

**IN THE INCOME TAX APPELLATE TRIBUNAL  
NAGPUR BENCH "SMC",**

**(VIRTUAL HEARING : AT PUNE)**

**BEFORE SHRI R. K. PANDA, VICE PRESIDENT**

**ITA Nos.774 & 775/NAG/2025  
Assessment Years : 2018-19 & 2020-21**

Nagpur District Shala Karmachari Credit Co-operative Society Ltd., Nagpur Amiket Complex, 01, Vakilpeth, Nagpur – 440009	<b>Vs.</b>	ITO, Ward 4(4), Nagpur
<b>PAN : AAALN0073A</b>		
<b>(Appellant)</b>		<b>(Respondent)</b>

Assessee by : Shri K P Dewani (through virtual)  
Department by : Shri Surjit Kumar Saha Sr.DR (through virtual)

Date of hearing : 05-02-2026  
Date of pronouncement : 19-02-2026

**ORDER**

**PER R. K. PANDA, VP :**

The above 2 appeals filed by the assessee are directed against the separate orders dated 14.10.2025 of the Ld. CIT(A) / NFAC, Delhi, relating to assessment years 2018-19 and 2020-21 respectively. For the sake of convenience, these were heard together and are being disposed of by this common order.

**ITA No.774/NAG/2025 (A.Y. 2018-19)**

2. Facts of the case, in brief, are that the assessee is a credit co-operative society registered under the Maharashtra Co-operative Society Act and is engaged in the business of providing credit facilities to its members. It filed its return of

income on 30.10.2018 declaring total income at Nil after claiming deduction u/s 80P(2)(a)(i) of the Income Tax Act, 1961 (hereinafter referred to as 'the Act'). The Assessing Officer, following the decisions of Hon'ble Karnataka High Court in the case of PCIT vs. The Totagars Co-operative Sale vide ITA Nos.100064, 100065, 100067, 100068 & 100051-100054 of 2016 and in the case of Guttigedarara Credit Cooperative Society Ltd. vs. ITO reported in (2015) 377 ITR 464 (Karn), rejected the claim of deduction u/s 80P of the Act on the ground that the assessee has earned interest by way of investment of funds in banks and societies out of the unutilized surplus fund. According to him apparently the amount of interest received on investment is not by way of providing credit facilities to its members but by investing idle fund with other banks and societies. The assessee in the return has included and declared the interest income from investment of Rs.22,52,959/-. The Assessing Officer, following the decision of Hon'ble Supreme Court in the case of Totgars Co-operative Sale Society Ltd. vs. ITO reported in (2010) 188 Taxman 282 (SC) and the Hon'ble Karnataka High Court in the case of PCIT vs. Totagars Co-operative Sale Society (supra), brought to tax the amount of Rs.22,52,959/- as 'Income from other sources'.

3. Before the Ld. CIT(A) / NFAC it was argued that the assessee in the course of activity of providing credit facilities to its members has made investment in banks to maintain liquidity of funds in the course of activity of providing credit facilities to its members and derived interest income thereon at Rs.22.52 lacs.

Relying on various decision it was argued that the addition made by the Assessing Officer was not justified.

4. However, the Ld. CIT(A) / NFAC was not satisfied with the arguments of the assessee and upheld the action of the Assessing Officer by observing as under:

#### DECISION

7. I have examined the assessment order, the submissions filed by the appellant and the judicial decisions cited by the parties. All the grounds of appeal have been dealt together. The issue raised by the appellant during the appellate proceedings are as under:

- **Disallowance of deduction claimed u/s 80P with regard to interest income received from Bank and Co-operative Bank**

8. During the course of assessment proceedings, the AO noted that the appellant society has received interest of Rs. 22,52,959/- from its investments in Bank and Co-operative Bank. The appellant has claimed deduction u/s 80P of the Act on the above said interest income received. The AO observed that no deduction u/s 80P is allowable to the appellant as the interest income was received from investments in Bank and Co-operative Bank, and the said interest income should be assessed as Income from Other Sources u/s 56 of the Act.

9. The section 80P(2)(d) of the Act clearly specifies that the interest or dividend income received by a co-operative society from its investments with any other co-operative society is deductible in computing the Total Income. As in this case, Interest income is received from Bank and Co-operative Bank, therefore, the appellant is not eligible to claim deduction u/s 80P(2)(d). Further, the judgement of

Hon'ble Supreme Court in the case of **Totgar's Co-operative Sale Society Ltd. V/s ITO [322 ITR 283 (SC)]** is clearly applicable in the appellant's case.

In view of the above, I am not inclined to interfere with the decision made by the AO on this issue. Hence all the ground(s) of appeal pertaining to this issue are **dismissed**.

10. In the result, the appeal is **dismissed**.

5. Aggrieved with such order of Ld. CIT(A) / NFAC, the assessee is in appeal before the Tribunal.

1. *The learned CIT(A) erred in dismissing appeal without considering the submissions made by assessee and judgements relied upon.*
2. *The addition made by A.O. and upheld by CIT(A) at Rs.22,52,959/- by denying benefit of deduction u/s 80P(2)(a)(i) of IT Act 1961 in respect to interest earned on deposits with Nationalized Bank and Co-operative Bank is illegal, invalid and bad in law.*
3. *The learned A.O and CIT(A) erred in not considering the settled position of law in respect to deduction allowable u/s 80P of IT Act 1961 in respect to interest earned on deposits with Nationalized Bank and Co-operative Bank and therefore orders passed are not in accordance with law.*
4. *The learned A.O. and CIT(A) ought to have held that entire income of assessee is eligible for deduction u/s 80P of IT Act 1961*
5. *The assessee denies liability to pay interest under section 234A, 234B and 234C of I.T. Act 1961. Without prejudice, levy of interest under section 234A, 234B and 234C of I.T. Act 1961 is unjustified, unwarranted and excessive.*
6. *Any other ground that shall be prayed at the time of hearing.*

6. The Ld. Counsel for the assessee at the outset filed the following decisions and submitted that under identical circumstances the claim of deduction u/s 80P(2)(d) of the Act has been allowed:

- i) *The MES Employees Co-Op Credit Society Ltd vs. ITO vide ITA No.2531/PUN/2024 order dated 20.03.2025 for assessment year 2022-23*
- ii) *Jalsampada Karmchari Sahakari Patsanstha Maryadit Wardha vs. ITO vide ITA No.300/NAG/2025 order dated 23.09.2025 for assessment year 2017-18*
- iii) *The Ismailia Urban Co-Op Society vs. ITO vide ITA No.122/Nag/2023 order dated 18.06.2024 for assessment year 2018-19*
- iv) *Bharti Maind Nagri Sahakari Pat Sanstha vs. ITO vide ITA Nos.159 and 160/Nag/2023 order dated 08.08.2024 for assessment years 2018-19 and 2020-21*

7. He submitted that the Co-ordinate Bench of the Tribunal has held that the assessee is entitled to claim deduction u/s 80P(2)(a)(i) of the Act on interest earned from investment with the nationalized banks. Further, during assessment year 2017-18, the Assessing Officer has allowed the claim of deduction u/s 80P(2)(a)(i) of the Act made by the assessee on account of interest earned on investment with nationalized banks and co-operative banks. He accordingly submitted that the order of the Ld. CIT(A) / NFAC be set aside and the grounds raised by the assessee be allowed.

8. The Ld. DR on the other hand heavily relied on the orders of the Assessing Officer and the Ld. CIT(A) / NFAC.

9. I have heard the rival arguments made by both the sides and perused the orders of the Assessing Officer and Ld. CIT(A) / NFAC and the paper book filed on behalf of the assessee. I have also considered the various decisions cited before me. I find the Assessing Officer disallowed the claim of deduction u/s 80P(2)(a)(i) of the Act on the ground that the assessee society has received interest of Rs.22,52,959/- from its investments with the nationalized banks and co-operative banks and therefore, the assessee is not entitled to claim deduction u/s 80P of the Act and the same is liable to be assessed as 'Income from other sources'.

10. I find an identical issue had come up before the Pune Bench of the Tribunal in the case of The MES Employees Co-Op Credit Society Ltd vs. ITO (supra). The

Tribunal, while allowing the claim of deduction u/s 80P(2)(a)(i) of the Act on account of interest earned on fixed deposits made with nationalized banks has observed as under:

*“10. We have heard the rival arguments made by both the sides and perused the orders of the Assessing Officer and Ld. CIT(A) / NFAC. The only dispute before the Tribunal is regarding the allowability of deduction u/s 80P(2)(a)(i) on account of interest earned on fixed deposits made with nationalized banks. We find an identical issue had come up before the Tribunal in the case of Sumitra Gramin Bigar Sheti Sahakari Pat Sanstha Maryadit (supra). We find the Tribunal vide ITA No.2476/PUN/2016 for assessment year 2008-09 order dated 25.01.2019 has decided the issue in favour of the assessee by observing as under:*

*“4. With regard to ground No.1, it relates to denial of deduction u/s.80[2][a][i] of the Income Tax Act, 1961 (hereinafter referred to as ‘the Act’) to the assessee in respect of interest income of Rs.71,56,584.00 earned from fixed deposits kept by it with nationalized banks. The facts in this case are that the assessee is co-operative society engaged in the business of providing credit facilities to its members. It is claimed that the necessary registration and license has been obtained by the assessee from the concerned Government authorities. The assessee has e-filed return of income on 24.08.2010 declaring total income of Rs. Nil and the total income was assessed u/s.143(3) of the Act to Rs.54,12,970/- by the Assessing Officer.*

*5. With regard to this issue, the Ld. AR of the assessee at the time of hearing submitted that ground No.1 is already decided in favour of the assessee by the decision of the Co-ordinate Bench of the Tribunal, Pune in ITA No.589/PUN/2016 for the assessment year 2012-13 in the case of ITO Vs. Sureshdada Jain Nagri Sahakari Patsanstha, therein, in Para 2 of the order, the issue is as under:*

*“2. The only grievance projected by the Revenue in its appeal is against the allowing of deduction u/s.80P of the Income Tax Act, 1961 (hereinafter also called as ‘the Act’) in respect of interest earned by the assessee society from State Bank of India which was denied by the Assessing Officer.”*

*Thereafter, the Tribunal has held as follows:*

*“4.We have heard both the sides and perused the relevant material on record. It is observed that the ld. CIT(A) allowed the claim of deduction u/s.80P by following the order passed by the Tribunal in the case of Shivneri Nagari Sahakari Patsanstha Ltd. (supra). The ld. AR placed on record a copy of the another order of the Pune Bench dated 19-08-2015 in the case of Shri Laxmi Narayan Nagari Sahakari Pat Sanstha Maryadit Vs. ITO (ITA No.604/PN/2014) (to*

*which one of us, namely, the ld. JM is party) in which similar deduction has been allowed. The Pune Bench of the Tribunal in the case of Shri Laxmi Narayan Nagari Sahakari Pat Sanstha Maryadit (supra) has discussed the contrary views expressed by the Hon'ble Karnataka High Court in Tumkur Merchants Souharda Credit Cooperative Ltd. Vs. ITO (2015) 230 taxmann 309 (Kar.) allowing the deduction u/s. 80P on interest income and the Hon'ble Delhi High Court in Mantola Cooperative Thrift Credit Society Ltd. Vs. CIT (2014) 110 DTR 89 (Delhi) not allowing deduction u/s.80P on interest income, earned from banks under similar circumstances. Both the Hon'ble High Courts have taken into consideration the ratio laid down in the case of Totgar's Cooperative Sale Society Ltd. 322 ITR 283 (SC).*

*There being no direct judgment from the Hon'ble jurisdictional High Court on the point, the Tribunal in Shri Laxmi Narayan Nagari Sahakari Pat Sanstha Maryadit (supra) preferred to go with the view taken in favour of the assessee by the Hon'ble Karnataka High Court in the case of Tumkur Merchants Souharda Credit Cooperative Ltd. (supra). In the absence of their being any change in the legal position prevailing on this issue after the passing of the order by the Pune Bench of the Tribunal in Shri Laxmi Narayan Nagari Sahakari Pat Sanstha Maryadit (supra) and host of other orders reiterating the similar view, respectfully following the precedent, we uphold the impugned order in allowing deduction u/s.80P on the interest income”*

*Respectfully, following the aforesaid decision of the Co-ordinate Bench of the Tribunal, Pune, we set aside the order of the Ld. CIT(Appeals) and allow ground No.1 of the grounds of appeal of the assessee.*

*6. In the combined result, appeal of the assessee is partly allowed.”*

*11. Respectfully following the decision of the Co-ordinate Bench of the Tribunal and in absence of any contradictory decision brought to our notice by the Ld. DR, we hold that the assessee is entitled to claim deduction u/s 80P(2)(a)(i) on interest from fixed deposits with nationalized banks. The grounds raised by the assessee are according allowed.”*

11. I find the Nagpur Bench of the Tribunal in the case of The Ismailia Urban Co-Op Society vs. ITO (supra) while deciding an identical issue has allowed the claim of deduction u/s 80P of the Act on interest income earned on fixed deposits

with banks out of surplus funds. The relevant observations of the Tribunal from para 9 onwards read as under:

*“9. Upon hearing both the counsel and perusing the record, we find that the issue involved is covered in favour of the assessee by a catena of decisions from ITAT as well as a decision of jurisdictional High Court. In this regard we may gainfully refer the Hon’ble Jurisdictional High Court decision in the case of CIT vs. Solapur Nagri Audyogik Sahakari Bank Ltd. 182 Taxman 231 wherein the following question was raised.*

*“Whether the interest income received by a Co-operative Bank from investments made in Kisan Vikas Patra (‘KVP’ for short) and Indira Vikas Patra (‘IVP’ for short) out of voluntary reserves is income from banking business exempt under Section 80P(2)(a)(i) of the Income Tax Act, 1961?”*

*After considering the issue, the Hon’ble Jurisdictional High Court has concluded as under:*

*“12. Therefore, in all these cases, where the surplus funds not immediately required for day-to-day banking were kept in voluntary reserves and invested in KVP/IVP, the interest income received from KVP/IVP would be income from banking business eligible for deduction under section 80P(2)(i) of the Act.*

*13. In the result, there being no dispute that the funds in the voluntary reserves which were utilized for investment in KVP/IVP by the co-operative banks were the funds generated from the banking business, we hold that in all these cases the Tribunal was justified in holding that the interest income received by the co-operative banks from the investments in KVP/IVP made out of the funds in the voluntary reserves were eligible for deduction under section 80P(2)(a)(i) of the Act.”*

*The above case law fully supports the assessee’s case. Here also surplus funds not immediately required for day to day banking were kept in Bank deposits. The income earned there from thus would be income from banking business eligible for deduction u/s 80P(2)(a)(i).*

*10. Similarly we find that similar issue was considered by this Tribunal on similar grounds raised by the Revenue in the case of MSEB Engineers Co-Op. Credit Society Ltd., wherein the ITAT, Nagpur Bench, vide order dated 05/05/2016 held as under :*

*Upon hearing both the counsel and perusing the records, we find that the above issue is covered in favour of the assessee by the decision of this ITA, referred by the Ld. CIT(A) in his appellate order. The distinction mentioned in the grounds of appeal is not at all sustainable. We further find that this Tribunal again in the case of Chattisgarh Urban Sahakari Sanstha*

*Maryadit Vs. ITO in ITA No. 371/Nag/2012 vide order dated 27.05.2015 has adjudicated similar issue as under:-*

*“11. Upon careful consideration, we note that identical issue was the subject matter of consideration by ITAT, Ahmedabad Bench decision in the case of Dhanlaxmi Credit Cooperative Society Ltd (supra), in which one of us, learned Judicial Member, was a party. The concluding portion of the Tribunal’s decision is as under:*

*“4. With this brief background, we have heard both the sides. It was explained that the Co-operative Society is maintaining “operations funds” and to meet any eventuality towards repayment of deposit, the Co-operative society is maintaining some liquidated funds as a short term deposit with the banks. This issue was thoroughly discussed by the ITAT “B” Bench Ahmedabad in the case of The Income Tax Officer vs. M/s.Jafari Momin Vikas Co-op Credit Society Ltd., bearing ITA No. 1491/Ahd/2012 (for A.Y. 2009-10) and CO No. 138/Ahd/2012 (by Assessee) order dated 31/10/2012. The relevant portion is reproduced below :-*

*“19. The issue dealt with by the Hon’ble Supreme Court in the case of Totgars (supra) is extracted, for appreciation of facts as under :*

*What is sought to be taxed under section 56 of the Act is interest income arising on the surplus invested in short term deposits and securities, which surplus was not required for business purposes? The assessee(s) markets the produce of its members whose sale proceeds at times were retained by it. In this case, we are concerned with the tax treatment of such amount. Since the fund created by such retention was not required immediately for business purposes, it was invested in specified securities. The question before us, is whether interest on such deposits/securities, which strictly speaking accrues to the members’ account, could be taxed as business income under section 28 of the Act? In our view, such interest income would come in the category of ‘income from other sources’ hence, such interest income would be taxable under section 56 of the Act, as rightly held by the assessing officer.....”*

*19.1 However, in the present case, on verification of the balance sheet of the assessee as on 31.3.2009, it was observed that the fixed deposits made were to maintain liquidity and that there was no surplus funds with the assessee as attributed by the Revenue.*

*However, in regard to the case before the Hon'ble Supreme Court –*

*“(on page 286) 7 ..... Before the assessing officer, it was argued by the assessee(s) that it had invested the funds on short term basis as the funds were not required immediately for business purposes and consequently, such act of investment constituted a business activity by a prudent businessman; therefore, such interest income was liable to be taxed under section 28 and not under section 56 of the Act and, consequently, the assessee(s) was entitled to deduction under section 80P(2)(a)(i) of the Act. The argument was rejected by the assessing officer as also by the Tribunal and the High Court, hence these civil appeals have been filed by the assessee(s).*

*19.2 From the above, it emerges that*

*(a) that assessee (issue before the Supreme Court) had admitted before the AO that it had invested surplus funds, which were not immediately required for the purpose of its business, in short term deposits;*

*(b) that the surplus funds arose out of the amount retained from marketing the agricultural produce of the members;*

*(c) that assessee carried on two activities, namely, (i) acceptance of deposit and lending by way of deposits to the members; and (ii) marketing the agricultural produce; and*

*(d) that the surplus had arisen emphatically from marketing of agricultural produces.*

*19.3 In the present case under consideration, the entire funds were utilized for the purposes of business and there were no surplus funds.*

*19.4 While comparing the state of affairs of the present assessee with that assessee (before the Supreme Court), the following clinching dissimilarities emerge, namely: (1) in the case of assessee, the entire funds were utilized for the purposes of business and that there were no surplus funds:- - in the case of Totgars, it had surplus funds, as admitted before the AO, out of retained amounts on marketing of agricultural produce of its members; (2) in the case of present*

*assessee, it had not carry out any activity except in providing credit facilities to its members and that the funds were of operational funds. The only fund available with the assessee was deposits from its members and, thus, there was no surplus funds as such; - in the case of Totgars, the Hon'ble Supreme Court had not spelt out anything with regard to operational funds;*

*19.5 Considering the above facts, we find that there is force in the argument of the assessee that the assessee not a co-operative bank, but its nature of business was coupled with banking with its members, as it accepts deposits from and lends the same to its members. To meet any eventuality, the assessee was required to maintain some liquid funds. That was why, it was submitted by the assessee that it had invested in short-term deposits. Furthermore, the assessee had maintained overdraft facility with Dena Bank and the balance as at 31.3.2009 was Rs.13,69,955/- [source : Balance Sheet of the assessee available on record].*

*19.6 In overall consideration of all the aspects, we are of the considered view that the ratio laid down by the Hon'ble Supreme Court in the case of Totgars Co-op Sale Society Ltd (supra) cannot in any way come to the rescue of either the Ld. CIT (A) or the Revenue. In view of the above facts, we are of the firm view that the learned CIT (A) was not justified in coming to a conclusion that the sum of Rs.9,40,639/- was to be taxed u/s 56 of the Act. It is ordered accordingly."*

*5. Respectfully following the above decision of the Co-ordinate Bench, we hereby hold that the benefit of deduction u/s 80P(2)(a)(i) was rightly granted by ld. CIT(A), however, he has wrongly held that the interest income is taxable u/s 56 of the Act so do not fall under the category of exempted income u/s 80P of the Act. The adverse portion of the view, which is against the assessee, of ld. CIT(A) is hereby reversed following the decision of the Tribunal cited supra, resultantly ground is allowed.*

*8. We find that the ratio of above case also applies to the present case. As observed in the above case law, in this case also the submissions of the assessee's counsel is that the assessee society is maintaining operational funds and to meet any eventuality towards repayment of deposit the cooperative society is maintaining some liquidated funds as short term deposits with banks. Hence adhering to the doctrine stair desises, we hold that the assessee should be*

*granted benefit of deduction under section 80P(2)(a)(i). Accordingly, the interest on deposits would qualify for deduction under the said section. Accordingly, we set aside the order of authorities below and decide the issue in favour of assessee.”*

*4. We further find that batch of similar appeals decided by the ITAT in favour of the assessee has also been considered by the Jurisdictional High Court. The Hon’ble Jurisdictional High Court has duly affirmed of this Tribunal. Accordingly, in the background aforesaid discussion, we do not find infirmity in the order of Ld. CIT(A).”*

*11. In the background of aforesaid discussion and decisions, we find that CIT (A) has erred in upholding the assessment order. The Appellant Cooperative society is entitled for deduction u/s 80P as claimed in the return.*

*12. In the result, assessee’s appeal is allowed.”*

12. The various other decisions relied on by the Ld. Counsel for the assessee in his paper book also supports his case to the proposition that the assessee is entitled to claim deduction u/s 80P(2)(a)(i) of the Act on account of interest earned on deposits with the nationalized banks and cooperative banks.

13. In view of the above decisions cited (supra), I hold that the Ld. CIT(A) / NFAC is not justified in denying the benefit of deduction u/s 80P(2)(a)(i) of the Act in respect of interest earned on fixed deposits with the nationalized banks and cooperative banks amounting to Rs.22,52,959/-. Accordingly, the order of the Ld. CIT(A) / NFAC is set aside and the grounds raised by the assessee are allowed.

**ITA No.775/NAG/2025 (A.Y. 2020-21)**

14. After hearing both sides, I find the grounds raised by the assessee in ITA No.775/NAG/2025 are identical to the grounds raised in ITA No.774/NAG/2025.

I have already decided the issue and allowed the grounds raised by the assessee. Following similar reasonings, the ground raised by the assessee challenging the denial of deduction u/s 80P(2)(a)(i) of the Act in respect of interest earned on fixed deposits with the nationalized banks and cooperative banks amounting to Rs.19,09,863/- is allowed.

15. In the result, both the appeals filed by the assessee are allowed.

Order pronounced in the open Court on 19<sup>th</sup> February, 2026.

**Sd/-**  
**(R. K. PANDA)**  
**VICE PRESIDENT**

पुणे Pune; दिनांक Dated : 19<sup>th</sup> February, 2026  
GCVSR

**आदेश की प्रतिलिपि अग्रेषित/Copy of the Order is forwarded to:**

1. अपीलार्थी / The Appellant;
2. प्रत्यर्थी / The Respondent
3. The concerned Pr.CIT, Nagpur
4. DR, ITAT, 'SMC' Bench, Nagpur
5. गार्ड फाईल / Guard file.

**आदेशानुसार/ BY ORDER,**

**// True Copy //**

Assistant Registrar  
आयकर अपीलीय अधिकरण ,पुणे  
/ ITAT, Pune

S.No.	Details	Date	Initials	Designation
1	Draft dictated on	09.02.2026		Sr. PS/PS
2	Draft placed before author	10.02.2026		Sr. PS/PS
3	Draft proposed & placed before the Second Member			JM/AM
4	Draft discussed/approved by Second Member			AM/AM
5	Approved Draft comes to the Sr. PS/PS			Sr. PS/PS
6	Kept for pronouncement on			Sr. PS/PS
7	Date of uploading of Order			Sr. PS/PS
8	File sent to Bench Clerk			Sr. PS/PS
9	Date on which the file goes to the Office Superintendent			
10	Date on which file goes to the A.R.			
11	Date of Dispatch of order			