

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

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

ITA No. 1997/Bang/2025
Assessment Year:2017-18

<p>Daivagna Credit Co-op Society Limited, Silver Jubilee tower, Vasantha road, Shivaji circle, Davanagere, Karnataka 577001</p> <p style="text-align: center;">PAN –AABAD1582E</p> <p style="text-align: center;">APPELLANT</p>	Vs.	<p style="text-align: center;">Income Tax Officer, Ward-1, Davanagere</p> <p style="text-align: center;">RESPONDENT</p>
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Assessee by	:	Sri. Pranav Krishna - Advocate
Revenue by	:	Sri. Balusamy N - JCIT

Date of Hearing	:	01-04-2026
Date of Pronouncement	:	02 -04-2026

ORDER

PER PRASHANT MAHARISHI, VICE – PRESIDENT

1. ITA No. 1997/Bang/2025 is filed by the Daivagna Credit Co-op Society Limited (the assessee/appellant) for assessment year 2017-18 against the appellate order passed by the National faceless appeal Centre, Delhi (the learned CIT – A) dated 31st of July 2025 wherein the assessment order passed by the learned income tax officer Ward – 1, Davanagere (the learned AO) was partly allowed.
2. The assessee is in appeal before us stating that the learned AO and the learned CIT – A are not correct in not allowing the assessee a deduction of ₹

5,04,996/- under section 80 P (2)(a)(i) of the Income Tax Act, 1961. Instead of that both the lower authorities have treated the interest earned from banks such as Davanageredistrict cooperative bank Ltd and savings bank account with Axis Bank totaling to ₹ 5,04,996 as income from other sources and further denied the deduction under section 80 P(2)(d) of the act.

3. The brief fact of the case shows that the assessee is a member's credit cooperative society. It claimed the deduction of ₹ 41,44,628 under section 80 P(2)(a) of the act. The return of income showed the deduction under that section. In return for income the assessee claimed deduction under section 80 P (2)(a)(i) of the act. The return of income was picked up for scrutiny.
4. The learned Assessing Officer found that assessee has earned ₹ 5,04,996 as interest from DD CC banks and Axis Bank. It is chargeable to tax under the head income from other sources and same is not allowable as deduction under section 80 P(2)(d) of the act. The assessing officer was of the view that bank interest earned by the assessee is chargeable to tax as income from other sources and not as business income as claimed by the assessee. The opinion of the assessing officer was supported by the decision of the Honorable Karnataka High Court in case of Principal Commissioner of Income-tax, Hubballi vs. Totagars Co-operative Sale Society [2017] 83 taxmann.com 140 (Karnataka)/ [2017] 395 ITR 611 (Karnataka)/ [2017] 297 CTR 158 (Karnataka) [16-06-2017].
5. The assessee was of the view that interest earned by the assessee from banks and cooperative banks is income generated out of the member deposit and is entitled to deduction as income attributable to the business of the assessee. Accordingly, the learned assessing officer passed an assessment order wherein the assessee was denied this deduction. Though there were other issues also in the assessment proceedings but same are not in dispute before us and therefore same are not discussed.
6. Aggrieved with the assessment order dated 16 December 2019 assessee preferred an appeal before the learned CIT – A who passed an appellate order on 31st July 2025 wherein the action of the learned assessing officer was

upheld. Thus, the assessee is aggrieved with that appellate order wherein the assessee has not been allowed the deduction of the bank interest under section 80 P (2) (a) (i) of the act

7. The learned Authorized Representative submitted paper book containing 71 pages and relied upon the several judicial precedents of the coordinate benches where the identical issue is decided. His main contention is that the issue in this case is squarely covered by the decision of the Honorable Karnataka High Court in case of Tumkur Merchants Souharda Credit Cooperative Ltd. vs. Income-tax officer Word-V, Tumkur [2015] 55 taxmann.com 447 (Karnataka)/[2015] 230 Taxman 309 (Karnataka)[28-10-2014] His further claim is that the decision of the Honorable Karnataka High Court in case of Principal Commissioner of Income-tax, Hubballi vs. Totagars Co-operative Sale Society [2017] 83 taxmann.com 140 (Karnataka)/[2017] 395 ITR 611 (Karnataka)/[2017] 297 CTR 158 (Karnataka)[16-06-2017] does not apply to the facts of the case. It was further submitted that income of the assessee from the bank interest is the amount of fund which is not required immediately for development to the members and therefore same is attributable to the business of the assessee company.
8. The learned departmental representative Sri. Balusamy N and the Joint Commissioner of Income Tax vehemently supported the order of the learned lower authorities stating that issue is covered in favour of the AO by the decision of the Honorable Karnataka High Court in Principal Commissioner of Income-tax, Hubballi vs. Totagars Co-operative Sale Society [2017] 83 taxmann.com 140 (Karnataka)/[2017] 395 ITR 611 (Karnataka)/[2017] 297 CTR 158 (Karnataka)[16-06-2017] wherein the Honorable Karnataka High Court has held that interest income earned by the assessee from the above bank is chargeable to tax under the head income from other sources and as the income is not earned from a co-operative society, assessee is also not entitled to deduction under section 80 P (2)(d) of the act also.
9. We have carefully considered the rival contention and perused the orders of the learned lower authorities. The facts clearly show that the assessee is a member's credit cooperative society and has earned interest of ₹ 5,04,996

from its deployment of funds in the bank account of the assessee. In return for income the assessee has claimed as part of business of providing credit to its members. In the return of income, the assessee has offered this income as business income and claimed deduction under section 80 P (2)(a)(i) of the act. For this proposition the assessee has placed before us the return of income as well as the computation of total income along with the annual accounts of the assessee. However, the learned assessing officer without pointing out any reason, treated the above interest income as income from other sources and treated it as not deductible even under section 80 P (2)(d) of the act because interest earned by the assessee is from cooperative banks and not cooperative societies. We find that Honorable Karnataka High Court in case of Tumkur Merchants Souharda Credit Cooperative Ltd. versus Income Tax Officer (2015) 55 taxmann.com 447 has categorically held that assessee is entitled to deduction under section 80 P (2)(a)(i) of the act because the amount of funds not deployable immediately for the members credit are deposited in the bank account and they partake the business funds of the assessee and therefore income earned therefrom is also business income eligible for deduction under that section. The amount which was invested in banks to earn interest was not an amount due to any members. It was not the liability. It was not shown as liability in their account. In fact, this amount, which is profits and gains, was not immediately required by the assessee to lend money to the members, as there were no takers. Therefore, they had deposited the money in a bank to earn interest. The said interest income is attributable to carrying on the business of banking and therefore it is liable to be deducted in terms of Section 80P (2) (a) (i) of the Act. This issue is squarely covered in favour of the assessee by the decision of the Honorable Karnataka High Court in Tumkur Merchants Souharda Credit Cooperative Ltd. vs. Income-tax officer Word-V, Tumkur [2015] 55 taxmann.com 447 (Karnataka)/ [2015] 230 Taxman 309 (Karnataka) [28-10-2014] on identical facts and circumstances. No doubt there is a subsequent decision of the Honorable Karnataka High Court in 395 ITR 611 in case of Totagars Co-operative Sales Society Ltd. wherein it has been held that interest income earned from the cooperative banks is chargeable to tax under section 56 of

the act and further as the interest is not earned from cooperative societies but from cooperative banks, the assessee is also not entitled to deduction under section 80 P (2)(d) of the act. However, on careful perusal we find that the facts of the present case are nearer to the decision of the Honorable Karnataka High Court at 55 taxmann.com 447 then 83 taxmann.com 140. Accordingly, respectfully following the decision of the Honorable Karnataka High Court in case of Tumkur Merchants Souharda Credit Cooperative Ltd. (supra) we do not have any hesitation in holding that assessee is entitled to deduction of ₹ 5,04,996 being earned by the assessee from money kept in bank accounts with the banks which is business income of the assessee. Accordingly, we reverse the orders of the learned lower authorities and allow ground No. 3 of the appeal.

10. All other grounds are either consequential in nature or are supportive. Therefore, they are dismissed.

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

Order pronounced in the open court on 02nd April 2026.

Sd/-
(SOUNDARARAJAN K.)
JUDICIAL MEMBER

Sd/-
(PRASHANT MAHARISHI)
VICE-PRESIDENT

Bangalore,
Dated, the 02nd April 2026.

VM

Copy to:

1. Appellant
2. Respondent
3. CIT
4. DR, ITAT, Bangalore
5. CIT(A)

By order
Assistant Registrar,
ITAT, Bangalore