

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

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

ITA No. 2725/Bang/2025 & 266/Bang/2026
Assessment Years : 2017-18 & 2018-19

M/s. B U E H B Co-op. Society Ltd., Gnana Bharathi Samudaya Bhavana, Gnana Bharathi Complex, Gnana Bharathi Kengeri, Bangalore – 560 056. PAN: AAAAB4121A	Vs.	The Income Tax Officer, Ward – 1(2)(1) / 3(2)(1), Bangalore.
APPELLANT		RESPONDENT

Assessee by	:	Shri Prakhyat, Advocate
Revenue by	:	Shri Balusamy N., JCIT-DR

Date of Hearing	:	24-02-2026
Date of Pronouncement	:	07-04-2026

ORDER

PER SOUNDARARAJAN K., JUDICIAL MEMBER

These appeals are filed by the assessee challenging the orders of the Ld. Addl/JCIT(A)-2, Ahmedabad dated 10/09/2025 and NFAC, Delhi dated 09/01/2026 in respect of the A.Ys. 2017-18 and 2018-19 respectively. The assessee has raised the following grounds:

ITA No. 2725/Bang/2025 (Assessment Year : 2017-18)

“1. THAT Order of CIT (A) be set aside as it fails to distinguish the facts of the case of Citizen Co-operative Society Ltd as all nominal members were admitted only after board approval and no transactions were undertaken with the general public.

2. THAT the Appellant be allowed deduction of interest on investments made in Apex bank due to statutory requirements of KCS Act.

3. THAT the Appellant be allowed deduction of the cost of funds and proportionate administrative and other expenses against the interest income from the investment made in State Bank of India which is taxable under the head Income from other sources under section 57 of IT Act 1961.

4. THAT the appeal may be allowed on the above grounds and any other grounds that the Appellant may be permitted to adduce at the time of hearing.

PRAYER

For these amongst other grounds that may be urged at the time of arguments, the Appellant most respectfully prays to allow the appeal by allowing deduction under Section 80P(2)(a)(i) and 80P(2)(d) of the Income Tax Act, 1961 and quash the impugned order dated 10-09-2025, passed by the Honorable CIT (A) for the Assessment year 2017-18 relevant to the financial year 2016-17 under section 250 of the Income Tax Act, 1961 and grant such other further relief as may be prayed at the time of arguments in the ends of justice.”

ITA No. 266/Bang/2026 (Assessment Year : 2018-19)

“1. THAT Order of CIT (A) be set aside as it fails to distinguish the facts of the case of Citizen Co-operative Society Ltd as all nominal members were admitted only after board approval and no transactions were undertaken with the general public.

2. THAT the Appellant be allowed deduction of interest on investments made in Apex bank due to statutory requirements of KCS Act.

3. *THAT the Appellant be allowed deduction of the cost of funds and proportionate administrative and other expenses against the interest income from the investment made in State Bank of India which is taxable under the head Income from other sources under section 57 of IT Act 1961.*

4. *THAT the Ld. CIT (A) and the Ld. AO erred in levying interest under sections 234A, 234B, and 234C of the Income Tax Act, 1961, which is consequential in nature and not applicable to the facts of the Appellant's case.*

5. *THAT the appeal may be allowed on the above grounds and any other grounds that the Appellant may be permitted to adduce at the time of hearing."*

ITA No. 2725/Bang/2025 (Assessment Year : 2017-18)

2. The brief facts of the case are that the assessee is a co-operative society and filed their return of income on 26/10/2017. The assessee had claimed the deduction in respect of the interest income earned. The case has been selected for scrutiny through CASS and notices u/s. 143(2) as well as u/s. 142(1) were issued. The assessee had furnished the details and after going through the said details, the AO had proposed to disallow the interest income claimed u/s. 80P(2)(a)(i) of the Act on the ground that the society is having nominal members. The AO had treated the nominal members as general public and therefore concluded that the assessee is doing the finance business and not earned the income from the credit facilities given to its members. The AO had also disallowed the interest income earned from the investments made in the banks on the ground that the said income was earned from the savings bank account as well as the investments. The AO had not accepted the said claim since the said investments are made with the co-operative banks and not with the co-operative societies. On that basis, the assessment has been completed. The assessee filed appeals before the Ld.CIT(A) by contending that the presence of the nominal members would not disentitle the assessee from claiming deduction u/s. 80P of the Act. Unfortunately, the assessee had not

responded to the hearing notices issued by the Ld.CIT(A) and therefore the Ld.CIT(A) had confirmed the disallowance of the deduction made u/s. 80P(2)(a)(i) of the Act on the ground that the assessee society is also dealing with the nominal members. The Ld.CIT(A) also confirmed the disallowance of deduction claimed u/s. 80P(2)(a)(i) / 80P(2)(d) of the Act on the investments made with the co-operative banks. The Ld.CIT(A) had passed the ex-parte order based on the grounds and the documents available before him.

3. As against the said order, the assessee is in appeal before this Tribunal.

4. At the time of hearing, the Ld.AR submitted that the assessee was not able to respond to the hearing notices because of some technical communication difficulties under the faceless scheme. The Ld.AR further submitted that even otherwise the inclusion of nominal members would not entitle the assessee from claiming deduction u/s. 80P(2)(a)(i) of the Act as held by the Hon'ble Supreme Court reported in 431 ITR 1 in the case of Mavilayi Service Co-operative Bank Ltd. v. CIT. The Ld.AR further submitted that the assessee had received interest income from the co-operative banks which are all registered as co-operative societies with the Registrar of Co-operative Societies, Karnataka and therefore the said interest income earned out of the said deposits are eligible for deduction u/s. 80P(2)(d) of the Act. The Ld.AR also submitted that the assessee had deposited the amounts in the Apex bank due to its statutory requirement under the Karnataka Co-operative Societies Act and therefore the income earned out of the said deposits are attributable to the business activities of the assessee and therefore eligible for deduction u/s. 80P(2)(a)(i) of the Act. Insofar as the deposit made with the State Bank of India, the Ld.AR submitted that the interest income could be treated as income from other sources and in such event, the deductions prescribed u/s. 57 ought to have been granted. The Ld.AR also filed a break-up of the various interest

received from the banks along with the judgment of the Hon'ble Supreme Court as well as the orders of the Coordinated Benches and prayed to allow the appeal.

5. The Ld.DR submitted that the assessee society earned interest income not only from the members but also from the general public and therefore not entitled for deduction u/s. 80P(2)(a)(i) of the Act. The Ld.DR further submitted that the assessee had received the interest income from the State Bank of India and from the Apex bank and also received interest from the savings bank account maintained with the SBI and BDCC bank and therefore no interest has been received from the co-operative societies and therefore not eligible for deduction u/s. 80P(2)(a)(i) / 80P(2)(d) of the Act and prayed to dismiss the appeal.

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

7. Even though these appeals are filed against the ex-parte orders of the Ld.CIT(A), we are inclined to hear the appeals on merits since the issues are already covered by the various judgments of the Hon'ble Supreme Court as well as the Hon'ble High Courts.

8. As seen from the assessment order, the assessee had claimed a total deduction of Rs. 56,58,270/- u/s. 80P(2)(a)(i) of the Act which includes the interest income of Rs. 31,03,519/- received from the banks. The AO had disallowed the entire claim of deduction based on the reason that the assessee is having the associate / nominal members and therefore the assessee is dealing with the general public and the interest income earned are not from the members, therefore the assessee is not entitled for deduction u/s. 80P(2)(a)(i) of the Act. The AO had relied on the judgment of the Hon'ble Supreme Court in the case of Citizen Co-operative Credit Society Ltd. wherein the Hon'ble Supreme Court had held that the society dealing

with the nominal members are not eligible for deduction u/s. 80P(2)(a)(i) of the Act. This judgment was considered by the Hon'ble Supreme Court in its subsequent judgment reported in 431 ITR 1 in the case of Mavilayi Service Co-operative Bank Ltd. v. CIT wherein it was held that if the State Act permits the nominal members as members of the society, then there is nothing wrong in the assessee claiming the deduction u/s. 80P of the Act. In the judgment relied on by the AO as well as the Ld.CIT(A), in the case of Citizen Co-operative Credit Society Ltd., the said society was governed under the MACS Act, 1995 wherein the admission of nominal membership was not permitted and therefore the Hon'ble Supreme Court had held that the admission of nominal members would disentitle the assessee societies from claiming deduction u/s. 80P of the Act. In the present case on hand, we are dealing with the society registered under the provisions of the Karnataka Co-operative Societies Act and the said Act also permits the assessees to have the associate / nominal members and therefore the said judgment relied on by the authorities below are not correct. The facts available in the present case is covered by the judgment of the Hon'ble Supreme Court reported in 431 ITR 1 in the case of Mavilayi Service Co-operative Bank Ltd. v. CIT wherein the Hon'ble Supreme Court had granted the deduction u/s. 80P of the Act even though the assessee is having nominal members which is permitted by the Karnataka Co-operative Societies Act. Therefore, the view of the authorities below for disallowing the deduction claimed u/s. 80P(2) of the Act is not correct and therefore we direct the AO to grant the deduction in respect of the interest income earned by the assessee irrespective of the fact that whether the assessee society is having nominal members or not.

9. We have perused the details of the interest amount received from various banks furnished by the assessee which is extracted as below:

<i>Sl</i>	<i>Particulars</i>	<i>Amount</i>
1.	<i>Fixed Deposit Interest from SBI</i>	<i>22,32,545</i>
2.	<i>SBI Savings Bank Interest</i>	<i>4,86,055</i>
3.	<i>Interest from Apex Bank</i>	<i>3,82,208</i>
4.	<i>Interest from Savings Bank account in BDCC Bank</i>	<i>2,711</i>
	<i>Total</i>	<i>31,03,519</i>

10. The assessee had received interest income from the investments made with the Apex bank as well as from the State Bank of India. Insofar as the interest income earned from the Apex bank, it is the submission of the assessee that they are depositing the funds pursuant to the statutory compulsion made in the Karnataka Co-operative Societies Act and therefore the said interest income would be attributable to the business of the assessee and eligible for deduction u/s. 80P(2)(a)(i) of the Act.

11. Insofar as the interest earned from the savings bank account with the State Bank of India, we were told that the assessee must necessarily maintain a savings bank account in any of the Nationalised Bank or Scheduled Banks in order to avail the various facilities like RTGS, NEFT etc. The said interest income was not earned out of the deposits but only because of the maintenance of the SB account, the State Bank of India had credited the SB interest on the balance amount available and therefore it is also like a compulsory one to have an account with the State Bank of India and therefore the said interest income of Rs. 4,86,055/- are also eligible for deduction u/s. 80P(2)(a)(i) of the Act.

12. In respect of the interest income earned from the savings bank account maintained with the BDCC Bank, it is a co-operative bank. We were informed that the said bank is also a registered society under the provisions of the Karnataka Co-operative Societies Act and therefore the said interest income could be allowed as deduction u/s. 80P(2)(d) of the Act.

13. Insofar as the interest income earned from the fixed deposits made with the State Bank of India, the assessee himself had accepted in ground no. 3 that the said income can be assessed as income from other sources and in which event, the cost of funds and proportionate administrative and other expenses ought to be granted as per section 57 of the Act. We, therefore direct the AO to compute the income from other sources on the interest income received from the deposits made with the State Bank of India after granting the deduction towards the cost of funds and proportionate administrative and other expenses, if any. With the above directions, we partly allow the appeal for statistical purposes.

ITA No. 266/Bang/2026 (Assessment Year : 2018-19)

14. The brief facts of the case are that the assessee filed their return of income on 26/09/2018. The case was selected for scrutiny through CASS and notices were issued proposing to disallow the claim of deduction on the ground that the assessee is a housing co-operative society and therefore not eligible for deduction u/s. 80P(2)(a)(i) of the Act since the assessee is a housing co-operative society advancing loans to its members which cannot be treated as credit society. As against the said order, the assessee filed an appeal before the Ld.CIT(A). The Ld.CIT(A) had dismissed the appeal filed by the assessee since the assessee had not responded to the hearing notices issued to them.

15. The assessee has challenged the said order before this Tribunal.

16. At the time of hearing, the Ld.AR submitted that the reasoning given by the AO is not correct since the section 80P does not exclude the housing co-operative societies which distributed the loans to its members from the purview of the section 80P of the Act. The Ld.AR further submitted that assessee not able to respond to the hearing notices issued by the Ld.CIT(A) due to the technical communication difficulties and prayed to decide the appeal on merits by relying on the section 80P of the Act.

17. The Ld.DR relied on the order of the lower authorities and submitted that the reasoning given by the assessee for not appearing before the Ld.CIT(A) is not a genuine one and therefore prayed to dismiss the appeal.

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

19. The only reason for disallowing the interest income earned by the assessee is that the assessee is a housing co-operative society and advances loans to its members and earned the interest income out of it. Therefore the AO concluded that the housing co-operative society will not be eligible for deduction u/s. 80P of the Act. We have perused the relevant section 80P of the Act in which the provision has not made any distinction between the various societies. The assessee being a co-operative society, the gross total income includes any income referred to sub-section (2), there shall be deducted the sums specified in sub-section (2) in computing the total income of the assessee. Therefore, after admitting that the assessee is advancing loans to its members, the denial of deduction u/s. 80P by the AO is not correct. When the Act uses the word “a co-operative society”, the benefit conferred under provision should be given to every co-operative society whether it is the housing co-operative society or not. There is no bar in the Act that the housing co-operative society advancing loans to its members are not entitled for deduction u/s. 80P of the Act. In such circumstances, the finding of the AO that the assessee, a co-operative housing society offering loans to its members, would not be a reason for denying the deduction claimed u/s. 80P(2)(a)(i) of the Act. We, therefore direct the AO to grant the deduction claimed by the assessee.

20. In the result, the appeal filed by the assessee is allowed.

21. In the combined result, the appeal filed by the assessee for A.Y. 2017-18 stands partly allowed for statistical purposes and the appeal for A.Y. 2018-19 is allowed.

Order pronounced in the open court on 07th April, 2026.

Sd/-
(PRASHANT MAHARISHI)
Vice – President

Sd/-
(SOUNDARARAJAN K.)
Judicial Member

Bangalore,
Dated, the 07th April, 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