IN THE INCOME TAX APPELLATE TRIBUNAL
'B' BENCH, BANGALORE

BEFORE SHRI WASEEM AHMED, ACCOUNTANT MEMBER AND
SHRI SOUNDARARAJAN K, JUDICIAL MEMBER

ITA No.1854 & 1855/Bang/2025
Assessment Year: 2018-19

Sree Cauvery Souharda Credit Sahakari Sangha Niyamitha, No.7, Kodava Samaja Building, 1st Main Road, Vasanthnagar, Bangalore – 560 002. **PAN – AAAJS 2172 F**	Vs.	The Income Tax Officer, Ward – 1(1)(1), Bangalore.
APPELLANT		RESPONDENT

Assessee by	:	Smt. Sumana, CA
Revenue by	:	Shri Subramanian, JCIT (DR

Date of hearing	:	02.03.2026
Date of Pronouncement	:	12.03.2026

O R D E R

PER WASEEM AHMED, ACCOUNTANT MEMBER:

The present appeals filed by the assessee are directed against the order passed under section 250 of the Act dated 24-06-2025 by the NFAC, Delhi both for the assessment years 2018-19.

2. First, we take up assessee's appeal in ITA No. 1854/Bang/2025, for A.Y. 2018-19 as lead case.

2. The interconnected issue raised by the assessee is that the learned CIT(A) erred in confirming the disallowances of deduction under section 80P(2)(a)(i) of the Act on the interest income.

3. The facts in brief are that the assessee, a cooperative society, is engaged in the business of extending credit facility to the members. For the year under consideration the assessee declared NIL income after claiming deduction under section 80P of the Act for Rs. 1,06,42,185/- only. The return was selected for scrutiny under the CASS for the reason of large deduction.

4. During the assessment, it was observed that the assessee has earned interest income of Rs. 25,22,742/- by way of investment in Scheduled Bank, Cooperative Bank, Karnataka State Apex Cooperative Bank, and with other cooperative banks. On the query raised by the AO with respect to allowability of the same under section 80P(2)(a)(i) of the Act. The assessee submitted that the idle surplus fund available with it, was deposited into Banks/Cooperative Banks purely as a prudent businessman to put surplus fund into economic cycle but not with object of earning interest. In the event any member requiring credit facility, the deposit would be immediately withdrawn to meet the primary objective of providing credit facility to the members.

4.1 However, the AO rejected the assessee's explanation and held that interest income earned by way of investment with other than cooperative banks are liable to assessed in accordance with section 56 of the Act. Hence, the impugned interest income of Rs. 25,22,742/- is not eligible for deduction under section 80P(2)(a)(i) of the Act.

4.2 The AO also held that deduction under section 80P(2)(d) of the Act also cannot be extended as the investment made by the assessee is with cooperative bank not with the cooperative society. Accordingly, the AO made the disallowances of deduction under section 80P(2)(a)(i) of the Act for Rs. 25,22,742/- and added to the total income of the assessee.

5. The aggrieved assessee preferred an appeal before the learned CIT(A).

6. Before the learned CIT(A), it was submitted that the assessee is registered under the Karnataka Souharda Sahakari Act, 1997 and per the provision of section 10 of the said Act it is required make appropriation towards operational reserve to meet unforeseen losses or contingencies. The impugned mandatory appropriation/reserved is required to be deposited with prescribed bank. Accordingly, the deposit was made with Karnataka State Apex Cooperative Bank and interest income earned thereon. Therefore, the interest income arising from the mandatory deposit is attributable to the business of extending credit facility to the members.

6.1 It was further submitted that since the assessee society provide financial accommodation to the members it maintains Saving Bank Account. The interest income earned from such saving bank account is attributable to the profit and gains of the business of providing credit facility to the members.

6.2 Furthermore, the assessee in addition to the above made deposits of idle surplus fund with Karnataka State Apex Cooperative Bank as a prudent business. The said deposits are closed whenever there is requirement of lending credit facility to the members or to meet operational expenses. Therefore, the interest income earned from such deposit is incidental and attributable to profit and gains of the business of providing credit facility.

6.3 The assessee also submitted that the judgment of the Hon'ble Karnataka High Court in the case of Totgars Cooperative Society in ITA No. 100066/2016 dated 16-06-2017 is distinguishable from the facts of its case. The said judgment was in different context. On the contrary the assessee placed reliance on the judgment of Hon'ble Karnataka High Court in the case of Tumkur Merchants Souharda Credit Cooperative Ltd vs. ITO reported in 230 taxmann.com 309 and in the case of M/s Guttingedarara Cooperative Society Ltd reported in 377 ITR 464.

6.4 However, the learned CIT(A) dismissed the assessee's explanation and submission and confirm the addition made. The ld. CIT(A) found that deduction under section 80P(2)(a)(i) of the Act is allowed on the profit and gains arising from the business of providing credit facility to the member. The deposits made with the banks are not the members. Therefore, interest income arising from such banks are not eligible for deduction under section 80P(2)(a)(i) of the Act. In holding so the learned CIT(A) referred to the decision of Hon'ble Supreme Court in the case of Mavilayi Service Co-operative Bank Ltd. reported in 123 taxmann.com 161. The learned CIT(A) also referred the decision of

Hon'ble Karnataka High Court in the case of Totgars Cooperative Society in ITA No. 100066/2016 dated 16-06-2017.

7. Being aggrieved by the order of the learned CIT(A) the assessee is in appeal before us.

8. The learned AR before us filed a paper book running from pages 1 to 159 and compilation of case laws running from pages 1 to 139. The learned AR before us reiterated the assessee submission as made during the appellate proceedings under section 250 of the Act.

9. On the contrary, the learned DR before us vehemently supported the order of authorities below.

10. We have heard the rival contentions of both the parties and perused the materials available on record. The question before us whether the interest income earned from compulsory deposit, deposit of surplus fund, saving bank interest with bank or cooperative bank by the appellant assessee carrying on the business of providing credit facilities to member shall be eligible for deduction under section 80P(2)(a)(i) of the Act.

10.1 Before dwelling into facts and arguments advanced by both the parties, we find it necessary to refer to the relevant provisions of section 80P of the Act which is extracted as under:

> ***"80P.*** *(1) Where, in the case of an assessee being a co-operative society, the gross total income includes any income referred to in sub-section (2), there shall be deducted, in accordance with and subject to the provisions of this section, the sums specified in sub-section (2), in computing the total income of the assessee.*
> *(2) The sums referred to in sub-section (1) shall be the following, namely :—*

(a) in the case of a co-operative society engaged in—
(i) carrying on the business of banking or providing credit facilities to its members, or
(ii) a cottage industry, or
(iii) the marketing of agricultural produce grown by its members, or
(iv) the purchase of agricultural implements, seeds, livestock or other articles intended for agriculture for the purpose of supplying them to its members, or
(v) the processing, without the aid of power, of the agricultural produce of its members, or
(vi) the collective disposal of the labour of its members, or
(vii) fishing or allied activities, that is to say, the catching, curing, processing, preserving, storing or marketing of fish or the purchase of materials and equipment in connection therewith for the purpose of supplying them to its members,
the whole of the amount of profits and gains of business attributable to any one or more of such activities :"

10.2 On the combined reading of the provision of sub-section 1, clause (a) of sub-section 2 of the section 80P of the Act, it is transpired that an assessee being engaged in business of banking or providing credit facilities to the members shall be eligible for deduction of whole amounts of profit and gains of the business attributable to such business. Thus, question arises can the interest income earned from deposit and investment with the banks said to be attributable to carrying banking business or providing credit facility to the members.

10.3 The views of the Revenue are that such interest income from banks or cooperative banks cannot be said to be attributed to the carrying on banking business or providing credit facility as it is not arising from the members. Therefore, such income shall not be eligible for deduction under section 80P(2)(a)(i) of the Act. The views of the Revenue are largely based on the ruling of Hon'ble Supreme Court in the case of Totgars, Co-Operative Sales Society Ltd Vs. ITO in Civil Appeal Nos. 1622 to 1629 of 2010, dated 8th February 2010, reported in 322 ITR 283/ 188 Taxman 282.

10.4 Going through the above stated judgment of Hon'ble Supreme Court, we note the assessee i.e. Totgars, Co-Operative Sales Society Ltd at the relevant time (A.Y. 1991-92 to 1999-2000) was engaged in two activities viz marketing of agricultural produce of its members and providing credit facilities to them. The assessment for the A.Y. 1991-92 to 1994-95 and 1996-97 to 1999-2000 stood reopened under section 147 of the Act. During the relevant assessment years, the assessee, i.e. Totgars, Co-Operative Sales Society Ltd., has earned interest income from short-term deposits with the bank and in the government securities. Before the AO, it was argued by the assessee 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 of the Act and not under section 56 of the Act, and, consequently, the assessee was entitled to deduction under section 80P(2)(a)(i) of the Act. This argument of the assessee was rejected by the AO by holding that the assessee-society had invested the surplus funds as, by way of, investment by an ordinary investor, hence, interest on such investment has got to be taxed under the head "Income from other sources". The finding of the AO was confirmed by the Tribunal as well by the Hon'ble Karnataka High Court. The dispute reached the Hon'ble Supreme Court through the civil appeal filed by the assessee. The Bench of Hon'ble Supreme Court observed that the assessee markets the product of its members and sale proceeds of the same which was liable to be remitted to the member were sometimes retained by the assessee. The surplus fund created by such retention, not immediately required for business purposes were invested in specified securities. The Hon'ble Supreme

Court, in the given facts and circumstances, decided the issue favouring Revenue by observing as under:

> ***10.*** *At the outset, an important circumstance needs to be highlighted. In the present case, the interest held not eligible for deduction under section 80P(2)(a)(i) of the Act is not the interest received from the members for providing credit facilities to them. What is sought to be taxed under section 56 of the Act is the interest income arising on the surplus invested in short-term deposits and securities which surplus was not required for business purposes. 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. In this connection, we may analyze section 80P of the Act. This section comes in Chapter VI-A, which, in turn, deals with "Deductions in respect of certain incomes". The headnote to section 80P indicates that the said section deals with deductions in respect of income of co-operative Societies. Section 80P(1), inter alia, states that where the gross total income of a co-operative Society includes any income from one or more specified activities, then such income shall be deducted from the gross total income in computing the total taxable income of the assessee-Society. An income, which is attributable to any of the specified activities in section 80P(2) of the Act, would be eligible for deduction. The word "income" has been defined under section 2(24)(i) of the Act to include profits and gains.*
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> *This sub-section is an inclusive provision. The Parliament has included specifically "business profits" into the definition of the word "income". Therefore, we are required to give a precise meaning to the words "profits and gains of business" mentioned in section 80P(2) of the Act. In the present case, as stated above, assessee-Society regularly invests funds not immediately required for business purposes. Interest on such investments, therefore, cannot fall within the meaning of the expression "profits and gains of business". Such interest income cannot be said also to be attributable to the activities of the society, namely, carrying on the business of providing credit facilities to its members or marketing of the agricultural produce of its members. When the assessee-Society provides credit facilities to its members, it earns interest income. As stated above, in this case, interest held as ineligible for deduction under section 80P(2)(a) is not in respect of interest received from members. In this case, we are only concerned with interest which accrues on funds not required immediately by the assessee(s) for its business purposes and which have been only invested in specified securities as "investment". Further, as stated above, assessee(s) markets the agricultural produce of its members. It retains the sale proceeds in many cases. It is this "retained amount" which was payable to its members, from whom produce was bought, which was invested in short-term deposits/securities.*

Such an amount, which was retained by the assessee-Society, was a liability and it was shown in the balance-sheet on the liability-side.
Therefore, to that extent, such interest income cannot be said to be attributable either to the activity mentioned in section 80P(2)(a)(i) of the Act or in section 80P(2)(a)(iii) of the Act. Therefore, looking to the facts and circumstances of this case, we are of the view that the Assessing Officer was right in taxing the interest income, indicated above, under section 56 of the Act.
11. *An alternative submission was advanced by the assessee(s) stating that, if interest income in question is held to be covered by section 56 of the Act, even then, the assessee-Society is entitled to the benefit of section 80P(2)(a)(i) of the Act in respect of such interest income. We find no merit in this submission. Section 80P(2)(a)(i) of the Act cannot be placed at par with Explanation (baa) to section 80HHC, section 80HHD(3) and section 80HHE(5) of the Act. Each of the said sections has to be interpreted in the context of its subject-matter. For example, section 80HHC of the Act, at the relevant time, dealt with deduction in respect of profits retained for export business. The scope of section 80HHC is, therefore, different from the scope of section 80P of the Act, which deals with deduction in respect of income of co-operative Societies. Even Explanation (baa) to section 80HHC was added to restrict the deduction in respect of profits retained for export business. The words used in Explanation (baa) to section 80HHC, therefore, cannot be compared with the words used in section 80P of the Act which grants deduction in respect of "the whole of the amount of profits and gains of business". A number of judgments were cited on behalf of the assessee(s) in support of its contention that the source was irrelevant while construing the provisions of section 80P of the Act. We find no merit because all the judgments cited were cases relating to Co-operative Banks and assessee-Society is not carrying on Banking business.*
We are confining this judgment to the facts of the present case. To say that the source of income is not relevant for deciding the applicability of section 80P of the Act would not be correct because we need to give weightage to the words "the whole of the amount of profits and gains of business" attributable to one of the activities specified in section 80P(2)(a) of the Act. An important point needs to be mentioned. The words "the whole of the amount of profits and gains of business" emphasise that the income in respect of which deduction is sought must constitute the operational income and not the other income which accrues to the Society. In this particular case, the evidence shows that the assessee-Society earns interest on funds which are not required for business purposes at the given point of time. Therefore, on the facts and circumstances of this case, in our view, such interest income falls in the category of "Other Income" which has been rightly taxed by the Department under section 56 of the Act.

10.5 The above finding of the finding of the Hon'ble Supreme Court has been followed by the revenue for disallowing the deduction claimed under section 80P(2)(a)(i) of the Act on account of interest income earned from deposit or investment of surplus fund by the cooperative

societies carrying the business of banking or providing credit facilities to the members. The arguments of the cooperative societies engaged in providing credit facility to the members are that the surplus fund for which members are not immediately seeking credits are deposited with bank as a prudent business decision shall be attributed to the business only and therefore, the same is eligible for the deduction. We note that the above argument of the assessee finds support from the ruling of Hon'ble Jurisdictional High Court of the Karnataka in the case of *Tumkur Merchants Souharda Credit Cooperative Ltd. vs. Income-tax officer Word-V dated 28th October 2014,* reported in [2015] 55 taxmann.com 447 (Karnataka). The Hon'ble Bench of Karnataka High Court distinguished the ratio of the Hon'ble Supreme Court in the case of *Totgars Co-operative Sale Society Ltd.* (supra).

10.6 The assessee i.e. *Tumkur Merchants Souharda Credit Cooperative Ltd (hereafter-TMSCC)* was engaged only in the business of providing credit facilities to members unlike the assessee i.e. *Totgars Co-operative Sale Society Ltd* which was also engaged in marketing of agricultural produce of the members as well as providing credit facilities. For the A.Y. 2009-10, the assessee TMSCC earned interest income on short-term deposits with the M/s Allahabad Bank and M/s Axis Bank and the same was included in the profit claimed for the deduction under section 80P(2)(a)(i) of the Act. The learned CIT(A) disallowed the deduction to the extent of aforesaid interest income and coordinate bench of the Tribunal confirmed the disallowances by following the ratio of the Hon'ble Supreme Court in case of *Totgars Co-operative Sale Society Ltd.* (supra). However, the Hon'ble High Court found that the assessee being cooperative society is only engaged in the business of providing credit

facility to the members and other than that it does not engage in any other business. It was observed that the word used in the provision of section 80P of the Act is the profit and gains attributable to the business of providing credit facilities. The Hon'ble High Court referring to the ruling of the Hon'ble Apex Court in the case of *Cambay Electric Supply Industrial Co. Ltd.* v. *CIT* [1978] 113 ITR 84 (SC) held that the word "attributable" is wider term than the word "derived from". It was held that:

> *"A Cooperative Society which is carrying on the business of providing credit facilities to its members, earns profits and gains of business by providing credit facilities to its members. The interest income so derived or the capital, if not immediately required to be lent to the members, they cannot keep the said amount idle. If they deposit this amount in bank so as to earn interest, the said interest income is attributable to the profits and gains of the business of providing credit facilities to its members only. The society is not carrying on any separate business for earning such interest income. The income so derived is the amount of profits and gains of business attributable to the activity of carrying on the business of banking or providing credit facilities to its members by a co-operative society and is liable to be deducted from the gross total income under Section 80P of the Act."*

10.7 The Hon'ble High Court in the above stated case of *Tumkur Merchants Souharda Credit Cooperative Ltd(supra)* also found that ratio laid down by the Hon'ble Supreme in Totgars *Co-operative Sale Society (supra)* was in different contexts. It was found that said assessee retained the sale proceeds payable to the members and deposited such retained money. The fund deposited was the liability of the said cooperative society and interest earned on such deposit was held to be not attributable to the business of the cooperative society. Hence, the Hon'ble High Court held that ratio laid down by the Hon'ble Supreme Court in Totgars *Co-operative Sale Society(supra)* shall not be applied where cooperative society is carrying on banking business or providing credit facility to members and earns interest on deposit of surplus/idle fund out of profit & gains or capital.

10.8 It is also noted that the identical view was taken by the Hon'ble Jurisdictional High Court of the Karnataka in the subsequent decision in case of Guttigedarara Credit Co-operative Society Ltd. vs. ITO, Ward 2(2), Mysore dated 9th June 2015 reported in [2015] 60 taxmann.com 215.

10.9 Furthermore, the Hon'ble Karnataka High Court followed the principle laid down *Tumkur Merchants Souharda Credit Cooperative Ltd(supra)* in the subsequent judgment dated 19th February 2018 in the case of *Lalitamba Pattina Souharda Sahakari Niyamita vs. ITO* in ITA No. 100004 of 2018.

10.10 We also find that the identical view was taken by the Hon'ble High Court of Andhra Pradesh in the case of Commissioner of Income-tax-III, Hyderabad vs. Andhra Pradesh State Cooperative Bank Ltd. dated 7th June 2011 reported in 12 taxmann.com 66. This decision of Hon'ble Andhra High Court was passed after considering the ratio of the Hon'ble Supreme Court in Totgars *Co-operative Sale Society(supra) and* before the ratio laid down by the Hon'ble Karnataka High Court in *Tumkur Merchants Souharda Credit Cooperative Ltd(supra).* The relevant extract stands as under:

> ***11.*** *Does section 80P(2)(a) of the Act make a distinction between income received by a cooperative bank from statutory deposits and the income from non-statutory deposit of surplus funds? The answer must be in the negative. The income earned by the cooperative bank either by deposit of the prescribed percentage of its reserves or by deposit of their surplus funds is exempted. The income from either category of the deposits is certainly attributable to the business of banking. Indeed as a prudent business practice, no banking company or no entity engaged in the business of banking would keep its amount idle. By parking the funds, immediately not required for the business in other banks, interest can be earned to the benefit of the cooperative society. Every cooperative society is expected to make profits for the benefit of its*

members. As long as the deposit of the surplus funds in the other banks for the purpose of earning interest is not unauthorized or not barred by any of the applicable statutes, the income is certainly attributable to the business of banking. There is no concept of voluntary or non-statutory reserves as urged by the Revenue.

10.11 We further note that the ratio laid down by the Hon'ble Jurisdictional High Court of the Karnataka in *Tumkur Merchants Souharda Credit Cooperative Ltd(supra)* was subsequently followed by the Hon'ble Kerala High Court in the case of the PCIT vs. Sahyadri Co-operative Credit Society Ltd. reported in [2024] 166 taxmann.com 445 (Kerala) and further by the Hon'ble Calcutta High Court in West Bengal State Co-Operative Agriculture & Rural Development Bank Ltd. vs. DCIT reported [2025] 177 taxmann.com 469 (Calcutta)[06-08-2025].

9.12 The relevant finding of the Hon'ble Kerala High Court in above stated case is extracted as under:

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.*

10.12 Likewise, the relevant finding of the Hon'ble Calcutta High Court in the above stated case is extracted as under:

> ***11.*** *In terms of the above decision, the expression 'attributable to' being a wider in import, the said expression is used by the legislature whenever they intended to gather receipts from sources other than the actual conduct of the business. The facts in the said case were more or less identical to the facts before us. As the interest income so derived or the capital, if not immediately required to be lent to the members, the society/assessee cannot keep the said amount idle and if they deposit this amount in bank so as to earn interest, the said interest income is attributable to the profits and gains of the business of providing credit facilities to its members only. Bearing in mind the meaning of the words 'attributable to' the court proceeded to consider as to the applicability of the judgment of the Hon'ble Supreme Court in Totgars, Co-operative Sale Society Ltd. (supra). It was pointed out that the Hon'ble Supreme Court was dealing with the case where the assessee therein, apart from providing credit facility to the members, was also in the business of marketing of agricultural produce grown by its members and the sale consideration received from marketing agricultural produce of its members was retained in many cases and retained amount which was payable to its members from whom produce was bought, was invested in a short term deposit/security.*
>
> ***12.*** *The facts of the case of the assessee before us is entirely different as the amount which was deposited in the bank was not an amount due to the members and it was not the liability of the society to the members and, therefore, the interest earned from such deposits in the bank should be held to be eligible for deduction under section 80P(2)(a)(i) of the Act. Yet again in Tumkur Merchants Souharda Credit Cooperative Ltd. v. ITO [2015] 55 taxmann.com 447/ 230 Taxman 309 (Kar) identical issue was considered and it was held that where Cooperative Society was engaged in the business of providing credit facilities to its members, they deposited excess amount for short term in banks, interest earned was entitled to be deducted under section 80P of the Act.*

10.13 At this point, we also find it pertinent to refer the decision of Hon'ble Gujarat High Court in the case of State Bank of India (SBI) vs.

CIT reported [2016] 72 taxmann.com 64 wherein ratio of Hon'ble Karnataka High Court in the case of *Tumkur Merchants Souharda Credit Cooperative Ltd(supra)* was distinguished by holding that the ratio of the Hon'ble Supreme Court in Totgars *Co-operative Sale Society(supra)* was not properly interpreted. The relevant finding of the Hon'ble Gujarat High Court in this respect reads as under:

> ***13.*** *In the opinion of this court, in case of a society engaged in providing credit facilities to its members, income from investments made in banks does not fall in any of the categories mentioned under section 80P(2)(a) of the Act. In the case of Totgars Co-operative Sale Society (supra), as rightly submitted by the learned counsel for the respondent, the court was dealing with two kinds of activities: interest income earned from the amount retained from the amount payable to the members from whom produce was bought and which was invested in short-term deposits/securities; and the interest derived from the surplus funds that the assessee therein invested in short-term deposits with the Government securities. This is further clear when one peruses the decision of the Karnataka High Court from which the matter travelled to the Supreme Court wherein it was the case of the assessee that it was carrying on the business of providing credit facilities to its members and therefore, the appellant-society being an assessee engaged in providing credit facilities to its members, the interest received on deposits in business and securities is attributable to the business of the assessee as its job is to provide credit facilities to its members and marketing the agricultural products of its members. This court is, therefore, of the view that the above decision is not restricted only to the investments made by the assessee therein from the retained amount which was payable to its members but also in respect of funds not immediately required for business purposes. The Supreme Court has held that interest on such investments, cannot fall within the meaning of the expression "profits and gains of business" and that such interest income cannot be said to be attributable to the activities of the society, namely, carrying on the business of providing credit facilities to its members or marketing of agricultural produce of its members. The court has held that when the assessee society provides credit facilities to its members, it earns interest income. The interest which accrues on funds not immediately required by the assessee for its business purposes and which has been invested in specified securities as "investment" are ineligible for deduction under section 80P(2)(a)(i) of the Act.* ***For the above reasons, this court respectfully does not agree with the view taken by the Karnataka High Court in Tumkur Merchants Souharda Credit Cooperative Ltd. (supra) that the decision of the Supreme Court in Totgars Co-operative Sale Society (supra) is restricted to the sale consideration received from marketing agricultural produce of its members which was retained in many cases and invested in short term deposit/security and that the said decision was confined to the facts of the said case and did not lay down any law.***

10.14 From the preceding discussion of the ratio laid down by the Hon'ble Supreme Court, High Court of Karnataka, Andhra Pradesh, Kerala, Culutta and Gujarat, we note the dispute of whether the interest income earned from deposit or investment of surplus/idle fund out of profit & gains or capital by the cooperative societies engaged in providing credit facilities to the members is squarely covered in favour of the assessee by the ruling of Jurisdictional High Court in the cases of *Tumkur Merchants Souharda Credit Cooperative Ltd(supra),* Guttigedarara Credit Co-operative Society Ltd. and *Lalitamba Pattina Souharda Sahakari Niyamita vs. ITO* as well as by the decision of Hon'ble Kerala High court and Calcutta High Court as mentioned in preceding paras.

10.15 It well settled position of the law that the Income-tax Appellate Tribunal, though the final fact-finding authority under the Income-tax Act, functions within the judicial hierarchy established under the Constitution. Under Articles 226 and 227 of the Constitution of India, the Hon'ble High Court exercises supervisory jurisdiction over all courts and tribunals within its territorial jurisdiction. Consequently, the Tribunal is bound to follow the law laid down by the jurisdictional High Court while deciding matters arising within that State. The principle that subordinate authorities must follow the judgments of superior courts has been firmly established by the Hon'ble Supreme Court in *East India Commercial Co. Ltd. v. Collector of Customs* [1962] 3 SCR 338 / AIR 1962 SC 1893, wherein it was held that the law declared by the Hon'ble High Court is binding on all authorities and Tribunals within its territorial jurisdiction. The relevant finding is extracted below:

> *Section 167 (8) of the Sea Customs Act can be invoked only if an order issued under s. 3 of the Act was infringed during the course of the import or export.*

> *The division Bench of the High Court held that a contravention of a condition imposed by a licence issued under the Act is not an offence under s. 5 of the Act. This raises the question whether an administrative tribunal can ignore the law declared by the highest court in the State and initiate proceedings in direct violation of the law so declared.* ***Under Art,. 215, every High Court shall be a court of record and shall have all the powers of such a court including the power to punish for contempt of itself. Under Art. 226, it has a plenary power to issue orders or writs for the en- forcement of the fundamental rights and for any other purpose to any person or authority, including in appropriate cases any Government, within its territorial jurisdiction. Under Art. 227 it has jurisdiction over all courts and tribunals throughout the territories in relation to which it exercise jurisdiction. It would be anomalous to suggest that a tribunal over which the High Court has superint- endence can ignore the law declared by that court and start proceedings in direct violation of it. If a tribunal can do so, all the sub-ordinate courts can equally do so, for there is no specific, provision, just like in the case of Supreme Court, making the law declared by the High Court binding on subordinate courts. It is implicit in the power of supervision conferred on a superior tribunal that all the tribunals subject to its supervision should conform to the law laid down by it. Such obedience would also be conducive to their smooth working: otherwise there would be confusion in the administration of law and respect for law would irretrievably suffer. We, therefor, hold that the law declared by the highest court in the State is binding on authorities or tribunals under its supreintendence, and that they cannot ignore it either in initiating a proceeding or deciding on the rights involved in such a proceeding.*** *If that be so, the notice issued by the authority signifying the launching of proceedings contrary to the law laid down by the High Court would be in. valid and the proceedings themselves would be without jurisdiction.*

10.16 Further, the binding nature of Hon'ble Jurisdictional High Court decisions on the Tribunal has been reiterated in *CIT v. Thana Electricity Supply Ltd.* [1994] 206 ITR 727 by the Hon'ble Bombay High Court, wherein it was held that the Tribunal is bound by the decision of the Hon'ble High Court within whose jurisdiction it functions. The Hon'ble Court also clarified that decisions of other High Courts have only persuasive value. The relevant finding is extracted below:

> *For deciding whose decision is binding on whom, it is necessary to know the hierarchy of the courts. In India, the Supreme Court is the highest court of the country. That being so, so far as the decisions of the Supreme Court are concerned, it has been stated in article 141 of the Constitution itself that :*

> *"The law declared by the Supreme Court shall be binding on all courts within the territory of India."*
>
> *In that view of the matter, all courts in India are bound to follow the decisions of the Supreme Court.*
>
> *Though there is no provision like article 141 which specifically lays down the binding nature of the decision of the High Courts, it is a well-accepted legal position that a single judge of a High Court is ordinarily bound to accept as correct judgments of courts of co-ordinate jurisdiction and of the Division Benches and of the Full Benches of his court and of the Supreme Court. Equally well-settled is the position that when a Division Bench of the High Court gives a decision on a question of law, it should generally be followed by a co-ordinate Bench of the same High Court. If the co-ordinate Bench in the subsequent case wants the earlier decision to be reconsidered, it should refer the question at issue to a larger Bench.*
>
> *It is equally well-settled that the decision of one High Court is not a binding precedent on another High Court. The Supreme Court in Vattiama Champaka Pillai v. Sivathanu Pillai, AIR 1979 SC 1937, dealing with the controversy whether a decision of the erstwhile Travancore High Court can be made a binding precedent on the Madras High Court on the basis of the principle of stare decisis, clearly held that such a decision can at best have persuasive effect and not the force of binding precedent on the Madras High Court. Referring to the States Reorganisation Act, it was observed that there was nothing in the said Act or any other law which exalts the ratio of those decisions to the status of a binding law nor could the ratio decidendi of those decisions be perpetuated by invoking the doctrine of stare decisis. The doctrine of stare decisis cannot be stretched that far as to make the decision of one High Court a binding precedent for the other. This doctrine is applicable only to different Benches of the same High Court.*
>
> *It is also well-settled that though there is no specific provision making the law declared by the High Court binding on subordinate courts, it is implicit in the power of supervision conferred on a superior Tribunal that the Tribunals subject to its supervision would confirm to the law laid down by it. It is in that view of the matter that the Supreme Court in East India Commercial Co, Ltd. v. Collector of Customs, AIR 1962 SC 1893 (at page 1905) declared :*
>
> > *"We, therefore, hold that the law declared by the highest court in the State is binding on authorities or Tribunals under its superintendence, and they cannot ignore it. ...*

10.17 In the absence of a decision of the Hon'ble Jurisdictional High Court, the Tribunal may rely upon judgments of other High Courts as persuasive precedents. The Hon'ble Bombay High Court in *CIT v. Thana Electricity Supply Ltd.* (supra) explained that when conflicting decisions of Hon'ble Non-Jurisdictional High Courts exist, the Tribunal may adopt the view it considers more reasonable.

10.18 Thus, under the constitutional scheme and the doctrine of judicial discipline, a decision of the Hon'ble jurisdictional High Court is binding on the Tribunal, while decisions of other Hon'ble High Courts carry persuasive value and may be followed in the absence of a contrary jurisdictional precedent.

10.19 Hence in our considered view, while deciding the issue of deductibility of interest income from deposit of surplus/idle fund by the cooperative societies engaged in providing credit facilities, we are bound to follow the principles laid down in the case of *Tumkur Merchants Souharda Credit Cooperative Ltd(supra),* unless material brought on record that the said principle/finding has been overruled by the Hon'ble Supreme Court or the larger bench of the Hon'ble Karnataka High Court or disturbed by the Hon'ble Karnataka High Court in subsequent case.

10.20 Be that as maybe and without prejudice to the above, we find that there is statutory requirement & legal obligation imposed on the cooperative society into the business of carrying banking business or providing credit facility to maintain certain deposits, thereby restricting its ability to freely use or withdraw these funds for its business operations without prior approval from the Registrar of Co-operative Societies.

10.21 Given this statutory compulsion, we find that the interest income arising from these deposits cannot be said that the same is not attributable to carrying on banking business or providing credit facility to the members. Therefore, in considered opinion such interest income earned from such statutory deposits should be considered as operational

income derived in the course of the assessee's business and consequently qualifies for deduction under section 80P(2)(a)(i) of the Act. In holding so, we also draw support and guidance from the Judgement of Hon'ble Supreme Court in case CIT versus Karnataka State cooperative apex bank reported in 251 ITR 194 where in it was held as under:

> *There is no doubt, and it is not disputed, that the assessee-co-operative bank is required to place a part of its funds with the State Bank or the Reserve Bank of India to enable it to carry on its banking business. This being so, any income derived from funds so placed arises from the business carried on by it and the assessee has not, by reason of section 80P(2)(a)(i), to pay income-tax thereon. The placement of such funds being imperative for the purposes of carrying on the banking business, the income derived therefrom would be income from the assessee's business. We are unable to take the view that found favour with the Bench that decided the case of M.P. Co-operative Bank Ltd. (supra) that only income derived from circulating or working capital would fall within section 80P(2)(a)(i). There is nothing in the phraseology of that provision which makes it applicable only to income derived from working or circulating capital.*

11. Coming to facts of the case on the hand. We note that that the assessee is into business of providing credit facility to the member and other than that assessee is not carrying on any other business. From such activity of lending to the member the assessee during the year earned interest income of Rs. 1,03,04,886/-. Besides, the assessee also earned interest income from the compulsory deposit as required under the Karnataka Souharda Sahakari Act 1997, under which assessee is registered as well as earned interest from deposits on idle surplus fund and saving bank Account which are detailed as under:

- Interest from compulsory deposit Rs. 13,98,979/-
- Interest from FD of surplus fund Rs. 9,48,396/-
- Saving bank interest Rs. 1,50,903/-
- Interest deposit with electricity board Rs. 1742/-
- Interest on income tax refund Rs. 55/-

11.1 Applying the principle culled out from the elaborate discussion of various judicial pronouncements in the preceding paragraphs of this order, we hold that the assessee is eligible for deduction under section 80P(2)(a)(i) of the Act on the above-compulsory deposit, fixed deposit as well as saving bank interest except interest on income tax refund.

11.2 At this juncture it is equally important to note that in several earlier decisions, this Tribunal had taken a view that interest income earned by a co-operative society from deposits placed with banks would not qualify for deduction under section 80P(2)(a)(i) of the Act and the same was liable to be taxed under the head "Income from other sources". Accordingly, the claim of deduction under section 80P(2)(a)(i) in respect of such interest income was rejected in those cases.

11.3 However, the legal position now stands clarified by the judgment of the Hon'ble jurisdictional High Court of Karnataka in *Tumkur Merchants Souharda Credit Cooperative Ltd. (supra)*, and other case laws as discussed in preceding paragraphs wherein it has been held that where a co-operative society engaged in the business of providing credit facilities to its members temporarily parks its surplus funds with banks, the interest earned therefrom is attributable to the business of the society and is therefore eligible for deduction under section 80P(2)(a)(i) of the Act.

11.4 Since the decision of the Hon'ble jurisdictional High Court is binding on this Tribunal, judicial discipline requires that the same be followed. Therefore, to the extent our earlier decisions have taken a contrary view, we respectfully depart from the earlier stand and follow

the ratio laid down by the Hon'ble Karnataka High Court in the case of Tumkur Merchants Souharda Credit Cooperative Ltd. (supra). Accordingly, the issue is now decided in favour of the assessee by granting deduction under section 80P(2)(a)(i) in respect of the interest income in question as discussed above.

11.5 In view of the above detailed discussion, we hereby set aside the finding of the learned CIT(A) and direct the AO to delete the addition made by him. Hence the ground of appeal raised by the assessee is hereby partly allowed.

12. In the result the appeal of the assessee is hereby partly allowed.

Coming to assessee appeal in ITA No. 1855/Bang/2025 for A.Y. 2020-21

13. At the outset, we note that the issues raised by the assessee in the captioned appeal for the AY 2020-21 is identical to the issue raised by the assessee in ITA No. 1854/Bang/2025 for the assessment year 2018-19. Therefore, the findings given in ITA No. 1854/Bang/2025 shall also be applicable for the assessment years 2020-21. The appeal of the assessee for the A.Y. 2018-19 has been decided by us vide paragraph No.10 – 10.21 and 11. 11.5 of this order partly in favour of the assessee. The learned AR and the DR also agreed that whatever will be the findings for the assessment year 2018-19 shall also be applied for the assessment year 2020-21. Hence, the ground of appeal filed by the assessee is hereby partly allowed.

14. In the result appeal of the assessee is partly allowed.

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

Order pronounced in court on 12th day of March, 2026

Sd/- Sd/-

(SOUNDARARAJAN K) **(WASEEM AHMED)**
Judicial Member Accountant Member

Bangalore
Dated, 12th March, 2026

/ vms /

Copy to:

1. The Applicant
2. The Respondent
3. The CIT
4. The CIT(A)
5. The DR, ITAT, Bangalore.
6. Guard file

By order

Asst. Registrar, ITAT, Bangalore