

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

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

<b>ITA No. 2167/Bang/2025</b>
<b>Assessment Year : 2016-17</b>

M/s. Navakarnataka PSS Ltd., 396, Shree Building Patel Nagar, IV Ward, Karnataka – 583 201. <b>PAN: AIWPA3117C</b>	<b>Vs.</b>	The Income Tax Officer, Ward – 1 & TPS, Hospet.
<b>APPELLANT</b>		<b>RESPONDENT</b>

Assessee by	:	Smt. Harsha, CA
Revenue by	:	Shri Subramanian .S, JCIT-DR

Date of Hearing	:	03-02-2026
Date of Pronouncement	:	05-03-2026

**ORDER**

**PER SOUNDARARAJAN K., JUDICIAL MEMBER**

This is an appeal filed by the assessee challenging the order of the NFAC, Delhi dated 25/07/2025 in respect of the A.Y. 2016-17 and raised the following grounds:

*“1. The Order of the learned Commissioner passed under section 250 of the Act is opposed to law, equity, weight of evidence, probabilities and the facts and circumstances in the Appellant's case.*

*2. The Appellant denies to be assessed to tax on total income as determined by the learned AO of Rs.*

76,64,252/- as against the actual total income of Nil on the facts and circumstances of the case.

3. The learned Commissioner of Income-tax (Appeals) failed to appreciate that the learned AO has erred in disallowing the deduction u/s 80P despite that the Appellant is registered under Karnataka Souharda Sahakari Act, 1997 which are eligible for deduction as they are considered as "co-operative societies" within the meaning of section 2(19) of the Act in the facts and circumstances of the case.

4. The learned Commissioner of Income-tax (Appeals) failed to appreciate that the AO has erred in making disallowance u/s 40a(ia) of the Act for TDS on interest paid to members of Rs.23,66,468/- being 30% of Rs.78,88,228/- despite there is an exemption provided in section 194A for interest paid to members in the interest of justice.

5. The learned Commissioner of Income-tax (Appeals) failed to appreciate that the AO has erred in disallowing the provision on NPA of Rs.8,40,407/- in the facts and circumstances of the case.

6. Without prejudice, the learned Commissioner of Income-tax (Appeals) ought to have appreciated that the disallowance of TDS on interest and provision for NPA would have net impact of zero as the CBDT circular No. 37/2016 dated 02.11.2016 is applicable to the Appellant in the facts and circumstances of the case.

7. Without prejudice to the right to seek waiver with the Hon'ble CCIT/DG, the appellant denies himself liable to be charged to interest u/s. 234A and 234B of the Act, which under the facts and in the circumstances of the appellant's case deserves to be cancelled.

8. The Appellant craves leave of this authority to add, alter, delete or substitute any of the grounds urged above.

9. In the view of the above and other grounds that may be urged at the time of the hearing of the appeal, the Appellant prays that the appeal may be allowed in the interest of justice and equity."

**2.** The brief facts of the case are that the assessee is a co-operative society registered under the Karnataka Souharda Sahakari Act, 1997. The

assessee filed their return of income declaring a Nil income. Subsequently, notices u/s. 143(2) as well as u/s. 142(1) were issued and the assessee also submitted the details as called for by the AO. The AO had denied the deduction claimed u/s. 80P(2) of the Act on the ground that the assessee is not a credit co-operative society since they were registered under the Karnataka Souharda Sahakari Act, 1997 and treated the assessee as an AOP. The AO had also made an addition u/s. 40(a)(ia) of the Act since the assessee had not furnished the details of the TDS deducted on the interest payments. Similarly, the AO had added the provision for NPA as income. As against the said order, the assessee filed an appeal before the Ld.CIT(A). The Ld.CIT(A) had also confirmed the order of the AO on the ground that the assessee had not furnished any supporting documents.

**3.** As against the said order, the present appeal has been filed by the assessee before this Tribunal.

**4.** At the time of hearing, the Ld.AR submitted that even though the assessee had not furnished any supporting documents before the lower authorities, it was held in a number of judgments as well as the orders that the assessees registered under the Karnataka Souharda Sahakari Act, 1997 are also a society registered under the provisions of the Karnataka Co-operative Societies Act and therefore the assessee is entitled for claiming the deduction u/s. 80P(2)(a)(i) of the Act on the interest income earned from its members and prayed to decide the appeal on merits. The Ld.AR also relied on section 194A(3)(v) of the Act for not deducting the TDS on the interest paid to its members. The Ld.AR also submitted that the provision for NPA has been claimed in accordance with the provisions and therefore the disallowance of the same is also not in order. The Ld.AR also filed a paper book comprising the synopsis as well as the judgments of the Hon'ble Jurisdictional High Court in support of their claim.

**5.** The Ld.DR relied on the orders of the lower authorities and submitted that the assessee had not appeared before the Ld.CIT(A) and furnished the supporting documents and therefore the Ld.CIT(A) had rightly denied the deductions.

**6.** We have heard the arguments of both sides and perused the materials available on record.

**7.** The first and foremost issue to be decided in this appeal is whether the assessee registered under the provisions of the Karnataka Souharda Sahakari Act, 1997 would also fit into the definition of co-operative society. This issue was already decided by Hon'ble Jurisdictional High Court in the judgments reported in (2020) 421 ITR 670 in the case of Swabhimani Souharda Credit Cooperative Ltd. vs. Govt. of India, (2020) 426 ITR 457 in the case of Shri Vitthalray Souharda Pattin Sahakari Niyamit vs. Union of India and (2025) 174 taxmann.com 789 in the case of Udaya Souhardha Credit Co-operative Society Ltd. vs. ITO (TDS) wherein the Hon'ble Jurisdictional High Court had held that the assessee registered under the Karnataka Souharda Sahakari Act, 1997 would also be treated as a co-operative society and therefore all the benefits granted u/s. 80P would also apply to them. By applying the said legal principles held by the Hon'ble Jurisdictional High Court, we are also holding that the assessee who is registered under the Karnataka Souharda Sahakari Act, 1997 as a co-operative society and held that the assessee is eligible for deduction u/s. 80P(2) in respect of the net profit of Rs. 44,57,377/- and directed the AO to grant the said deduction accordingly.

**8.** The second issue involved in this appeal is about the disallowance made u/s. 40(a)(ia) of the Act. In the earlier paragraphs, we have discussed about the status of the assessee and held that the assessee is a co-operative credit society and therefore entitled for claiming deduction u/s. 80P(2)(a)(i) of the Act. When that being the case, as per section 194A(3)(v) of the Act,

the provision 194A would not be applicable to a co-operative society paying interest to its members. Therefore the disallowance made u/s. 40(a)(ia) of the Act in respect of the interest payments made to its members of the assessee society is not correct. We have also perused the judgment of the Hon'ble Jurisdictional High Court reported in (2025) 174 taxmann.com 789 (Karnataka) in the case of Udaya Souhardha Credit Co-operative Society Ltd. vs. ITO (TDS) wherein it was held that the assessee being a co-operative society is entitled for exemption from TDS on interest payments u/s. 194A(3)(v) of the Act. Respectfully following the above said judgment of the Hon'ble Jurisdictional High Court, we also hold that the deduction u/s. 40(a)(ia) of the Act could not be made on the assessee and therefore we direct the AO to delete this addition also.

**9.** The third issue involved in this appeal is the addition made in respect of the provision for NPA. In the synopsis, it was submitted by the assessee that even in the absence of the details about the provision for NPA, the disallowance would have tax neutral effect as the same would be added back to gross total income and then deduction under Chapter VIA would be claimed on the entire income u/s. 80P of the Act and the net result would be Nil total income. In support of their said contention, the assessee also relied on the order of the Coordinate Bench of this Tribunal reported in (2022) 144 taxmann.com 170 (Bangalore) wherein it was held that the disallowance of the provision for NPA is not correct since the entire total income is eligible for deduction u/s. 80P of the Act. The Coordinate Bench of this Tribunal had relied on the Circular No. 37/2016 dated 02/11/2016 in which it was clarified that the disallowances result in enhancement of the profits of the eligible business and therefore deduction under Chapter VIA is admissible on the profits so enhanced by the disallowance. We have already decided that the assessee is a co-operative society eligible for deduction u/s. 80P(2)(a)(i) of the Act and therefore the disallowance of the provision for NPA would also be entitled for deduction even though the same was treated as

income in the hands of the assessee. We, therefore accepted the case of the assessee and direct the AO to delete this addition also.

**10.** In the result, the appeal filed by the assessee is allowed.

Order pronounced in the open court on 05<sup>th</sup> March, 2026.

Sd/-  
(PRASHANT MAHARISHI)  
Vice – President

Sd/-  
(SOUNDARARAJAN K.)  
Judicial Member

Bangalore,  
Dated, the 05<sup>th</sup> March, 2026.  
/MS /

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|---------------|------------------------|
| 1. Appellant  | 2. Respondent          |
| 3. CIT        | 4. DR, ITAT, Bangalore |
| 5. Guard file | 6. CIT(A)              |

By order

Assistant Registrar,  
ITAT, Bangalore