



आयकर अपीलीय अधिकरण "एस एम सी" न्यायपीठ पुणेमें।
IN THE INCOME TAX APPELLATE TRIBUNAL
PUNE BENCHES "SMC" :: PUNE

BEFORE DR.DIPAK P. RIPOTE, ACCOUNTANT MEMBER
AND
SHRI VINAY BHAMORE, JUDICIAL MEMBER

आयकर अपील सं. / ITA No.1597/PUN/2025

निर्धारण वर्ष / Assessment Year: 2016-17

Shree Sant Savta Gramin Bigar Seti Sahakari Patsanstha Maryadit, Pimpalgaon, Niphad, Maharashtra – 422209. PAN: AACAS4098M	V s	Assessment Income Department, Delhi.	Unit, Tax
Appellant/ Assessee		Respondent /Revenue	

Assessee by	Shri Sanket Joshi (Virtual)
Revenue by	Shri Sadananda – JCIT
Date of hearing	10/02/2026
Date of pronouncement	11/02/2026

आदेश/ ORDER

PER DR. DIPAK P. RIPOTE, AM:

This is an appeal filed by the Assessee against the order of
ld.Commissioner of Income Tax(Appeal)[NFAC], passed under
section 250 of the Income Tax Act, 1961 for the A.Y.2016-17 dated
27.11.2024 emanating from the Assessment Order passed under
section 144 of the I.T.Act, dated 05.03.2024. The Assessee has
raised the following grounds of appeal :



“1. On the facts and in the prevailing circumstances of the case and in law, the learned CIT Appeal, erred in disallowing the deduction of Rs.10,90,953/- on account of interest income earned out of fixed deposit with Cooperative/Nationalized Bank and which is eligible for deduction u/s 80P(2)(d) or 80P(2)(a)(i) of the IT Act.

2. On the facts and in the prevailing circumstances of the case and in law, the learned CIT Appeal, erred in not following the jurisdictional ITAT Pune, decision on the similar issue which is binding on the lower Authorities as per the law laid down by Hon'ble Bombay High Court in the case of Bank of Baroda vs H C Srivastava (256 ITR 385) and thus the total deduction of Rs. 10,90,953/-disallowed u/s 80P(2)(a) (i) or 80P(2)(d) of the IT Act was not justified.

3. The Appellate craves the right to add, amend, modify, alter, revise, substitute, delete any or all grounds of the appeal, if deemed necessary at the time of hearing of the appeal.”

Findings & Analysis :

2. In this case, Assessee Society is a Co-operative Credit Society registered under Maharashtra Co-operative Societies Act, 1960. Assessee Society is engaged in the business of providing credit facilities to its members and accepting deposits from its members only.

3. It is mentioned in the assessment order that Assessee had not filed Return of Income for A.Y.2016-17. Hence, a notice u/s.148 dated 23.03.2023 was issued to the Assessee. Assessee failed to



comply the notice u/s.148 of the Act. The notice u/s.148 was issued as Assessing Officer had information that Assessee had deposited cash of Rs.35 lakhs in Bank of India and Rs.46,43,160/- in Axis Bank Ltd., during F.Y.2015-16. Assessing Officer issued a show cause notice to the Assessee. Assessee filed reply on 13.02.2024. In the reply, Assessee claimed that the whole of profit of the Assessee is eligible for deduction u/s.80P of the Act. Assessee also filed copy of registration certificate, list of members, details of interest earned, financial statements. Assessee submitted that Cash Deposits were sourced from the Cash Deposits made by Members of the Assessee Society. Assessing Officer accepted assessee's explanation regarding cash deposits on the basis of which notice u/s.148 was issued, and made no addition on account of impugned cash deposits.

3.1 However, Assessing Officer observed that Assessee has received interest income of Rs.10,95,953/-from Bank of India, Axis Bank and State Bank of India. Assessing Officer held that the said interest income cannot be attributable to the business of the assessee. Assessing Officer held that impugned interest income needs to taxed u/s.56 of the Act, as Income from Other Sources. Therefore, Assessing Officer rejected assessee's claim for deduction



u/s.80P(2)(a)(i) of the Act. The relevant paragraph of the Assessment Order is reproduced here as under :

“(b) The above-mentioned interest income is in the nature of Income from Other Sources and it is required to be taxed under section 56 of the Act. Hence, the interest earned by assessee by investing surplus funds in deposits with Nationalized Bank does fall within the meaning of profits and gains of business and it cannot be said to be attributable to the activities of providing credit facility to its members. Therefore, the interest income to the tune of Rs. 10,90,953/- on the abovesaid fixed deposits shall be not allowed as deduction under section 80P(2)(a)(i) of the Act as business income. Moreover, the same shall be added as income from the other sources u/s. 56 of the Act for the Act.

In view of the above, I am satisfied that this is a fit case for initiating penalty proceedings u/s 271(1)(c)-of the Act. with regards to concealing the particulars of income and furnished inaccurate particulars of such income, penalty u/s 271F with regards to failure to furnish return of income.”

4. Aggrieved by the Assessment Order, Assessee filed appeal before the Id.CIT(A).

5. Ld.CIT(A) uphold the decision of Assessing Officer. The relevant paragraph of Id.CIT(A)’s order is reproduced here as under:

“Thus, in my considerate view the observation of the hon'ble Supreme Court in the case of The Mavilayi Service Co-operative Bank Ltd (supra) hold good in the present case where the appellant is a co-operative society which does not have a banking license issued by the RBI and further interest earned from the surplus fund deposited with nationalised bank would per take the charter of income from other source u/s 56 of the Act and hence the appellant is not eligible for deduction u/s 80P(2)(a)(i) and also u/s 80P(2)(d) of the Act as in the present case interest income earned from nationalised bank and not from a co-operative society which does not have any banking license issued by the RBI. Thus, the case laws relied upon by the appellant does



not come in rescue of them and accordingly confirm the addition of Rs.10,90,953/-. The ground of appeal is, thus, dismissed.”

6. Aggrieved by the order of the Id.CIT(A), Assessee has filed Appeal before this Tribunal.

7. Ld.Authorised Representative(Ld.AR) for the Assessee submitted that Assessee is a Co-operative Credit Society duly registered under Maharashtra Co-operative Societies Act. Ld.AR submitted that the interest income is eligible for deduction u/s.80P(2)(a)(i) of the Act. He relied on decisions of ITAT Pune and various decisions filed in the paper book. The list of decision relied by Assessee is as under :

- *ITO V. C.D. Patani Nagari Sahakari Patsanstha [ITA No. 727/PUNE/2022] dated 28.03.2023*
- *2 Shreejit Finance Pvt. Ltd. v. ACIT [ITA No. 439/PUNE/2022] dated 22.04.2024*
- *Bhagur Urban Credit Co-op. Society Ltd. v. ITO [ITA No. 561/PUNE/2022] dated 03.01.2023*
- *Mauli Mahila Nagari Sahakari Pastsanstha Ltd. V. ITO JITA No. 1351/PUNE/2023] dated 12.09.2024*
- *Maharudra Gramin Bigar Sheti Sahakari Patsanstha [ITA No. 1777/PUNE/2024] dated 12.12.2024*
- *West Bengal State Co-op. Agri. & Rural Dev. Bank Ltd. v. DCIT [(2025) 9 NYPCTR 1133 (Calcutta High Court)] dated 06.08.2025*
- *Yashwant Nagari Sahakari Patsanstha Maryadit [(2024) 38 NYPTTJ 709 (Pune)]*



- *Sharadchandra Nagari Sahakari Patsanstha Maryadit [(2025) 39 NYP TTJ 1267 (Pune)]*
- *The Mavilayi Service Co-op. Bank Ltd. [(2021) 43 ITR 1 (SC)]*

8. Ld.Departmental Representative(ld.DR) for the Revenue relied on the order of the Assessing Officer and ld.CIT(A). Ld.DR also relied on the decision of Hon'ble Supreme Court in the case of Totagar's Co-operative Sale Society.

8.1 Thus, we are left with the issue, whether interest income earned by Assessee from Nationalized Banks is eligible for deduction u/s.80P or not!

9. We will discuss this issues here onwards in the light of various decisions of Hon'ble Supreme Court and Hon'ble High Courts.

10. The facts mentioned by Hon'ble Karnataka High Court in the case of PCIT Vs. Totagars Co-operative Sale Society 395 ITR 611 order dated 16.10.2017 are as under :

“10. Admittedly and undoubtedly, the respondent assessee is a Co-operative Society engaged mainly in the activity of marketing of agricultural produces grown by its members. The assessee co-operative society also accepts deposits from its members and provides credit facility to its members, runs Kirana Stores, rice mills, live stocks, van section, medical shops, Areca-nut trading section, lodging, plying and hiring of goods carriage, etc.



11. The proposition of law emanating from above decision is that Character of Income depends upon the nature of activity. The Character of Interest will not change depending on the body corporate or person from whom interest is received. In the case of Totagar's Co-operative Sale Society in para 10, it is specifically mentioned that **Totagar's Cooperative Sale Society is engaged in the business of marketing of agricultural produce of its members, Areca-nut trading section, lodging, plying and hiring of goods carriage, etc.**

12. Since in the case of Totagars Cooperative Sales Society(supra), it has been held that interest income is not arising from business of providing credit facility, which made it ineligible for deduction u/s.80P of the Act. In the case of Totagars Co-operative Sale Society Ltd., Vs. ITO, Karnataka [2010] 322 ITR 283(SC)vide order dated 08.02.2010, Hon'ble Supreme Court noted that fact that Assessee markets the agricultural produce of its members and retains the sale proceeds for some time. This sale proceeds pertaining to sale of agricultural produce was invested for a short period in fixed deposits. The dispute was regarding the interest accrued on said fixed deposits which were pertaining to sale proceeds of agricultural produce payable to members but retained



for some time by the Society. In this context, Hon'ble Supreme Court held that the Totagars Co-operative Sale Society Ltd., is not eligible for deduction u/s.80(2)(a)(i) of the Act.

13. The Hon'ble Bombay High Court in the case of PCIT Vs. M/s.Annasaheb Patil Mathadi Kamgar Sahakari Pathpedhi Ltd. in Income Tax Appeal No.933 of 2017 vide order dated 14th October, 2019 dismissed the appeal of the revenue on the following questions of law raised by the revenue :

The Revenue urges the following two questions of law for our consideration : (a) Whether on the facts and circumstances of the case and in law, the Tribunal is correct in holding that assessee is entitled to deduction u/s 80P(2)(a) and (d) of the IT Act, 1961

(b) Whether on the facts and circumstances of the case and in law, the Tribunal is right to allow the relief to the assessee by holding that the assessee being Co-operative Credit Society is not a Co-operative Bank hence entitled for deduction u/s 80P(4) of the I.T. Act despite the fact that the assessee is carrying on the banking business and has been categorized as Co-operative Bank / other Bank ?

14. The Revenue filed SLP before Hon'ble Supreme Court in the case of Annasaheb Patil Mathadi Kamgar Sahakari Pathpedhi Ltd. Hon'ble Supreme Court in the case of PCIT Vs. Annasaheb Patil Mathadi Kamgar Sahakari Pathpedhi Ltd / [2023] 454 ITR 117 (SC) (SUPP.) [20-04-2023] held as under :



Quote, “ 1. Feeling aggrieved and dissatisfied with the impugned order dated 14-10-2019 passed by the High Court of Judicature at Bombay in ITA No. 933/2017, by which the High Court has dismissed the said appeal preferred by the Revenue, relying upon its earlier decision in the case of *Quepem Urban Co-operative Credit Society Ltd. v. Asstt. CIT* [2015] 58 taxmann.com 113/232 Taxman 510/377 ITR 272 (Bom .), the Revenue has preferred the present appeal. 2. The High Court considered the following question of law

"Whether on the facts and in the circumstances of the case and in law, the Tribunal is justified as claimed by the assessee on the ground that the assessee, a co-operative credit society and is not a bank for the purpose of Section 80P(4) of the Act?"

3. Apart from the fact that against the relied upon decision in the case of *M/s. Quepem Urban Co-operative Credit Society Ltd. (supra)*, the Special Leave Petition has been dismissed, having heard learned counsel appearing on behalf of the respective parties, the issue involved in the present appeal is squarely covered against the Revenue in view of the decision of this Court in *Mavilayi Service Co-operative Bank Ltd. v. CIT* [2021] 123 taxmann.com 161/279 Taxman 75/431 ITR 1/[2021] 7 SCC 90. This Court, in the aforesaid decision has specifically observed and held that primary Agricultural Credit Societies cannot be termed as Co operative Banks under the Banking Regulation Act and, therefore, such credit societies shall be entitled to exemption under section 80(P)(2) of the Income-tax Act, 1961.

4. Ms. Aakansha Kaul, learned counsel appearing on behalf of the appellant/Revenue has tried to submit that the respondent/Assessee will fall under the definition of Co-operative Bank as their activity is to give credit/loan. However, it is required to be noted that merely giving credit to its members only cannot be said to be the Co-operative Banks/Banks under the Banking Regulation Act. The banking activities under the



Banking Regulation Act are altogether different activities. There is a vast difference between the credit societies giving credit to their own members only and the Banks providing banking services including the credit to the public at large also.

5. There are concurrent findings recorded by CITA, ITAT and the High Court that the respondent/Assessee cannot be termed as Banks/Cooperative Banks and that being a credit society, they are entitled to exemption under section 80(P)(2) of the Income-tax Act. Such finding of fact is not required to be interfered with by this Court in exercise of powers under Article 136 of the Constitution of India. Even otherwise, on merits also and taking into consideration the CBDT Circulars and even the definition of Bank under the Banking Regulation Act, the respondent/Assessee cannot be said to be Co-operative Bank/Bank and, therefore, Section 80(P)(4) shall not be applicable and that the respondent/Assessee shall be entitled to exemption/benefit under section 80(P)(2) of the Income-tax Act.

6. In view of the above and for the reasons stated hereinabove, the present appeal deserves to be dismissed and is accordingly dismissed, answering the question against the Revenue and in favour of the Assessee.

7. The Appeal is accordingly dismissed. No costs. In favour of assessee.” Unquote.

14.1 Thus, in the above case Hon’ble Supreme Court categorically held that it cannot be treated as a Bank and hence Section 80P(4) will not be applicable and it will be entitled for exemption u/s.80P(2) of the Act.



14.2 Thus, the issue is settled now that a cooperative society registered under a state cooperative society Act or Central Cooperative Society Act will not be considered as Bank unless it has received Banking License from RBI. Section 80P(4) shall not be applicable to Such Cooperative Credit Societies and such Cooperative Credit Societies will be entitled for deduction u/s 80P(2)(a) of the Act. When we read the above proposition of law laid down by Hon'ble Supreme Court along with the proposition of law laid down by Hon'ble Supreme Court in the case of CIT vs Karnataka State Co-operative Apex bank (supra) , the proposition of law emanating is that Interest earned by depositing Funds with banks by such Co-operative Credit Societies will be Business Income and will be eligible for deduction u/s.80P(2)(a) of the Act.

14.3 Same proposition of Law has been laid down by The Hon'ble High Court of Andhra Pradesh and Telangana in the case of **Vavveru Co-operative Rural Bank Ltd. [2017] 396 ITR 371.**

15. The Hon'ble High Court of Andhra Pradesh and Telangana in the case of **Vavveru Co-operative Rural Bank Ltd. [2017] 396 ITR 371** analysed the provisions of Section 80P, succinctly



distinguished the decision of Hon'ble Supreme Court in the case of Totagar's Cooperative Sale Society, and held as under :

Quote, "8. Therefore, the real controversy arising in these writ petitions is as to whether the income derived by the petitioners by way of interest on the fixed deposits made by them with the banks, is to be treated as profits and gains of business attributable to any one of the activities indicated in sub-clauses (i) to (vii) of clause (a) of sub-section (2) of section 80P or not.

9. While the petitioners place strong reliance upon a decision of the Division Bench of this court in CIT v. Andhra Pradesh State Co-operative Bank Ltd. [2011] 12 taxmann.com 66/200 Taxman 200/336 ITR 516, the Revenue places strong reliance upon the decision of the Supreme Court in Totgar's Co-operative Sale Society Ltd. v. ITO [2010] 188 Taxman 282/322 ITR 283.

.....

34. The case before the Supreme Court in Totgar's Co-operative Sale Society Ltd.'s case (supra) was in respect of a co-operative credit society, which was also marketing the agricultural produce of its members. As seen from the facts disclosed in the decision of the Karnataka High Court in Totgars, from out of which the decision of the Supreme Court arose, the assessee was carrying on the business of marketing agricultural produce of the members of the society. It is also found from paragraph-3 of the decision of the Karnataka High Court in Totgar's Co-operative Sale Society Ltd.'s case (supra) that the business activity other than marketing of the agricultural produce actually resulted in net loss to the society. Therefore, it appears that the assessee in Totgars was carrying on some of the activities listed in clause (a) along with other activities. This is perhaps the reason that the assessee did not pay to its members the proceeds of the sale of their produce, but



invested the same in banks. As a consequence, the investments were shown as liabilities, as they represented the money belonging to the members. The income derived from the investments made by retaining the monies belonging to the members cannot certainly be termed as profits and gains of business. This is why Totgar's struck a different note.

35. But, as rightly contended by the learned senior counsel for the petitioners, the investment made by the petitioners in fixed deposits in nationalised banks, were of their own monies. If the petitioners had invested those amounts in fixed deposits in other co-operative societies or in the construction of godowns and warehouses, the respondents would have granted the benefit of deduction under clause (d) or (e), as the case may be.

36. The original source of the investments made by the petitioners in nationalised banks is admittedly the income that the petitioners derived from the activities listed in sub-clauses (i) to (vii) of clause (a). The character of such income may not be lost, especially when the statute uses the expression "attributable to" and not any one of the two expressions, namely, "derived from" or "directly attributable to".

37. Therefore, we are of the considered view that the petitioners are entitled to succeed. Hence, the writ petitions are allowed, and the order of the Assessing Officer, in so far as it relates to treating the interest income as something not allowable as a deduction under section 80P(2)(a), is set aside."Unquote.

15.1 Thus, Hon'ble High Court of AP & TS held that Interest Income earned by investing Income derived from Business and



Profession by a Co-Operative Society was eligible for deduction u/s.80P(2)(a) of the Act.

16. In the case of Sahyadri Co-operative Credit Society Limited, the Sahyadri Co-operative Credit Society had deposited excess funds in the Banks or Institutions permitted by the Co-operative Societies Act. In that context, the Hon'ble Kerala High Court in the case of Pr.CIT Vs. Sahyadri Co-operative Credit Society Ltd., [2024] 301 Taxman 36 (Kerala) vide order dated 04.09.2024 has held as under :

Quote “7. On a consideration of the rival submissions, we are of the view that for the reasons stated hereinafter, the question of law that arises for consideration before us must be answered against the Revenue and in favour of the assessee. The permissible deduction that is envisaged under Section 80P(2) of the I.T. Act for a Co-operative Society that is assessed to tax under the head of 'Profits and Gains of Business or Profession' is of the whole of the amount of profits and gains of business attributable to any one or more of its activities. Thus, all amounts as can be attributable to the conduct of the specified businesses by a Co-operative Society will be eligible for the deduction envisaged under the statutory provision. The question that arises therefore is whether, merely because the assessee chooses to deposit its surplus profit in a permitted bank or financial institution, and earns interest on such deposits, such interest would cease to form part of its profits and gains attributable to its business of providing credit facilities to its members? In our view that question must be answered in the negative, since we cannot accept the contention of the Revenue that the interest earned on those deposits loses its character as profits/gains attributable to the main business of the assessee. It is not as though the assessee in the instant case had used the surplus amount [the profit earned by it] for an investment or activity that was unrelated to its main business, and earned additional income by way of interest or gain through such activity. The assessee had only deposited the profit earned by it in the manner mandated under Section 63 of the Multi-State Co-operative Societies Act, or permitted by Section 64 of the said Act. In



*other words, it dealt with the surplus profit in a manner envisaged under the regulatory Statute that regulated, and thereby legitimized, its business of providing credit facilities to its members. Under those circumstances, if the assessee managed to earn some additional income by way of interest on the deposits made, it could only be seen as an enhancement of the profits and gains that it made from its principal activity of providing credit facilities to its members. **The nature and character of the principal income [profits earned by the assessee from its lending activity] does not change merely because the assessee acted in a prudent manner by depositing that income in a bank, instead of keeping it in hand. The provisions of the I.T. Act cannot be seen as intended to discourage prudent financial conduct on the part of an assessee.**" Unquote (emphasis supplied)*

17. What emerges from the above referred decisions of Hon'ble Supreme Court and Hon'ble High Courts is that Interest earned by Cooperative Credit Society registered under state cooperative society Act, which is engaged in the business of providing credit facilities to its members, from funds deposited with Cooperative Bank or Bank is eligible for deduction u/s 80P(2)(a)(i) of the Act.

17.1 Similar view has been taken by ITAT Pune Bench in the case of ITO Vs Dhanshri Multi State Cooperative Society Ltd in ITA No.463/PUN/2024, Arth Nagari Sahakari Patsanstha Limited Vs. ITO Arth Nagari Sahakari Patsanstha Limited.

18. In the case of the Assessee, it is an admitted fact that Assessee is a Co-operative Credit Society. Its business consists of providing credit facilities to its members. It has been submitted by Assessee



before Assessing Officer and Id.CIT(A) that as per the Maharashtra Co-operative Society Act and Reserve Bank of India Guidelines, Assessee has to maintain certain fixed deposits. Therefore, in these facts and circumstances of the case, the interest earned by assessee on the fixed deposits is business income and hence, eligible for deduction u/s.80P(2)(a)(i) of the Act.

19. In these facts and circumstances of the case, respectfully following judicial precedence, we hold that the interest income Rs.10,95,953/- is eligible for deduction u/s.80P(2)(a)(i) of the Act, as it is a business income for the assessee and not income from other sources. Accordingly, Assessing Officer is directed to delete the addition. Accordingly, grounds of appeal raised by the assessee are allowed.

20. In the result, appeal of the Assessee is allowed.

Order pronounced in the open Court on 11 February, 2026.

Sd/-
VINAY BHAMORE
JUDICIAL MEMBER

Sd/-
Dr.DIPAK P. RIPOTE
ACCOUNTANT MEMBER

पुणे / Pune; दिनांक / Dated : 11 Feb, 2025/ SGR



आदेशकीप्रतिलिपिअग्रेषित / Copy of the Order forwarded to :

1. अपीलार्थी / The Appellant.
2. प्रत्यर्थी / The Respondent.
3. The CIT(A), concerned.
4. The Pr. CIT, concerned.
5. विभागीयप्रतिनिधि, आयकर अपीलीय अधिकरण, "एस एम सी" बेंच, पुणे / DR, ITAT, "SMC" Bench, Pune.
6. गार्डफ़ाइल / Guard File.

आदेशानुसार / BY ORDER,

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सहायक रजिस्ट्रार /Assistant Registrar
आयकर अपीलीय अधिकरण, पुणे/ITAT, Pune.