court and when confronted with the other two decisions of the Hon'ble jurisdictional High Court, Principal Commissioner of Income-tax, Hubli vs. Totagars Co-operative Sale Society [2017] 78 taxmann.com 169 (Karnataka)/[2017] 392 ITR 74 (Karnataka)[05-01-2017] & Tumkur Merchants Souharda Credit Cooperative Ltd. vs. Income-tax officer Word-V, Tumkur [2015] 55 taxmann.com 447 (Karnataka)/[2015] 230 Taxman 309 (Karnataka)[28-10-2014] held

that assessee is entitled to deduction to the extent of ₹ 44 lakhs on the interest income earned from the cooperative societies as this income is attributable to the business income of the assessee. Thus the assessee was granted deduction u/s. 80P(2)(a)(i) of the Act.

11. In Tumkur Merchants Souharda Credit Cooperative Ltd. vs. Income-tax officer Word-V, Tumkur [2015] 55 taxmann.com 447 (Karnataka)/[2015] 230 Taxman 309 (Karnataka)[28-10-2014] it is held that :-

> **6.** From the aforesaid facts and rival contentions, the undisputed facts which emerges is, the sum of Rs. 1,77,305/- represents the interest earned from short-term deposits and from savings bank account. The assessee is a Cooperative Society providing credit facilities to its members. It is not carrying on any other business. The interest income earned by the assessee by providing credit facilities to its members is deposited in the banks for a short duration which has earned interest. Therefore, whether this interest is attributable to the business of providing credit facilities to its members, is the question. In this regard, it is necessary to notice the relevant provision of law i.e., Section 80P(2)(a)(i):
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> "Deduction in respect of income of co-operative societies:
>
> 80P (1) Where, in the case of an assessee being a co-operative society, the gross total income includes any income referred to in sub-section (2), there shall be deducted, in accordance with and

subject to the provisions of this section, the sums specified in sub-section (2), in computing the total income of the assessee.

(2) The sums referred to in sub-section (1) shall be the following, namely:

(*a*)		in the case of co-operative society engaged in—

(*i*)		carrying on the business of banking or providing credit facilities to its members, or

(*ii*) to (*vii*)	xx	xx	xx

the whole of the amount of profits and gains of business attributable to any one or more of such activities."

7. The word 'attributable' used in the said section is of great importance. The Apex Court had an occasion to consider the meaning of the word 'attributable' as supposed to derive from its use in various other provisions of the statute in the case of *Cambay Electric Supply Industrial Co. Ltd.* v. *CIT* [1978] 113 ITR 84 (SC) as under:

'As regards the aspect emerging from the expression "attributable to" occurring in the phrase "profits and gains attributable to the business of the specified industry (here generation and distribution of electricity) on which the learned Solicitor-General relied, it will

be pertinent to observe that the legislature, has deliberately used the expression "attributable to" and not the expression "derived from". It cannot be disputed that the expression "attributable to" is certainly wider in import than the expression "derived from". Had the expression "derived from" been used, it could have with some force been contended that a balancing charge arising from the sale of old machinery and buildings cannot be regarded as profits and gains derived from the conduct of the business of generation and distribution of electricity. In this connection, it may be pointed out that whenever the legislature wanted to give a restricted meaning in the manner suggested by the learned Solicitor-General, it has used the expression "derived from", as, for instance, in section-80J. In our view, since the expression of wider import, namely, "attributable to", has been used, the legislature intended to cover receipts from sources other than the actual conduct of the business of generation and distribution of electricity.'

8. Therefore, the word "attributable to" is certainly wider in import than the expression "derived from". Whenever the legislature wanted to give a restricted meaning, they have used the expression "derived from". The expression "attributable to" being of wider import, the said expression is used by the legislature whenever they intended to gather receipts from sources other than the actual conduct of the business. A Cooperative Society which is carrying on the business of providing credit facilities to its members, earns profits and gains of business by providing credit facilities to its

members. The interest income so derived or the capital, if not immediately required to be lent to the members, they cannot keep the said amount idle. If they deposit this amount in bank so as to earn interest, the said interest income is attributable to the profits and gains of the business of providing credit facilities to its members only. The society is not carrying on any separate business for earning such interest income. The income so derived is the amount of profits and gains of business attributable to the activity of carrying on the business of banking or providing credit facilities to its members by a co-operative society and is liable to be deducted from the gross total income under Section 80P of the Act.

9. In this context when we look at the judgment of the Apex Court in the case of M/s. Totgars Co-operative Sale Society Ltd., on which reliance is placed, the Supreme Court was dealing with a case where the assessee-Cooperative Society, apart from providing credit facilities to the members, was also in the business of marketing of agricultural produce grown by its members. The sale consideration received from marketing agricultural produce of its members was retained in many cases. The said retained amount which was payable to its members from whom produce was bought, was invested in a short-term deposit/security. Such an amount which was retained by the assessee - Society was a liability and it was shown in the balance sheet on the liability side. Therefore, to that extent, such interest income cannot be said to be attributable either to the activity mentioned in Section 80P(2)(a)(i) of the Act or

under Section 80P(2)(a)(iii) of the Act. Therefore in the facts of the said case, the Apex Court held the assessing officer was right in taxing the interest income indicated above under Section 56 of the Act. Further they made it clear that they are confining the said judgment to the facts of that case. Therefore it is clear, Supreme Court was not laying down any law.

10. In the instant case, the amount which was invested in banks to earn interest was not an amount due to any members. It was not the liability. It was not shown as liability in their account. In fact this amount which is in the nature of profits and gains, was not immediately required by the assessee for lending money to the members, as there were no takers. Therefore they had deposited the money in a bank so as to earn interest. The said interest income is attributable to carrying on the business of banking and therefore it is liable to be deducted in terms of Section 80P(1) of the Act. In fact similar view is taken by the Andhra Pradesh High Court in the case of *CIT* v. *Andhra Pradesh State co-operative Bank Ltd.,* [2011] 200 Taxman 220/12 taxmann.com 66. In that view of the matter, the order passed by the appellate authorities denying the benefit of deduction of the aforesaid amount is unsustainable in law. Accordingly it is hereby set aside. The substantial question of law is answered in favour of the assessee and against the revenue."

12. We find that when the ld. AO has followed the decision of the jurisdictional High Court Tumkur Merchants Souharda Credit Cooperative Ltd. vs. Income-tax officer Word-V, Tumkur [2015] 55 taxmann.com 447 (Karnataka)/[2015] 230 Taxman 309 (Karnataka)[28-10-2014] and Principal Commissioner of Income-tax, Hubli vs. Totagars Co-operative Sale Society [2017] 78 taxmann.com 169 (Karnataka)/ [2017] 392 ITR 74 (Karnataka) [05-01-2017] and granted the deduction, the ld. PCIT could not have held that the order is erroneous and prejudicial to the interests of the Revenue.

13. Even otherwise, the decision of the Hon'ble jurisdictional High Court in case of Tumkur Merchants Co-op. Society, Totagars Cooperative Sale Society [supra] are in favour of the assessee and the decision of the Principal Commissioner of Income-tax, Hubballi vs. Totagars Co-operative Sale Society [2017] 83 taxmann.com 140 (Karnataka)/[2017] 395 ITR 611 (Karnataka)/[2017] 297 CTR 158 (Karnataka)[16-06-2017] is against the assessee. Therefore ld.AO has followed the one of the two possible views and allowed the claim of the assessee. When the ld.AO has followed one of the views, it cannot be said that the order of the ld.AO is erroneous and prejudicial to the interests of the Revenue. Such was the verdict of the Hon'ble Supreme Court in case of Commissioner of Income-tax (Central), Ludhiana vs. Max India Ltd. [2008] 166 Taxman 188 (SC)/[2007] 295 ITR 282 (SC)/[2007] 213 CTR 266 (SC)[01-11-2007]where in it was held as under :-

"2. At this stage we may clarify that under para 10 of the judgment in the case of *Malabar Industrial Co. Ltd.* (*supra*) this Court has taken the view that the phrase "prejudicial to the interest of the revenue" under section 263 has to be read in conjunction with the expression "erroneous" order passed by the Assessing Officer. Every loss of revenue as a consequence of an order of the Assessing Officer cannot be treated as prejudicial to the interest of the revenue. For example, when the Income-tax Officer adopted one of the courses permissible in law and it has resulted in loss of revenue; or where two views are possible and the Income-tax Officer has taken one view with which the Commissioner does not agree, it cannot be treated as an erroneous order prejudicial to the interest of the revenue, *unless the view taken by the Income-tax Officer is unsustainable in law*. According to the learned Additional Solicitor General on interpretation of the provision of section 80HHC(3) as it then stood the view taken by the Assessing Officer was unsustainable in law and therefore the Commissioner was right in invoking section 263 of the Income-tax Act. In this connection he has further submitted that in fact 2005 amendment which is clarificatory and retrospective in nature itself indicates that the view taken by the Assessing Officer at the relevant time was unsustainable in law. We find no merit in the said contentions. Firstly, it is not in dispute when

the Order of the Commissioner was passed there were two views on the word 'profit' in that section. The problem with section 80HHC is that it has been amended eleven times. Different views existed on the day when the Commissioner passed the above order. Moreover the mechanics of the section have become so complicated over the years that two views were inherently possible. Therefore, subsequent amendment in 2005 even though retrospective will not attract the provision of section 263 particularly when as stated above we have to take into account the position of law as it stood on the date when the Commissioner passed the order dated 5-3-1997 in purported exercise of his powers under section 263 of the Income-tax Act."

14. Deciding the issue based on the decision of the Honourable Jurisdictional high court could not have been said that assessment order passed is unsustainable in law. In view of the above facts, we hold that the order passed by the ld. PCIT holding that the assessment order passed by the ld.AO is erroneous and prejudicial to the interests of the Revenue is not sustainable and hence quashed.

15. In the result appeal filed by the assessee is allowed.

Pronounced in the open court on this 03rd day of February, 2026.

Sd/-	Sd/-
(SOUNDARARAJAN K.)	(PRASHANT MAHARISHI)
JUDICIAL MEMBER	VICE PRESIDENT

Bangalore,
Dated, the 03rd February, 2026.
/*Desai S Murthy /*

Copy to:

1. Appellant 2. Respondent 3. Pr. CIT
4. DR, ITAT, Bangalore.

By order

Assistant Registrar
ITAT, Bangalore.