

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

**BEFORE SHRI WASEEM AHMED, ACCOUNTANT MEMBER AND
SHRI KESHAV DUBEY, JUDICIAL MEMBER**

ITA No.2201/Bang/2025
Assessment Year: 2017-18

Sagara Town House Building Co-operative Society Ltd., Near Indira Gandhi Women College, S.N Nagar, Sagar – 577 401. PAN – AAHCS 0461 R	Vs.	The Income Tax Officer, Ward – 1 & TPS, Shimoga.
APPELLANT		RESPONDENT

Assessee by	:	Shri Gowrih, CA
Revenue by	:	Shri Ganesh R Ghale, Advocate – Standing Counsel for Revenue

Date of hearing	:	24.02.2026
Date of Pronouncement	:	17.03.2026

ORDER

PER WASEEM AHMED, ACCOUNTANT MEMBER:

The present appeal has been instituted by the assessee against the order of the Ld. CIT(A) passed u/s 250 of the Act dated 07.08.2025.

2. The assessee, in its memorandum of appeal, has raised as many as seven grounds of appeal. However, for the sake of brevity and convenience, we are not inclined to reproduce the same here. The grounds raised by the assessee are interconnected and pertain to the deduction claimed u/s 80P of the Act.

3. The relevant facts are that the assessee, a co-operative society, failed to file the return of income for the captioned AY. The AO had information that the assessee had deposited total cash of Rs. 2,07,57,000 (including 14,70,000 during demonetisation period) in the bank account maintained with the bank. Therefore, the assessee was asked to furnish the return of income in response to the notice issued u/s 142(1) of the Act. However, the assessee did not file the return of income. Accordingly, the assessment was completed u/s 144 of the Act by determining the total income at Rs. 37,09,870.00 only.

3.1 While completing the assessment, the AO made an addition of Rs. 9,29,139 on account of disallowance of the deduction claimed u/s 80P of the Act and Rs. 13,10,727 on account of reserves created out of profits. Further, an addition of Rs. 14,70,000 was also made by treating the cash deposits made during the demonetisation period as unexplained money u/s 69A of the Act. The AO, while referring to the byelaws of the society, observed that the objective of the society is acquiring and purchasing land, which is also evident from the name of the society. Therefore, according to the AO, the assessee is not eligible for deduction u/s 80P(2)(a)(i) of the Act.

4. Aggrieved by assessment order, the assessee preferred appeal before the Ld. CIT(A).

5. Before the Ld. CIT(A), the assessee submitted that the AO erred in deciding the eligibility of deduction u/s 80P(2)(a)(i) of the Act merely by referring to the objects of the society. It was contended that the applicability of deduction u/s 80P(2)(a)(i) depends upon the nature of

income earned from providing credit facilities to the members of the society. The assessee further contended that the AO was not justified in treating the cash deposits of Rs. 14,70,000 as unexplained money u/s 69A of the Act, even though the assessee had furnished the KYC details of the members. However, the assessee stated that it was unable to furnish the details of deposits of old and new currency notes since the pay-in slip challans were retained by the bank at the time of depositing the cash.

5.1 The assessee also submitted that the AO had debited reserves and provisions amounting to Rs. 13,10,727 and reduced the profit, treating the same as business income on the ground that it was not an allowable expense. As per the assessee, such addition made by the AO should be allowed as deduction under section 80P of the Act as a whole. However, the Ld. CIT(A), on perusal of the objects & byelaws of the society, observed that the assessee is not a credit co-operative society engaged in the business of banking or in providing credit facilities to its members. Accordingly, the Ld. CIT(A) held that deduction u/s 80P(2)(a)(i) of the Act is not allowable to the assessee.

5.2 However, with regard to the addition relating to cash deposits, the Ld. CIT(A) accepted the contention of the assessee and deleted the same. Hence, the appeal of the assessee was partly allowed.

6. Aggrieved by order of the Ld. CIT(A), the assessee has preferred an appeal before us.

7. The Ld. AR before us filed a paper book running from pages 1 to 372, containing the society registration documents, translated versions thereof, audited financial statements, cash book and other relevant documents.

7.1 The assessee submitted that both the AO and the Ld. CIT(A) erred in disallowing the deduction claimed u/s 80P of the Act merely on the ground that the name of the society does not reflect the nature of its activities, without properly examining the objects explicitly set out in the byelaws of the society.

7.2 The assessee further submitted that both the AO and the Ld. CIT(A) erred in taxing the provisions debited in the profit and loss account without allowing the deduction claimed by the assessee u/s 80P(2)(a)(i) of the Act for the enhanced amount of profit.

8. On the other hand, the Ld. DR supported the orders of the AO and the Ld. CIT(A). The Ld. DR contended that the name and primary objects of the society indicate activities relating to acquisition of land rather than providing credit facilities to members. Therefore, the authorities were justified in denying deduction u/s 80P(2)(a)(i) of the Act. It was further argued that the assessee had not produced sufficient evidence to establish eligibility for the deduction claimed.

9. We have heard the rival submissions of both the parties and perused the materials available on record including the paper book filed by the assessee. On perusal of the paper book, we notice that the registration documents and byelaws of the society have been placed on

record. At page 50 of the paper book, clause 4 point 11 clearly provides that one of the objectives of the society is to provide credit facilities to its members. However, both the AO and the Ld. CIT(A) denied the deduction u/s 80P(2)(a)(i) of the Act merely on the basis of the name of the society and by referring to certain objects relating to acquisition of land. In our considered view, the authorities below have not examined the byelaws in entirety. The eligibility of deduction cannot be decided merely from the name of the society. A careful reading of the byelaws clearly shows that the society is also engaged in providing credit facilities to its members. Therefore, the conclusion drawn by the AO and affirmed by the Ld. CIT(A) is based on only a partial reading of the objects of the society. This fact can be verified from pages 50 of the paper book where the object clause 11 is placed, the same is extracted as under:

"11. To grant loans and advances to members"

9.1 We also notice that the AO has brought to tax the provisions debited in the profit and loss account amounting to Rs. 13,10,727 and denied deduction u/s 80P(2)(a)(i) of the Act. Once the income of the assessee society arises from the activity of providing credit facilities to its members, the same is eligible for deduction u/s 80P(2)(a)(i) of the Act. Accordingly, we hold that assessee is eligible for deduction u/s 80P(2)(a)(i) of the Act on the enhanced amount of profit which is arising on account of the impugned addition of Rs. 13,10,727.00. Accordingly, the AO is directed to allow deduction u/s 80P(2)(a)(i) on income determined in the assessment. Consequently, the addition of Rs. 22,39,866 made by the AO by denying the deduction u/s 80P stands deleted. Further, the AO is also directed to grant deduction u/s 80P(2)(a)(i) on the amount of Rs. 13,10,727 representing provisions

debited in the profit & loss A/c, thereby allowing consequential enhanced deduction to the assessee. Hence, the ground of appeal of the assessee is allowed.

10. In the result, the appeal of assessee is hereby allowed.

Order pronounced in court on 17th day of March, 2026

Sd/-

(KESHAV DUBEY)

Judicial Member
Bangalore
Dated, 17th March, 2026

Sd/-

(WASEEM AHMED)

Accountant Member

/ 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