

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

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

ITA No. 2068/Bang/2025
Assessment Year :2017-18

M/s. Hulgol Seva Sahakari Sangh, Bhairumbe, Sirsi-Yellapura Road, Sirsi Taluk, Uttara Kannada, Karnataka – 581402. PAN: AAAJH0032P	Vs.	The Income Tax Officer, Ward-1, Sirsi.
APPELLANT		RESPONDENT

Assessee by	:	Shri Prakash Shridhar Hegde, CA
Revenue by	:	Shri Ganesh R Ghale – Advocate, Standing Counsel for Revenue

Date of Hearing	:	25-11-2025
Date of Pronouncement	:	09-02-2026

ORDER

PER PRASHANT MAHARISHI, VICE – PRESIDENT

1. ITA No. 2068/Bang/2025 is filed by M/s. Hulgol Seva Sahakari Sangh (the Assessee/Appellant) for Assessment Year 2017-18 against the Appellate Order passed by the National Faceless Appeal Centre, Delhi (the Ld. CIT(A)) on 18.07.2025 wherein the Assessment Order passed by the Assessing Officer on 15.03.2023 u/s. 143(3) r.w.s. 263 of the Income Tax Act was dismissed. The Assessee is in Appeal against the same. The Assessee has raised a ground that Assessee has been wrongly denied deduction u/s. 80P(2)(a)(i) as well as u/s. 80P(2)(d) of the Act.

2. The briefly stated facts show that the Assessee is a co-operative society which filed its return of income on 07.11.2017 at a total income of Rs. 58,680/- after claiming deduction u/s. 80P(2)(a)(i) of the Act of Rs. 2,64,67,250/-. The Assessment u/s. 143(3) of the Act was passed on 11.12.2019 by making certain additions. Subsequently, the revisional order u/s. 263 of the Act was passed by Ld. PCIT, Hubli directing the AO to make a fresh Assessment Order.
3. Consequently, The Assessee was asked to justify the claim in such fresh Assessment u/s. 80P(2)(a)(i) of Rs. 2,64,67,250/-. The Assessee has received interest from Karnataka District Co-operative Bank and also from Axis Bank, ACC cement and interest on income tax. The Assessee claimed proportionate deduction u/s. 80P(2)(a)(i) of the Act amounting to Rs 37,39,504/-.
4. The AO issued a show cause notice on 03.02.2023 wherein the Assessee was asked to show that why the interest income earned by the Assessee of Rs. 37,39,504/- should not be disallowed as it is earned from co-operative societies i.e., Kanara District Cooperative Bank. Further, the interest income earned of Rs. 86,086/- from Axis Bank, interest of Rs. 13,075/- from ACC cement and interest on income tax revision of Rs. 1,60,990/- comprising in the total interest of Rs. 37,39,504/- should not be disallowed and why interest income should not be considered as Income from Other sources. Further as the assessee has received interest from cooperative bank it is not eligible for deduction u/s 890 P (2) (d) also.
5. The Assessee submitted that Assessee is entitled to deduction u/s. 80P(2)(a)(i) as all these incomes are attributable to business of the assessee of lending to members. Even otherwise if the Assessee is not granted deduction, the interest income so earned which is proposed to be taxed as income from other sources u/s. 56 of the

Act, the Assessee must be allowed cost of fund amounting to Rs. 18,31,222/- alternatively. The deduction would also increase u/s 80P 92) (a) (i) consequently.

6. The Assessing Officer held that in view of section 80P(2)(iv) the Assessee is not entitled to deduction of interest income received from co-operative banks. He therefore held that total interest income of Rs. 37,59,504/- is chargeable to tax u/s. 56 of the Act under the head income from other sources and Assessee is not entitled to deduction u/s. 80P(2)(a)(i) of the Act. Cost of funds was also denied as deduction from income from other sources.
7. Accordingly, the Assessment Order was passed on 15.03.2023 determining the total income of the Assessee at Rs. 39,22,367/-.
8. Assessee preferred an Appeal before the Ld. CIT(A) stating that Assessee is entitled to deduction u/s. 80P(2)(a)(i) of the Act and therefore the denial of deduction is not justified. The Assessee submitted in grounds of appeal that decision of the Hon'ble Karnataka High Court in case of Tumkur Merchants Souhadra Credit Co-operative Society Limited v/s. ITO covers the issue in favor of the Assessee.
9. The Ld. CIT(A) held that the claim of the Assessee that interest income from co-operative bank and other bank shall be considered as income attributable to the Assessee is not acceptable and further the alternative contention of the Assessee of granting cost of fund was also rejected as Assessee has not made any such claim in the return of income. Accordingly, the Appeal of the Assessee was dismissed.
10. Aggrieved, the Assessee is in Appeal.

11. The Ld. Authorized RepresentativeCA Shri Prakash Shridhar Hegde submitted a paper book containing 75 pages and several judicial precedents and further submitted a paper book containing 111 pages submitting various factual documents. He further submitted 17 pages written submission. His claim was what was made before the Ld. lower authorities. His first claim was that Assessee must be granted the deduction u/s. 80P(2)(a)(i) of the Act and alternatively the Assessee must be granted deduction of the cost of funds if such interest income is charged to tax u/s. 56 of the Act.
12. The Ld. standing counsel for the revenue Shri Ganesh R Ghale vehemently supported the orders of the Ld. lower authorities and also submitted that issue is squarely covered against the Assessee by the decision of the Hon'ble Karnataka High Court in case of Totgars Co-operative Sale Society and the latest decision of RBI Employees Association.
13. We have carefully considered the rival contention and perused the orders of the Ld. lower authorities. The fact shows that the Assessee is a primary agricultural credit cooperative society governed by the Karnataka Co-operative Societies Act having the main objective of providing agricultural credit facilities to its members. The Assessee at the time of doing business has received interest from the members, interest on reserve fund deposits which is maintained with the Karnataka District Central Co-operative Bank Limited statutorily. It also received savingsbank interest with Axis Bank. It claimed that such interest income is part of the business activity of the Assessee. Therefore, the interest income received as it is attributable to the business of the Assessee, eligible for deduction u/s. 80P(2)(a)(i) of the Act. The Ld. Assessing Officer has rejected the claim of the Assessee holding that interest income earned by the Assessee is chargeable to tax under the head income from other sources u/s. 56

and further as the Assessee has received interest income with a co-operative bank, Assessee is not eligible for deduction u/s. 80P(2)(d) of the Act. The Assessing Officer heavily relied on the decision of the Hon'ble Karnataka High Court in 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]. The claim of the Assessee that if the income of the Assessee is chargeable to tax u/s. 56 of the Act, the Assessee must be granted the deduction of the cost of funds incurred for earning such income. This was also rejected by the AO stating that Assessee has not claimed such deduction in the return of income.

14. The first claim of the Assessee was that Assessee must be granted deduction u/s. 80P(2)(a)(i) of the Act. We find that Hon'ble Karnataka High Court in case of 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] has categorically held that a co-operative society which is carrying on the business of providing credit facilities to its members on profits and gains of business, the interest income so derived or the capital so earned, if not immediately required to be lent to the members, it cannot be kept idle. If the same is deposited to earn interest, such interest income is also attributable to the profits and gains of business of providing facilities to its members only. It has further held that the income so derived is the amount of profits attributable to such credit business and is eligible for deduction u/s. 80P of the Act. The Hon'ble Karnataka High Court relied upon the decision of the Hon'ble Supreme Court in 113 ITR 84 and also inferred the decision of the Hon'ble Supreme Court in case of Totgars Co-operative Sale Society v/s. ITO 332 ITR 283.
15. Similar decision was rendered by the Hon'ble Karnataka High Court independent of referring to the decision of Tumkur Merchants (supra)

in 60 taxmann.com 215 in 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 held that interest income is also liable to deduction u/s. 80P(2)(a)(i) only.

16. The third decision of the Hon'ble High Court in case of Totgars Co-Operative Sale Society Ltd. vs. Income-tax officer, Ward -1, Sirsi [2015] 58 taxmann.com 35 (Karnataka)/[2015] 231 Taxman 794 (Karnataka)[25-03-2015] has also held that such interest income even if chargeable to tax u/s. 56 of the Act, the Assessee is entitled to deduction u/s. 80P(2)(d) of the Act.
17. Further, subsequently on 16.06.2017, the Hon'ble Karnataka High Court in 83 taxmann.com 140 (Karnataka) 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] has come to conclusion that interest income by Assessee from surplus deposits was not eligible for deduction u/s. 80P(2)(d) of the Act. It is to be noted that there is no finding of the Assessing Officer that the interest income earned by the Assessee is out of surplus fund. The claim of the Assessee is that it is part of statutory deposit of reserve fund as well as the money received of interest in capital from its members.
18. In view of this, the facts of the case of the Assessee fall into the four corners of judicial precedents of the Hon'ble Karnataka High Court in case of Tumkur Merchants Souhadra Credit Co-operative Society Limited and in case of the decision of the Hon'ble Karnataka High Court in case of PCIT v/s. Totgars Co-operative Sales Society. When some of these decisions are drawn to the attention of the Hon'ble Karnataka High Court in Paragraph No. 18 were not considered and those decisions were not followed or are distinguished. Therefore, at present we are faced with ground but judicial precedence of the

Hon'ble Karnataka High Court and every decision binds us. However, we find that the facts of the present case are more near to the decision of the Hon'ble Karnataka High Court in case of Tumkur Merchants (supra).

19. In view of this we held that the Ld. lower authorities are not correct in denying the deduction to the Assessee u/s. 80P(2)(a)(i) of the Act on interest income which is stated to be attributable to the profits of the business of the co-operative society. In the result we reverse the orders of the Ld. lower authority denying the deduction to the Assessee u/s. 80P(2)(a)(i) of Rs. 37,39,504/-
20. In the result, Appeal of the Assessee is allowed.

Order pronounced in the open court on 09th February, 2026.

Sd/-
(SOUNDARARAJAN K.)
JUDICIAL MEMBER

Sd/-
(PRASHANT MAHARISHI)
VICE-PRESIDENT

Bangalore,
Dated, the 09th February, 2026.

TNTS

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

By order

Assistant Registrar,
ITAT, Bangalore