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

BEFORE SHRI WASEEM AHMED, ACCOUNTANT MEMBER
AND
SHRI SOUNDARARAJAN K., JUDICIAL MEMBER

ITA No. 1081 to 1083/Bang/2025
Assessment Years: 2018-19, 2020-21 & 2022-23

Karnataka Telecom Department Employees Co-operative Society Limited, No.106, 2nd Block, P & T Colony, RT Nagar, Bangalore North, P &T Col., Kavalbyrasandra S.O, Bangalore – 560 032. **PAN : AAAAK 6096 K**	**Vs.**	The Deputy Commissioner of Income Tax, Central Circle – 1(4), Bengaluru.
APPELLANT		**RESPONDENT**

Assessee by	:	Shri PR Suresh, CA
Revenue by	:	Shri N Balusamy, JCIT-DR

Date of Hearing	:	20-01-2026
Date of Pronouncement	:	30 -01-2026

ORDER

PER WASEEM AHMED, ACCOUNTANT MEMBER

These 3 appeals, filed by the assessee against the separate order of the Ld. Commissioner of Income Tax (Appeal) (hereafter- Ld. CIT(A)) under the provision of section 250 of the Income Tax Act, 1961 (hereafter- the Act), were heard together.

First, we take up ITA 1081/Bang/2025 pertaining to AY 2018-19

2. The assessee in the memo of appeal raised multiple grounds numbered 1 to 6, which we, for the sake of brevity are not inclined to reproduce here. The grounds

of appeal filed by the assessee are interconnected and pertains to deduction u/s 80P of the Act.

3. The brief facts of the case on hand are that the assessee is a co-operative society formed by the employees of department of telecommunications, Karnataka State and engaged in providing credit facilities as well as housing facilities to its member. The assessee filed its ROI for the subjected AY by declaring a total income of Rs. NIL after claiming deduction u/s 80P of the Act at Rs. 46,85,779/- only. The case of the assessee was selected for limited scrutiny and in order to verify the claims of the assessee notices were issued time to time u/s 142(1) of the Act.

4. Finally, a SCN notice was issued by the AO to the assessee proposing to treat certain income from other sources whereas the assessee has shown such income under the head 'business' and claimed deduction under section 80P of the Act. The details of such income stand as under:

i. Interest income from Banks and other financial institutions to the tune of Rs. 13,77,638.00
ii. Income from service charges amounting to Rs. 7,34,492 and
iii. Interest from Income Tax refund of Rs. 29,71,384.00 only.

5. As per the AO, the aforesaid income is chargeable to tax under the head other sources u/s 56 of the Act which is ineligible for the deduction u/s 80P(2)(a)(i) of the Act.

6. Against the SCN, the assessee submitted that all these interest/ service charge incomes are integral and attributable to the business of extending credit facilities by the assessee and thus it partakes the character of business income. The assessee also relied on various case laws including that of Tumkur Merchants vs. ITO, CIT vs. Karnataka State co-operative apex bank ltd.

7. However, the AO disregarded the contentions by stating that the case laws relied upon by the assessee are not identical as the facts of the case relied upon by the assessee are entirely different. Accordingly, the AO submitted that on perusal of the details furnished by the assessee, it is noticed that an amount of Rs. 13,77,638/-

has been received as interest from various banks. The assessee has claimed that the said interest income is attributable to its business activity of providing credit facilities to its members. However, the assessee has failed to establish that the deposits maintained in various bank accounts constitute part of its business activity or that the interest earned thereon is attributable to the activity of providing credit facilities to members.

7.1 From the details furnished, no direct or proximate connection between the interest income earned and the activities of the assessee society has been established. Further, the deposits made with banks do not fall within the ambit of clause (d) of section 80P(2) of the Income-tax Act, 1961, nor do they partake the character of profits and gains attributable to the activities of the assessee so as to be eligible under clause (a)(i) of section 80P(2) of the Act. Therefore, the interest income earned from bank deposits cannot be treated as business income attributable to the activities of the assessee society and is accordingly held to be ineligible for deduction under section 80P of the Income-tax Act, 1961.

7.2 Further, with regard to income from service charges amounting to Rs. 7,34,492, the assessee submitted that service charges are receipts from members towards loan processing charges, NOC charges, bank charges etc. for giving credit facility to the members.

7.3 However, the Assessing Officer rejected the contention of the assessee by holding that although the assessee is engaged in the business of providing credit facilities and housing facilities to its members, the receipts in the nature of service charges cannot be treated as income arising from the business activity of the assessee and, therefore, the same are not eligible for the benefit claimed under section 80P of the Act, 1961.

7.4 With regard to interest income on income-tax refund, the assessee claimed the same as business income. In response to the SCN issued by the AO, the assessee submitted that during the course of search it had deposited a sum of Rs. 1 crore as provisional tax in order to avoid attachment of its bank accounts by the tax authorities. Subsequently, the entire amount so deposited was refunded along with

interest amounting to Rs. 27,76,605/- only. The assessee contended that the interest received on such refund is connected with its business activity and, therefore, liable to be taxed under the head PGBP.

7.5 The AO, however, did not accept the contention of the assessee and held that the interest received on income-tax refund under section 244A of the Act is not operational income arising from the business activity of the assessee. According to the Assessing Officer, such interest is assessable under the head "Income from Other Sources" and not as business income. Accordingly, the AO passed the assessment order under section 143(3) of the Act, by making an addition of Rs. 46,85,780/- to the returned income of the assessee.

8. Aggrieved by the order of the AO, the assessee preferred an appeal before the Ld. CIT(A)

9. Before the Ld. CIT(A), the assessee reiterated the submissions made before the Assessing Officer, placing reliance on the same facts and judicial precedents.

9.1 However, the Ld. CIT(A) observed that interest income earned on fixed deposits as well as on savings bank deposits could not be regarded as income attributable to the business of providing credit facilities to members and, accordingly, held that such income was not eligible for deduction under section 80P(2)(a)(i) of the Act. However, the Ld. CIT(A) accepted the assessee's contention in respect of interest earned on reserve fund deposits maintained with BDCC Bank, holding that such deposits were mandatory under the provisions of the Karnataka State Co-operative Societies Act and that the interest earned thereon is qualified for deduction under section 80P of the Act.

9.2 With regard to service charges, the Ld. CIT(A) held that receipts towards loan processing charges, NOC charges and other service-related charges were not attributable to the business activity of the assessee for the purpose of section 80P of the Act and upheld the action of the Assessing Officer in treating the same as not eligible for deduction.

9.3 As regards interest income received on income-tax refund, the Ld. CIT(A) upheld the view of the Assessing Officer that such interest was not attributable to the business of the assessee of providing credit facilities to its members and was assessable under the head Other Sources.

10. Aggrieved by the order of the Ld. CIT(A), the assessee preferred an appeal before us.

11. The Ld. AR before us submitted that the Ld. CIT(A) erred in confirming the treatment of interest earned from savings bank accounts as income assessable under the head "Income from Other Sources" due to the fact that the said interest arose from working capital maintained in savings bank accounts through which the credit operations of the assessee were carried out and, therefore, was attributable to the business of providing credit facilities to members and assessable as business income.

11.1 The Ld. AR further submitted that the Ld. CIT(A) erred in restricting the deduction under section 80P only to income assessed under the head "Profits and gains of business or profession". It was argued that deduction under section 80P is to be allowed from the gross total income, and reliance was placed on the decision of the Hon'ble Supreme Court in Reliance Energy Ltd reported in 127 taxmann.com 69.

11.2 With regard to service charges, the Ld. AR submitted that the service charges were incidental to and arose directly from the activity of providing credit facilities to members. The Ld. AR further submitted that reliance placed by the Ld. CIT(A) on the decision of the Hon'ble Andhra Pradesh High Court in Anakapalle Co-operative Marketing Society Ltd. (245 ITR 616) was misplaced and distinguishable on facts.

12. On the contrary, the Ld. DR before us submitted that the Ld. CIT(A) had rightly confirmed the action of the Assessing Officer in treating the interest earned on savings bank accounts as income from other sources. It was contended that mere parking of surplus or operational funds in savings bank accounts does not amount to carrying on the business of providing credit facilities, and the interest earned therefrom lacks direct nexus with the assessee's principal business activity.

12.1 The Ld. DR further submitted that section 80P of the Act grants deduction only in respect of income derived from eligible activities, and therefore, income not assessable under the head "Profits and gains of business or profession" cannot qualify for deduction under section 80P(2)(a)(i) of the Act. Reliance was placed on the settled position of law that classification of income under the appropriate head is a condition precedent for allowing deduction under section 80P of the Act.

12.2 With respect to the reliance placed by the assessee on the decision of the Hon'ble Supreme Court in *Reliance Energy Ltd.*, the Ld. DR submitted that the said decision was rendered in a different statutory context and does not override the specific provisions governing deduction under section 80P of the Act applicable to co-operative societies.

12.3 As regards service charges, the Ld. DR supported the findings of the Ld. CIT(A) and submitted that the said receipts were not intrinsically linked to the activity of providing credit facilities to members.

13. We have heard the rival submissions of both the parties and perused the materials available on record. The first issue before us is whether the Ld. CIT(A) was right in limiting the deduction under section 80P of the Income-tax Act, 1961 only to the income assessed under the head "Profits and Gains of Business or Profession" and not allowing the deduction from the Gross Total Income.

13.1 Section 80P of the Act is part of Chapter VI-A of the Act. Under this Chapter, deductions are to be granted from the Gross Total Income unless the law clearly says otherwise. Section 80P does not state that the deduction should be restricted to a particular head of income. What matters is whether the income qualifies under section 80P(2) of the Act.

13.2 The Hon'ble Supreme Court in CIT v. Reliance Energy Ltd. (127 taxmann.com 69) has held that deductions under Chapter VI-A must be calculated with reference to the Gross Total Income and cannot be confined to one head of income unless the statute so provides. This principle also applies to deduction under section 80P of the Act. The relevant extract of the judgment is reproduced as under:

15. In the case before us, there is no discussion about Section 80-IA(5) by the Appellate Authority, nor the Tribunal and the High Court. However, we have considered the submissions on behalf of the Revenue as it has a bearing on the interpretation of sub-section (1) of Section 80-IA of the Act. We hold that the scope of sub-section (5) of Section 80-IA of the Act is limited to determination of quantum of deduction under sub-section (1) of Section 80-IA of the Act by treating 'eligible business' as the 'only source of income'. Sub-section (5) cannot be pressed into service for reading a limitation of the deduction under sub-section (1) only to 'business income'. An attempt was made by the learned Senior Counsel for the Revenue to rely on the phrase 'derived … from' in Section 80-IA (1) of the Act in respect of his submission that the intention of the legislature was to give the narrowest possible construction to deduction admissible under this sub-section. It is not necessary for us to deal with this submission in view of the findings recorded above. For the aforementioned reasons, the Appeal is dismissed qua the issue of the extent of deduction under Section 80-IA of the Act.

13.3 The Hon'ble Supreme Court in Reliance Energy Ltd. (Supra) examined whether deduction under section 80-IA of the Act should be restricted only to "business income" or could be allowed against the entire gross total income under Chapter VI-A, subject to statutory limits. For AY 2002-03, the assessee had computed eligible profit from the power-generation unit at ₹492.78 crore, while its business income was ₹355.74 crore, income from other sources ₹41.62 crore aggregating to gross total income ₹397.37 crores. However, the Assessing Officer restricted the combined deduction under Sections 80-IA and 80-IB of the Act to ₹354.00 crore by confining it only to business income, relying on section 80AB and section 80-IA(5) of the Act. The Hon'ble Court rejected this approach and held that section 80AB of the Act was introduced only to ensure that deductions under Part C of Chapter VI-A are computed on the basis of net eligible income and does not curtail the scope of section 80-IA of the Act, while section 80A(1) of the Act mandates that all Chapter VI-A deductions are to be allowed from gross total income and section 80A(2) of the Act provides the sole ceiling that the aggregate deductions cannot exceed such gross total income. Interpreting section 80-IA(5) of the Act, the Hon'ble Court clarified that it operates only at the stage of quantifying the eligible profits by treating the eligible business as the sole source of income and cannot be used to restrict the final allowance of the computed deduction only to business income; once the deduction is so quantified, it must be aggregated with other Chapter VI-A deductions and set off against the gross total income. Relying upon Synco Industries and Canara Workshops, the Hon'ble Court reaffirmed that provisions like section 80-IA(5) of the Act governs computation and not the head-

wise absorption of deduction, and accordingly upheld the appellate authorities in allowing the section 80-IA of the Act deduction up to the level of gross total income rather than limiting it to business income, thereby dismissing the Revenue's appeals on this issue.

13.4 In the present case, the Ld. CIT(A) restricted the deduction only to income assessed under the head "Profits and Gains of Business or Profession". In our view, this approach is not correct in law. If an income is otherwise eligible for deduction under section 80P of the Act, the deduction has to be worked out with reference to the Gross Total Income.

13.5 In the present case, the assessee has computed eligible deduction under section 80P(2)(a)(i) of the Act at ₹1,94,86,280, whereas the Assessing Officer determined the profit and gains of business or profession at ₹46,85,779, computed income from other sources at ₹50,93,514 and treated the excess amount of ₹4,07,735 as business loss, and on that basis restricted the deduction only to the figure of PGBP. The Hon'ble Supreme Court in Reliance Energy Ltd. v. CIT (127 taxmann.com 69) has held that deductions under Chapter VI-A, once computed from the eligible activity, must be aggregated and allowed against the gross total income in terms of section 80A of the Act, subject only to the ceiling contained in section 80A(2) of the Act, and that section 80AB of the Act governs only the computation of net eligible income and does not restrict deduction to any particular head of income. The Hon'ble Court further clarified that computation provisions such as section 80-IA(5) of the Act operates only for determining the quantum of eligible profits and not for limiting the allowance stage. Applying the said binding ratio, the action of the Assessing Officer in confining the deduction under section 80P(2)(a)(i) of the Act merely to ₹46,85,779 representing PGBP, despite the assessee having positive gross total income including income from other sources of ₹50,93,514 cannot be sustained in law and the assessee is entitled to deduction up to the level of the gross total income, subject to verification of figures and the ceiling prescribed under section 80A(2) of the Act. Our finding is on the presumption that the deduction computed by the assessee to the tune of Rs. 1,94,86,280/- is correct. Therefore, the same can be verified by the AO.

13.6 We therefore set aside the finding of the Ld. CIT(A) on this limited issue. The Assessing Officer is directed to recompute the deduction under section 80P of the Act from the Gross Total Income, in accordance with law. We clarify that we have decided only this legal issue. All other questions regarding eligibility of particular receipts are kept open. Hence, the ground of appeal of the assessee is partly allowed.

14. In the result, the appeal of the assessee is partly allowed.

Coming to ITA No. 1082/Bang/2025 pertaining to AY 2019-20 & ITA No. 1083/Bang/2025 pertaining to AY 2020-21

15. At the outset, we note that the issues raised by the assessee in the captioned appeal for the AYs 2019-20 & AY 2020-21 are identical to the issue raised by the assessee in ITA No. 1081/Bang/2025 for the assessment year 2018-19. Therefore, the findings given in ITA No. 1081/Bang/2025 shall also be applicable for the assessment years 2019-20 & 2020-21. The appeal of the assessee for the A.Y. 2018-19 has been decided by us vide paragraph No. 13 of this order in favour of the assessee. The learned AR and the DR also agreed that whatever will be the findings for the assessment year 2018-19 shall also be applied for the assessment years 2019-20 & 2020-21. Hence, the ground of appeal filed by the assessee is hereby allowed.

16. In the result, both the appeals of the assessee are hereby partly allowed.

17. In the combine results, both the appeals of the assessee are hereby partly allowed.

Order pronounced in the open court on 30th January, 2026.

Sd/-	Sd/-
(SOUNDARARAJAN K.)	**(WASEEM AHMED)**
Judicial Member	**Accountant member**

Bangalore,
Dated, the 30th January, 2025.

/Vms /

Copy to:

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

By order

Asst. Registrar, ITAT, Bangalore