IN THE INCOME TAX APPELLATE TRIBUNAL
LUCKNOW 'B' BENCH, LUCKNOW

BEFORE SH. KUL BHARAT, VICE PRESIDENT
AND
SH. NIKHIL CHOUDHARY, ACCOUNTANT MEMBER

ITA No.663/LKW/2025
A.Y. 2018-19

Sahkari Ganna Vikas Samiti Limited Rupapur, Hardoi-241001, U.P.	vs.	The Income Tax Department, National e-Assesmetn Centre, Delhi/Assistant Commissioner of Income Tax, Sitapur
PAN: AAWFS0887P		
(Appellant)		(Respondent)

Assessee by:	Sh. K.R. Rastogi, C.A.
Revenue by:	Sh. Koushlendra Tiwari, CIT DR
Date of hearing:	27.11.2025
Date of pronouncement:	30.01.2026

O R D E R

PER NIKHIL CHOUDHARY, A.M.:

This is an appeal filed by the assessee against the orders of the ld. CIT(A), NFAC under section 250 of the Act on 21.07.2025 partly allowing the appeal of the assessee against the orders of the ld. AO passed under section 143(3) for the assessment year 2018-19. The grounds of appeal are as under:-

> *(1) That the Ld. C. I. T. (A) erred on facts and in law in confirming the disallowance of expenses of Rs. 3,26,93,751/ being the Management Expenses and other expenses without appreciating that the Income of the Society is exempt u/s 80P of Chapter VIA and thus any enhancement to the exempt income will again be eligible for exemption u/s 80P.*
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> *(2) That the Ld. C.I.T. (A) erred on facts and in law in not appreciating that in view of CBDT Circular No. 37 of 2016 dated 02.11.2016 it has been stated that once the Assessee has already been entitled for claim of deduction under chapter VIA of Section 80P of I. T. Act any disallowance or addition to such Income, only gives right to enhancement of its eligible income.*
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> *(3) That the Authorities below erred on facts and in law in confirming the disallowance of expenses of Rs. 3,26,93,751/- without appreciating that the*

expenses have been duly incurred towards the activities of the Society as per the directions of the Cane Commissioner and are duly approved and vouched by the State Government Ranked Officers.

(4) That the addition made is highly excessive, contrary to the facts, law and principle of natural justice and without providing sufficient time and opportunity to have its say on the reasons relied upon by CIT (A)."

2. The facts of the case are that the assessee filed a return of income declaring a total income of rupees Nil after claiming deduction under Chapter VI-A (section 80P) of Rs. 1,17,28,996/-. The case was selected for scrutiny and notices under section 143(2) and 142(1) were served upon the assessee. The assessee is a Cooperative Society registered with the Uttar Pradesh Cooperative Samiti Act, 1965 that is engaged in providing Fertilizers, Pesticides etc., to its members who are cane growers. It receives commission from the sugar mills on the supply of cane by its members. The ld. AO asked the assessee to explain how it was eligible for deduction under section 80P of the Act. The assessee submitted that the society was a Cooperative Cane Society as it was not a banking cooperative society. It was engaged in promoting fertilizers and pesticides to its members, its main heads of income were commission, interest and other Government grants. However, the ld. AO did not accept the explanation of the assessee. He observed that the assessee earned interest from deposits / investments in fixed deposit made with the scheduled / commercial banks and had earned interest of Rs. 37,52,533/- on this account. He observed that the assessee had not made truthful declaration because such deposits from nationalized / scheduled banks could not be said to be covered under section 80P(2)(a)(iii) of the Act. Furthermore, he held that the aforesaid deposits / investments had been made out of the surplus funds of the society and interest income arising from such deposits / investments were income from other sources that were taxable under section 56 of the Act and could not be categorized as the income from profit and gains of the business of assessee. He, therefore, declined to allow the deduction under section 80P to the interest income earned in this manner. He, therefore, issued a show cause notice to the assessee as to

why this interest income received from the banks should not be disallowed as per the provisions of under section 80P(d). The assessee responded by submitting that the interest has been generated on, "Nidhis" and it was payable on maturity. The society had no independent right on the interest. The society only had rights on the interest generated on its savings bank account and the same was in the nature of operational income and therefore was attributable to the cooperative activities. The ld. AO did not find this submission of the assessee acceptable. He referred to the decision of the Hon'ble Supreme Court in the case of Totgars Cooperative Sale Society Limited vs. ITO, (2010) 322 ITR 283 (SC) wherein the Hon'ble Supreme Court had held that the interest on FDRs and banks would come in the category of income from other sources and would be taxable under section 56 of the Act. He held that because the main object of the assessee was supply of cane to sugar mill, fertilizers and pesticides to farmers, advance of funds to farmers for agricultural activities and other related work for the development of farmers, thus in the case of the assessee, the interest on FDRs were nothing but income from other sources. The ld. AO further pointed out that the decision in the case of Totgars Cooperative Sale Society Limited vs. ITO (supra) had been followed by the Hon'ble Allahabad High Court in the case of Commissioner of Income Tax vs. Cooperative Cane Development Union Ltd. in ITA No. 520 of 2008 and ITA No. 184 of 2016. The ld. AO also relied upon the decision of the Hon'ble Karnataka High Court in the case of PCIT, Hubli vs. M/s Totgars Cooperative Sale Society (2017) 83 taxman.com 140, wherein the Hon'ble Karnataka High Court had held that income earned by way of interest earned by deposit or investment of idle or surplus funds does not change its character irrespective of the fact whether such income or interest was earned from a scheduled bank or a cooperative bank and therefore, clause (d) of section 80P(2) of the Act would not apply. The ld. AO held that since the interest on the current investment had not been earned from any cooperative society and the Hon'ble Supreme Court in its latest decision in the case of Mavilayi Service Co-operative Bank Ltd. & Ors. v. Commissioner of Income Tax in C.A. Nos. 7343-7350 of

2019 dated 12.01.2021 had excluded cooperative banks from the ambit of section 80P of the Act. He pointed out that wherever the word Cooperative Society was used under section 80P, it would not be applicable to cooperative banks. From this, he concluded that the interest income derives from deposits/investments in cooperative banks and other banks were not eligible for deduction under section 80P(2)(d). Therefore, he computed the said interest at Rs. 39,93,216/- and disallowed the same under section 56 of the Act. Thereafter, he proceeded to examine whether interest income earned by the assessee's society was eligible for deduction under section 80P(2)(a)(i) of the Act or not. He pointed out that in the instant case, the assessee society had invested its funds that were not immediately required for business purposes and therefore the interest on such investments could not fall within the meaning of the express, "profits and gains of business" as held by the Hon'ble Supreme Court in the case of Totgars Cooperative Sale Society Limited vs. ITO, Karnataka (2010)188 taxman 282 (SC), since it was not attributable to the activities of the society and since the deduction under section 80P(2)(a) was only available to the, 'operational income' of the business. Relying upon the said decision, he refused to allow this interest of Rs. 39,93,216/- as a deduction under section 80P(2)(a)(i) of the Act either. The ld. AO, thereafter turned his attention to management expenses of Rs. 3,26,93,751/-. He asked the assessee to submit the details of the same but noticed that the assessee had neither given any details nor submitted any documents in support of the management expenses. Therefore, in the absence of the necessary details, he disallowed the management expenses that had been claimed to the extent of Rs. 3,26,93,751/- and added the same back to the income of the assessee.

3. The assessee, aggrieved by these additions made by the ld. AO, filed an appeal before the ld. CIT(A). The ld. CIT(A) pointed out that the assessee being a cooperative cane society, the jurisdictional ITAT had consistently held that such interest income, being incidental to cooperative activities, was eligible for deduction under section 80P therefore, by following the decision of the ITAT Lucknow Bench dated 15.07.2015, he

deleted the disallowance of Rs. 39,93,216/-. However, with regard to the management expenses of 3,26,93,751/-, he pointed out that the ld. AO had issued a specific notice under section 142(1) calling for detailed supporting documents, ledger wise and party wise expense breakups, payment details and TDS compliance. However, the assessee failed to furnish verifiable evidence in support of the expenditure. He held that in the absence of necessary substantiation, the ld. AO's action in disallowing the entire amount of Rs. 3,26,93,751/- was justified and he therefore, upheld the disallowance. He also pointed out that the past history of the case had no meaning because each assessment year was separate and the AO could examine the claim afresh. Accordingly, he came to dismiss this ground of appeal of the assessee.

4. The assessee is aggrieved with the order of the ld. CIT(A) and has accordingly come before us. Sh. K.R. Rastogi, C.A. (hereinafter referred to as the ld. AR) pointed out that the ld. CIT(A) had omitted to consider that since the society was exempt under section 80P of the Income Tax Act, thus any enhancement of exempt income would again be eligible for exemption under section 80P. He pointed our attention to Circular No.37 of 2016 issued vide F. No.279/Misc./140/2015/ITJ on 2nd November, 2016 wherein the Board had pointed out that if expenditure disallowed was related to the business activity against which the Chapter VI-A deduction had been claimed, the deduction needs to be allowed on the enhanced profits. The ld. AR therefore, submitted that even if the expenditure were to be disallowed by the ld. AO, the assessee should thereafter have been granted deduction under section 80P for the enhanced income as per the provisions of the Circular. The ld. AR also drew our attention to the recent decision of the ITAT Lucknow Bench in the case of District Cooperative Sugarcane Supply Limited vs. ITO, Range-1(2) wherein the ITAT had followed the decision of the Hon'ble Allahabad High Court rendered in the case of CIT vs. Zila Sahkari Bank Limited (2014) 45 taxman.com 438 (Alld) to hold that even where the addition was sustained, there would be no tax demand and the tax effect would be nil. It had also placed reliance on the said CBDT Circular No. 37/2016. Without prejudice to these arguments,

however, he pointed out that in fact there was no basis for making these disallowances, these expenditures have been duly incurred towards the activities of the society as per the directions of the Cane Commissioner and they were duly approved and vouched by the officers of the State Government. Accordingly, he prayed that there was no basis for raising a tax demand on the assessee for disallowance of these expenditures.

5. On the other hand, Sh. Koushlendra Tiwari, CIT DR pointed out that the basic reason that the disallowance had been made was because the assessee had not furnished the relevant details before the ld. AO to justify the expenses that had been claimed. In the circumstances, he felt that the most appropriate course of action would be to restore the matter back to the file of the ld. AO so that the assessee may furnish evidence of the expenses claimed by it under the head management expenses.

6. We have duly considered the facts and circumstances of the case. We find that the issue has been addressed by the coordinate Bench in the matter of District Cooperative Sugarcane Supply Limited wherein, after drawing reference to the decision of the Hon'ble Allahabad High Court in the case of CIT vs. Zila Sahkari Bank (supra) and the CBDT Circular No. 37/2016, the Tribunal has observed that even if expenditures that are relatable to the business activity under which the Chapter VI-A deduction had been claimed, deduction would need to be allowed on the enhanced profits. It is evident that the only reason for the disallowance is the lack of explanation for the nature of the claimed expenditure before the ld. AO. Being conscious of the fact that any disallowance out of the said expenditure would only result in enhancement of the deductible income, we restore this matter to the file of the ld. AO so that the ld. AR may present evidence before the ld. AO to show that the expenses claimed under the head management expenses are in the nature of regular business expenses and related to the business activity under which the deduction under Chapter VI-A has been claimed and we direct that if the assessee is able to satisfy the ld. AO in this regard, the ld. AO may allow the assessee the benefit of deduction under section 80P keeping in

mind the aforesaid judgments of the Hon'ble Allahabad High Court in the case of CIT vs. Zila Sahkari Bank (supra) and the CBDT Circular No. 37/2016.

7. In the result, the appeal of the assessee is allowed for statistical purposes.

Order pronounced on 30.01.2026 in the open Court.

Sd/-	Sd/-
[KUL BHARAT]	**[NIKHIL CHOUDHARY]**
VICE PRESIDENT	**ACCOUNTANT MEMBER**

DATED: 30/01/2026
Sh

Copy forwarded to:
1. Appellant –
2. Respondent –
3. CIT DR , ITAT,
4. CIT,
5. The CIT(A)

By order
Sr. P.S.