

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

**BEFORE SHRI PRASHANT MAHARISHI, VICE – PRESIDENT**

<b>ITA No. 2483/Bang/2025</b>
<b>Assessment Year : 2022-23</b>

M/s. Sri Guru Vappathina Swamy Pathin Sahakara Sangha Niyamitha, Opp Oppathina Sangha Matt, Hosadurga – 577 501. <b>PAN: AAAAS3998Q</b>	<b>Vs.</b>	The Income Tax Officer, Ward-1, Chitradurga.
<b>APPELLANT</b>		<b>RESPONDENT</b>

Assessee by	:	Ms. Shreesha, CA
Revenue by	:	Shri Ganesh R Gale, Standing Counsel for Department

Date of Hearing	:	18-12-2025
Date of Pronouncement	:	11-02-2026

**ORDER**

**PER PRASHANT MAHARISHI, VICE – PRESIDENT**

1. ITA No. 2483/Bang/2025 is filed for Assessment Year 2023-24 directed against the Appellate Order passed by the National Faceless Appeal centre, Delhi (the Ld. CIT(A)) dated 25.08.2025 wherein the Appeal filed by Shri Guru Vappathina Swamy Pathina Sahakara Sangha Niyamitha (the Assessee/Appellant) against the Assessment Order passed u/s. 143(3) of the Act by the Assessment Unit, Income Tax Department was dismissed.
2. The solitary issue involved in the Appeal is not granting the deduction u/s. 80P(2)(a)(i) of the Act of Rs. 17,64,987/- to the Assessee on bank interest which is attributable to the profits and gains of business

and profession of the Assessee. The Ld. lower authorities were also incorrect in holding that such interest income of the Assessee is chargeable to tax u/s. 56 of the Income Tax Act as income from other sources and further the Assessee is entitled to deduction u/s. 57 of the Act as cost of funds.

3. The brief facts of the case shows that Assessee is a co-operative society carrying on the business of credit to its members filed its return of income at Rs. Nil/-. The return was picked up for scrutiny for the verification of deduction claim by the Assessee. It was found that Assessee has earned bank interest from Bank of Baroda of Rs. 13,41,944/- and also State Bank of India Rs. 4,23,043/- total to Rs. 17,64,987/-. This interest income was shown by the Assessee as business income and claimed deduction u/s. 80P(2)(a)(i) of the Act. It is the claim of the Assessee that this income is attributable to the business of providing credit facilities to its members.
4. The Ld. Assessing Officer was of the view that Assessee has earned interest income from commercial banks on which deduction is not allowable and further such income is chargeable to tax under the head income from other sources and amount be categorized as business from other profession. The Assessee made a detailed submission stating that Assessee is entitled to the deduction of all income including interest income if the same is attributable to the business of the Assessee of credit facilities to its members. It was stated that 80P(2)(a)(i) does not make any distinction between the interest income received from the co-operative bank, co-operative society or nationalized banks. Therefore, the Assessee claimed 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] specifically covers the issue in favour of the

Assessee. Further, decision of the Hon'ble Karnataka High Court in 404 ITR 45 in case of HP Global Software Limited was also pressed into service to submit that interest income earned on deposits is part of profits and gains that are derived from the export of goods.

5. The Ld. Assessing Officer rejected the claim of the Assessee holding that the Hon'ble Karnataka High Court in case of 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] has categorically held that such income is chargeable to tax as income from other sources and Assessee is not entitled to deduction u/s. 80P(2)(a)(i) of the Act. It was stated that such income is chargeable to tax under the head income from other sources. Accordingly, the Assessment Order was passed u/s. 143(3) r.w.s. 144B of the Income Tax Act on 04.03.2024 determining the total income of the Assessee at Rs. 17,64,987/-.
6. Assessee aggrieved with the same preferred an Appeal before the Ld. CIT(A) where the order passed by the Ld. Assessing Officer was upheld and it was held that the Assessee is not eligible for deduction u/s. 80P(2)(a)(i) or u/s. 80P(2)(d) of the Act on interest received from nationalized banks and State Bank of India. Several judicial precedents of the coordinate benches were also stated.
7. The Assessee aggrieved with the Appellate Order is in Appeal.
8. We have carefully considered the documents of Ms. Shreesha, CA, Authorized Representative as well as Shri Ganesh R Gale, Standing Counsel for Department. The Ld. Authorized Representative submitted that the Assessee is claiming the deduction u/s. 80P(2)(a)(i) of the Act and not u/s. 80P(2)(d) of the Act. The interest income is part of the business profit of the Assessee. The issue is squarely covered in favour of the Assessee by the decision of the

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] as well as the decision 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].

9. The Ld. Departmental Representative referred to the decision of the 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] as well as the RBI Employees Co-operative Housing decision by the Hon'ble Karnataka High Court.
10. I find that the claim of the Assessee is covered in favor of the Assessee for deduction u/s. 80P(2)(a)(i) of the Act by the decision of the 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] as well as the decision 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]. In the subsequent decision of the 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], above two decisions of the Hon'ble Karnataka High Court were distinguished. Those two decisions of the Hon'ble Karnataka High Court are yet not reversed either by the larger bench of the Hon'ble Karnataka High Court or by the Hon'ble Supreme Court. Therefore, I am bound by those judicial precedents. The decision of the 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] referred to by the Ld. Departmental Representative is applicable for deduction u/s. 80P(2)(d) of the Act. There is not a single reason given by the Ld. Assessing Officer that the interest income earned by the Assessee is chargeable to tax under the head income from other sources. Whereas the claim of the Assessee, as per the annual accounts, submission before the Ld. Assessing Officer as well as before the Appellate Authority is that such interest income is chargeable to tax under the head business income of the Assessee. In view of the above facts, ground no. 2 of the Appeal of the Assessee is allowed holding that Assessee is entitled to deduction u/s. 80P(2)(a)(i) of the Act with respect to the interest income of Rs. 17,64,987/- that received from nationalized banks but as it is attributable to the profits and gains of profession as per the decision of the Hon'ble Karnataka High Court.

11. All other grounds are academic. Hence dismissed.

12. The Appeal of the Assessee is partly allowed.

Order pronounced in the open court on 11<sup>th</sup> February, 2026.

Sd/-  
(PRASHANT MAHARISHI)  
VICE-PRESIDENT

Bangalore,  
Dated, the 11<sup>th</sup> February, 2026.

\*TNTS\*

Copy to:

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

By order

Assistant Registrar,  
ITAT, Bangalore