

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

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

ITA No. 1966/Bang/2025
Assessment Year :2017-18

M/s. Hiriadka Souhadra Sahakari (NI), Post Office Main Road, Hiriadka, Udupi, Karnataka – 576 113. PAN: AABAH2220H	Vs.	The Income Tax Officer, Ward-1& TPS, Udupi.
APPELLANT		RESPONDENT

Assessee by	:	Shri Ravindra Poojary, Advocate
Revenue by	:	Shri Ganesh R Ghale – Advocate, Standing Counsel for Revenue

Date of Hearing	:	03-12-2025
Date of Pronouncement	:	09-02-2026

ORDER

PER PRASHANT MAHARISHI, VICE – PRESIDENT

1. ITA No. 1966/Bang/2025 is filed by M/s. Hiriadka Souhadra Sahakari (NI) for Assessment Year 2017-18 against the Appellate Order passed on 31.07.2024 wherein the Appeal filed by the Assessee against the Assessment Order passed u/s. 143(3) of the Income Tax Act by the Assessing Officer was dismissed. The Assessee is aggrieved with the same challenging the disallowance of deduction u/s. 80P(2)(a)(i) of Rs. 13,69,573/- received by the Assessee from activity of credit facilities to its member, the disallowance of deduction u/s. 80P(2)(d) of Rs. 1,08,890/-. Further, the disallowance

of interest expenditure of Rs. 3,96,141/- and Rs. 63,795/- is also contested.

2. The brief facts of the case show that the Assessee is a co-operative society carrying on the banking facility to its members. It filed its return of income on 31.10.2017 wherein the gross total income of the Assessee is Rs. 13,69,573/- and the same was claimed as deduction u/s. 80P(2)(a)(i) resulting into the return of income of Rs. Nil/-.The return was picked up for scrutiny and notice u/s. 143(2) of the Act was issued on 10.08.2018. The Assessee was asked to explain the claim of deduction u/s. 80P of the Act.

3. Firstly, the Assessee was asked that it is registered under the Karnataka Souhadra Sahakari Act, 1997 and therefore is not a co-operative society, the deduction u/s. 80P is allowable to co-operative societies and hence it has to be disallowed. Further, it was noted that the claim of the Assessee u/s. 80P(2)(a)(i) of the Act is also not allowable for the reason that Assessee is doing major business with non-members. The Ld. Assessing Officer was of the view that only the income earned from the members is eligible for deduction. He was of the view that the C and D class members are 971 where the A class members are 217 and therefore the Assessee is entitled to deduction only with respect to the members. Therefore, the complete deduction u/s. 80P was to be disallowed. The Ld. Assessing Officer relied upon the decision of the Hon'ble Supreme Court in case of Citizens Co-operative Societies Limited v/s. ACIT 84 taxmann.com 114. The Ld. Assessing Officer was also of the view that Assessee has earned interest of Rs. 1,08,890/- from scheduled banks and co-operative banks which should be chargeable to tax u/s. 56 and same cannot be allowed as deduction u/s. 80P(2)(a)(i) of the Act. The deduction u/s. 80P(2)(d) is also not allowable to them in view of the decision of the Hon'ble Karnataka High Court in case of Principal

Commissioner of Income Tax v/s. Totgars Co-operative Sale Society Limited dated 16.06.2017. The Ld. Assessing Officer further found that Assessee has provided for provision of interest of Rs. 3,96,141/- and further Rs. 63,795/- which are also not allowable.

4. The Assessee submitted that despite it being registered under the Souhadra Act, it is eligible for deduction u/s. 80P of the Act. It does not deal with non-members, its claim of deduction u/s. 80P(2)(a)(i) of the Act and not u/s. 80P(2)(d) of the Act and therefore the Assessee must be allowed the deduction as claimed in the return of income. The Ld. Assessing Officer further found that Assessee has provided for provision of interest of Rs. 3,96,141/- and further Rs. 63,795/- which are also not allowable. Accordingly, the expenditure of the Assessee was rejected and Assessment Order was passed determining the total income of the Assessee at Rs. 18,29,510/-.
5. The Assessee preferred an Appeal before the Joint Commissioner of Income Tax, Appeals-2, Kolkata who passed an Appellate Order on 31.07.2024 dismissing the claim of the Assessee of deduction u/s. 80P(2)(a)(i) of the Act holding that Assessee is also dealing with non-members. Interest earned from the co-operative banks was also denied u/s. 80P(2)(d) of the Act. Disallowance of provision debited by the Assessee on NPA of Rs. 3,96,141/- and Rs. 63,795/- were also confirmed.
6. Thus, the Assessee aggrieved with the Appellate Order preferred and Appeal before us.
7. Registry noted that there is a delay of 341 days in filing of the appeal.
8. The Ld. Authorized Representative firstly submitted that there is a delay of 341 days in the filing of appeal. He referred to the affidavit

filed by Mr. Ashok Kumar Shetty, Chartered Accountant, and submitted that the delay is caused for sufficient reasons and therefore should be condoned. He referred to the facts stated in the affidavit and prayed for condonation of delay.

9. The Ld. Departmental Representative, Shri Ganesh R Ghale, Standing Counsel for Revenue vehemently objected and submitted that there is no sufficient cause and hence appeal cannot be admitted.
10. We have carefully considered the rival contentions and find that the order of Ld. CIT(A) was passed and received by the Assessee on 31.07.2024. However, the Appeal was filed on 05.09.2025 which has caused a delay of 341 days. The reason for the delay was stated that one Shri Ashok Kumar Shetty, Chartered Accountant who was looking after the income tax matter has registered himself on behalf of the Assessee on the income tax portal by obtaining login ID and a password. Subsequently, the Assessee discontinued the services from the above Chartered Accountant on 27.06.2024 and new Chartered Accountant Shri Jeevan Kumar Shetty was appointed. In all the correspondences, the email id of the old Chartered Accountant was provided and therefore all communications were going to him. Subsequently, the Assessee added the new Chartered Accountant email id and also given the Assessee's own email id. As the Appellate Order was not received by the assessee but received by the old Chartered Accountant, the Assessee could not come to know about the disposal of the Appeal. Further, he became aware when the Assessee asked his new chartered Accountant to provide the details of last three years of the Income Tax Return and the details of Income. The Chartered Accountant looking at the portal in the month of August found that there is an Appellate Order which remained unattended. Immediately, the Assessee was advised to file the Appeal. The Assessee followed it and filed the Appeal on 05.09.2025.

The above delay was caused because of the bonafide error, unintentional and hence found to be sufficient cause. Therefore, delay is condoned and Appeal is admitted.

11. The Ld. Authorized Representative has submitted an additional ground of Appeal stating that notice was issued u/s. 143(2) of the Act for the purpose of limited scrutiny and therefore covering the additional issues which were not identified in the limited scrutiny could not have been taken. He referred to the notice u/s. 143(2) of the Act dated 10.08.2018 which was issued for verification of deduction under Chapter VIA of the Act. We find that selection of the scrutiny was made for the specified purpose of verification of examination of claim of deduction u/s. 80P which has been verified by the Ld. Assessing Officer and therefore there is no violation of such notices. Accordingly, this ground of appeal is dismissed.
12. With respect to the disallowance of deduction u/s. 80P(2)(a)(i) of the Act, the Assessee has submitted a paper book containing 193 pages wherein he has relied on several judicial precedents and submitted that Assessee is entitled to deduction u/s. 80P(2)(a)(i) of the Act.
13. The Ld. Departmental Representative vehemently supported the orders of the Ld. lower authorities.
14. We have carefully considered the rival contention and perused the orders of the Ld. lower authorities. We find that Assessee provides credit facilities to its members as a member's credit co-operative society. Further, the Assessee is registered under the Karnataka Souhadra Sahakari Act, 1997. The claim of the Ld. Assessing Officer that Assessee is not eligible for deduction is squarely against the revenue by the decision of the Hon'ble Karnataka High Court in case of Government of India, Ministry of Finance v/s. Karnataka Souhadra Federal Cooperative Limited (2022) 134 taxmann.com 170

(Karnataka) wherein it has been held that Assessee which was a co-operative society registered under the Karnataka Souhadra Sahakari Act, 1997 would be considered as a co-operative society within the ambit of section 2(19) and thus, would be entitled to claim deduction u/s. 80P of the Act. In view of this, we do not find that the Assessee is correctly denied the deduction on this account u/s. 80P of the Act. Therefore, the Ld. Assessing Officer is directed to grant deduction u/s. 80P of the Act.

15. Regarding the deduction u/s. 80P(2)(a)(i) of the Act, we find that Assessee derived income from activity of providing credit facility to its members. The Assessee has also earned interest from SEDCC Bank Limited amounting to Rs. 1,08,890/-. This interest income is also claimed as deduction being profit attributable to the business to the activity of providing credit facilities to its members. As the Assessee has claimed it as a business income, the Ld. Assessing Officer has treated it as income from other sources based on the decision of the Hon'ble Karnataka High Court. We find that there are decisions of the Hon'ble Karnataka High Court also in case of Tumkur Merchants and Totgars sales wherein such deduction is allowed. Therefore, we direct the Ld. Assessing Officer to grant deduction to the Assessee u/s. 80P(2)(a)(i) of the Act and not u/s. 80P(2)(d) of the Act as it is not the claim of the Assessee. In view of this ground no. 1-5 of the Appeal are allowed.
16. Ground no. 6 is with respect to the disallowance of Rs. 3,96,141/-. This fact shows that this provision is made on the basis of the accounting policies followed by the Assessee regularly and also mandated by the Karnataka Co-operative Societies Act. The Assessee is undoubtedly maintaining the accounts on mercantile system basis. The above provision is based on the monthly working, as mandated by statute, compliance of law for accrual of interest cannot result in

to disallowance s, unless specifically prohibited by the Income tax Act, therefore same cannot be disallowed. Accordingly, ground no. 6 of the Appeal is allowed, and the Ld. Assessing Officer is directed to delete the addition of Rs. 3,96,141/- being disallowed on interest provision made by the Assessee.

17. Ground no. 7 is also on the identical basis which is pertaining to the nonperforming advances which is also mandated according to the direction of the Reserve Bank of India as well as the commissions related to the co-operative societies. It is an asset and liability. Accordingly, we direct the Ld. Assessing Officer to delete the disallowance of Rs. 63,795/-.

18. In the result, Appeal filed by 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

Copy to:

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

By order

Assistant Registrar,
ITAT, Bangalore